

DELMARVA POWER



THE PEOPLE OF THE
DELMARVA PENINSULA USE
OUR ENERGY TO WORK AND
TO PLAY. DELMARVA POWER
IS IN A STRONG POSITION
TO PROVIDE THAT ENERGY
AT A FAIR PRICE BOTH TODAY
AND TOMORROW. OUR REPORT
THIS YEAR TELLS YOU WHY
WE ARE STRONG AND HOW WE
INTEND TO BUILD FROM THAT
STRENGTH.

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TO OUR STOCKHOLDERS 3

"The sound planning and hard work which brought us out of the embargo era will begin to be focused on the opportunities of the late 1980s and 1990s."



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"Delmarva Power has power plants in place to supply the forecasted need for electricity through the mid 1990s."

KEEPING FACILITIES RUNNING WELL 8

"Within the PJM interconnection, Delmarva Power's plants consistently rank among the leaders in low total outage rate."



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"The company has worked to understand better the needs of customers and to provide them with useful information."

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"... the company has refined a method to seek, encourage, and respect the ideas of the individual so it can continue to prosper through innovation."

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"The peninsula's economy is growing as shown by the increase in commercial sales and the large number of new residential hookups in the shore communities."

FINANCIAL SECTION 16

	1984	1983	Percent Increase (Decrease)
REVENUES	\$ 702.6 million	\$ 649.8 million	8.1
NET INCOME	\$ 92.1 million	\$ 85.1 million	8.2
EARNINGS PER SHARE	\$ 2.63	\$ 2.45	7.3
DIVIDENDS DECLARED	\$ 1.83	\$ 1.68	8.9
COMMON STOCK OUTSTANDING AVERAGE SHARES	30,248,482	29,541,415	2.4
COMMON STOCK BOOK VALUE	\$ 17.70	\$ 16.87	4.9
CONSTRUCTION EXPENDITURES	\$ 79.5 million	\$ 76.1 million	4.5
INTERNALLY GENERATED FUNDS	\$ 110.5 million	\$ 117.6 million	(6.0)
ELECTRIC SALES	8.31 billion kwh	7.88 billion kwh	5.5
ELECTRIC CUSTOMERS (average)	303,965	294,965	3.1
AVERAGE RESIDENTIAL USAGE	8,283 kwh	8,109 kwh	2.1
GAS SALES	17.24 million mcf	16.45 million mcf	4.8
GAS CUSTOMERS (average)	74,319	73,436	1.2
AVERAGE RESIDENTIAL USAGE	88.8 mcf	81.8 mcf	8.6

A fourth consecutive year of improved performance shows that the strategies developed to cope with the consequences of the Arab oil embargo continue to be successful. Delmarva Power has emerged from that period with strength.

In 1984, earnings increased 7% and dividends increased 7% to an indicated annual rate of \$1.92.

The price of electricity was competitive in the region. Generating plants and transmission facilities are in place to provide energy through the mid 1990s. Employees are truly committed to serving both stockholders and customers.

You should feel good about your investment in Delmarva Power.

"The sound planning and hard work which brought us out of the embargo era will begin to be focused on the opportunities of the late 1980s and 1990s."

Now, Delmarva Power is approaching a turning point. The sound planning and hard work which brought us out of the embargo era will begin to be focused on the opportunities of the late 1980s and 1990s.



NEV CURTIS, CHAIRMAN AND CEO, DISCUSSES CUSTOMERS' OPINIONS AT A CONSUMER ROUNDTABLE.

First, let's look at where we have been. For the past five years, we have discussed in our annual reports the strategies for dealing with the post-embargo world of high fuel prices, inflation, and adverse public opinion. The key goals were to make rates more competitive regionally and to improve the return on your investment. Plans were

developed and implemented to switch away from oil as a prime generating fuel, to reduce operating and maintenance costs while improving effectiveness, to minimize new capital investment, and to increase customer satisfaction.

Much of this work has been completed.

In 1984, only 19% of electricity generated came from oil compared with 53% in 1979. Coal is now the dominant fuel. The last coal conversion project was completed in 1983. In 1984, Delmarva Power's coal-fired plants completed a full-year of excellent performance. There are no more major opportunities to reduce price through switching fuels.

In the area of managing costs, the company has consolidated 12 district offices and 12 store-rooms in the past four years and reduced the workforce by 6% through attrition and early retirement. Through an innovative program designed to increase employee participation in decisions affecting their work, employees are looking daily for creative ways to improve service while managing costs.

Delmarva Power has minimized major, new capital investment. After a series of annual reviews, the company now concludes that the completion of the next major generating plant, once scheduled for 1987 at Vienna, Maryland, can now be delayed until 1996.



OSCAR L. CAREY
PRESIDENT AND DIRECTOR
OF LARMAR CORPORATION
(GENERAL REAL ESTATE AND
HOME BUILDERS) SALISBURY,
MARYLAND



FRANK A. COOK
SENIOR VICE PRESIDENT OF
THE COMPANY



DAVID D. WAKEFIELD
DIRECTOR AND PRESIDENT
OF MORGAN BANK
(DELAWARE) WILMINGTON,
DELAWARE; DIRECTOR OF
CONTINENTAL AMERICAN
LIFE INSURANCE COMPANY,
WILMINGTON, DELAWARE



**CHARLOTTE LEE
CANNON**
DIRECTOR OF H. P. CANNON
& SON, INC. (WAREHOUSING)
BRIDGEVILLE, DELAWARE



JAMES O. PIPPIN, JR.
PRESIDENT AND DIRECTOR
OF THE CENTREVILLE
NATIONAL BANK OF
MARYLAND, CENTREVILLE,
MARYLAND

In the natural gas business, efforts are continuing to convert customers to gas along existing mains or to build new mains when cost justified.

Finally, customer opinion of Delmarva Power has improved throughout the service territory because of stability of prices, improvements in customer service techniques, and new information programs.

Now, there are new challenges on the horizon. New sources of energy supply will be needed in the middle of the next decade, and the influences of co-generation and wheeling will make supplying energy more competitive than ever

before. While not forgetting that the company's mission is to provide reliable, reasonably-priced energy all the time, the company's thinking is moving away from dealing with the aftermath of the Arab oil embargo and moving toward preparing for the changing energy environment of the late 1980s and 1990s.

One challenge will be the assurance of adequate energy in the middle 1990s when current projections show another power plant may be needed.

The company is concerned about the lessons learned in the railroad industry that the value of a large, long-term capital

investment can be rapidly diminished by technology breakthroughs and the lessons of the utility industry that a large building program can become an albatross.

Therefore, more flexibility and creativity in researching, evaluating, building, and financing all options will be needed.

In technology, the company has intensified its efforts to extend the life of existing generating units. The company has joined a nationwide demonstration project to evaluate the fuel cell—an energy source which can be built quickly and in small components. Our research dollars are directed to



DR. E. ARTHUR TRABANT
PRESIDENT OF THE
UNIVERSITY OF DELAWARE,
NEWARK, DELAWARE



JOHN R. COOPER
MANAGER OF ENVIRONMENTAL AFFAIRS AND OCCUPATIONAL HEALTH, PETROCHEMICALS DEPARTMENT OF E. I. DU PONT DE NEMOURS & COMPANY (ENERGY AND DIVERSIFIED MANUFACTURING) 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 (ENERGY AND DIVERSIFIED MANUFACTURING) WILMINGTON, DELAWARE; VICE CHAIRMAN OF THE BOARD AND CHIEF OPERATING OFFICER OF CONOCO INC., WILMINGTON, DELAWARE



HARLAND M. WAKEFIELD, JR.
SENIOR VICE PRESIDENT OF THE COMPANY



SALLY V. HAWKINS
DIRECTOR AND PRESIDENT OF DELAWARE BROADCASTING COMPANY AND PRESIDENT AND GENERAL MANAGER OF STATION WILM (RADIO BROADCASTING) WILMINGTON, DELAWARE

getting more efficiency from existing generating and transmission facilities as well as developing alternative methods of service.

In marketing, the company continues programs to increase the sale of electricity during off-peak hours and low-use months since these new sales do not require additional power plants. The company also supports the peninsula's efforts to attract new business.

An immediate challenge is the pricing of our product. With increasing competition, price will become more important in decisions about not only how much energy customers will

buy, but also from whom they will buy it.

In addition to thorough analyses of the cost of future energy supply sources, employees are being asked to become even more conscious of the cost-to-the-customer consequences of all of their decisions. Increased employee training in participative skills is helping us do that.

At this point, we are working on a plan for the future. We know we have the people working at Delmarva Power capable of taking on the challenge. They have demonstrated a commitment to doing a good job and a will to succeed.

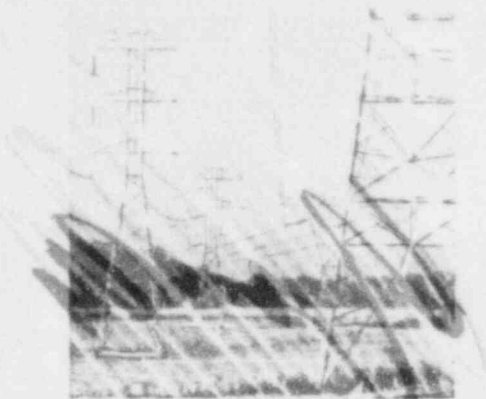
We appreciate their achievements in 1984 and look forward to working together as a team to meet the future, building from Delmarva Power's strength of today.

Sincerely,

NEV CURTIS

February 11, 1985

STRENGTHS OF DELMARVA POWER



An analysis of 1984 performance shows that Delmarva Power is a financially healthy company.

Earnings increased by 7% to \$2.63. Quarterly dividends increased by 7% to 48¢ for an indicated annual rate of \$1.92. The price of common stock increased from \$19.25 to \$22.

The company paid for all of its construction expenses with its

TRANSMISSION FACILITIES ARE IN EXCELLENT CONDITION.

own cash and established a policy for investing earnings above today's needs. The AFUDC ratio, a key indicator for financial analysts, remained low at 4% of net income. Moody's Investors Service Inc. upgraded the company's bond rating to Aa1;

Duff and Phelps, Inc., to 2; and Standard & Poor's Corp., to AA.

There are several reasons why Delmarva Power will continue to be a good investment for you.

MANAGEABLE CONSTRUCTION

Delmarva Power has power plants in place to supply the forecasted need for electricity on the Delmarva Peninsula through the mid 1990s. The generating reserve margin



C OAL, BULLDOZED INTO POSITION TO MAKE ELECTRICITY, IS THE COMPANY'S DOMINANT FUEL. THE NOW-COMPLETED SWITCH AWAY FROM OIL IS A KEY REASON WHY DELMARVA POWER'S PRICE OF ELECTRICITY IS AMONG THE LOWEST IN THE REGION.



EMPLOYEES ARE COMMITTED TO DOING A GOOD JOB SAFELY.



PROGRAMS HAVE BEEN DEVELOPED TO UNDERSTAND BETTER THE NEEDS OF CUSTOMERS.



EMPLOYEES PARTICIPATED IN DEVELOPING WAYS TO READ METERS MORE EFFICIENTLY.

is 37%, and the company sells power to the PJM regional interconnection and to other companies by utilizing facilities not needed today for its own load. Transmission and distribution

"Delmarva Power has power plants in place to supply the forecasted need for electricity through the mid 1990s."

facilities from these plants to the customer are in excellent condition. There will be no need for external financing in 1985.

BALANCED FUEL MIX

In 1984, Delmarva Power's generating mix was 65% coal, 11% nuclear fuel, and 24% oil and natural gas compared with 33% coal, 14% nuclear fuel, and 53% oil and natural gas in 1979. Since much of the current oil-fired generation is sold to the regional power grid, the percentage of oil-fired electricity for Delmarva Power customers is even less.

COMPETITIVE PRICES

Delmarva Power's price of electricity is competitive within

the region. In cents/kWh: New York, 11.70; Newark, N.J., 8.91; Boston, 10.62; Philadelphia, 8.07; Delmarva Peninsula, 6.87; and Baltimore, 6.25. Rankings of natural gas prices (in cents/ccf) are N.Y., 75.33; Newark, 66.19; Philadelphia, 66.32; Boston, 65.22; and Wilmington, 58.51.


CUSTOMER OPINION

Surveys of customer opinions show that the company's approval

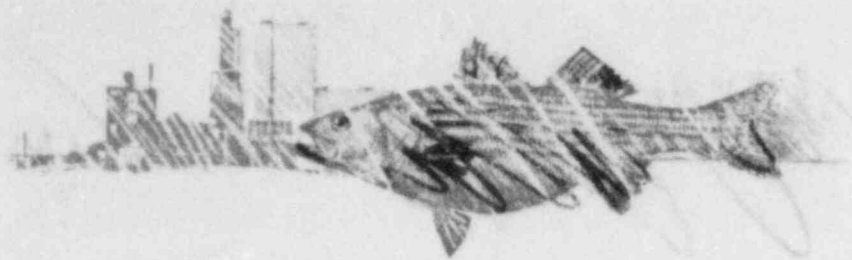
rating in the community has improved from 46% to 66% during the past two years. Excellent service is given consistently as the strongest reason.

EMPLOYEES

Employee surveys show increased satisfaction among Delmarva Power employees. Reasons include an intensified training program, increased efforts to involve employees in decisions affecting their job, improved internal communications, and the knowledge among employees that customer relationships have improved and they have contributed to that improvement.



THE WELDER'S ENORMOUS SHADOW SYMBOLIZES THE IMPORTANCE OF HIS WORK. HE IS HELPING MAINTAIN A BOILER IN AN EFFORT TO KEEP EXISTING PLANTS RUNNING AS LONG AS POSSIBLE.



Since the building of a new power plant can create an enormous financial burden for both stockholders and customers, a key strategy for the 1980s is to keep existing facilities running as well and for as long as possible.

HIGH AVAILABILITY

In 1984, Delmarva Power's coal and oil-fired plants ran well. The average company availability rate was 87% compared to the most recent industry average of 83%. Within the PJM interconnection, Delmarva Power's plants consistently rank among the leaders in low total outage rate.

Delmarva Power's electric system accommodated a 5% growth in sales, including a 12% growth in commercial sales. Gas sales increased 5%. Employees connected

ON THEIR OWN TIME, CONCERNED EMPLOYEES AT THE VIENNA POWER PLANT WILL REAR STRIPED BASS FINGERLINGS AT FACILITIES BUILT BY THE COMPANY. neers have intensified their efforts to extend the useful life of existing generating units.

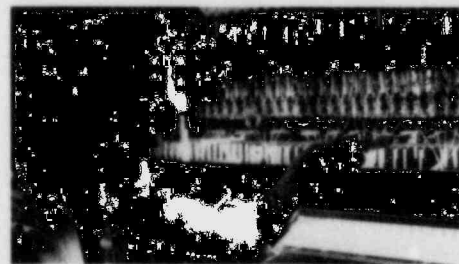
Progress has been made through such projects as adding stress controlling devices to the turbine at Edge Moor Unit 5. Also, the company converted to a fresh-water cooling system and installed new and rebuilt turbine rotors at Indian River Units 1 and 2.

SAFETY AND ENVIRONMENT

As part of its continuing concern for operating an energy company as safely and with as little intrusion into the environment as possible, Delmarva Power began two significant new programs in 1984.

The company also began an extensive chemical identification program to insure that employees know the possible effects of chemicals in the workplace and how to handle them.

In 1982, the company's safety program was strengthened in an effort to reduce accidents and to spare employees and their families the accompanying pain and anxiety. In 1984, accidents continued to be below 1982 levels.



THE NEW MEDICAL CENTER AT STANTON, DELAWARE, AN EXAMPLE OF THE COMMERCIAL GROWTH OF THE AREA, BECAME ONE OF THE COMPANY'S LARGEST CUSTOMERS.

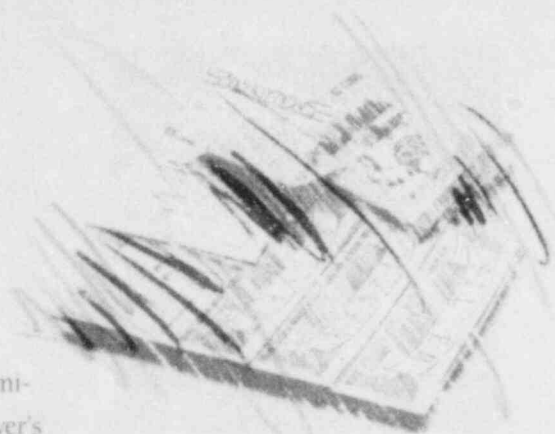
"Within the PJM interconnection, Delmarva Power's plants consistently rank among the leaders in low total outage rate."

8,889 new electric customers and 738 new gas customers to the system. Also, the company sold electricity to the PJM system, to the cities of Easton, Md., and Dover, De., and to Northeast Utilities. Steam was sold to a nearby Du Pont Company processing facility. These sales were beneficial to both customers and stockholders.

PLANT LIFE EXTENSION

In addition to an aggressive, continuing preventive maintenance program, Delmarva Power en-

Ground was broken for a fish brooding pond at the Vienna Power Plant with the expectation of producing up to 100,000 striped bass fingerlings for release into the neighboring Nanticoke River each year. The idea for the fish pond came from employees who volunteered to maintain it on their own time.



The price of energy is the dominant concern of Delmarva Power's customers. Throughout the service territory, strategies developed during the 1970s, a rebounding economy, and additional weather-related sales have come together to keep price increases at or below the level of inflation during the last 3 years.

PRICE STABILITY

In 1984, Delmarva Power reduced the price of electricity for Delaware and wholesale customers for the first time in 20 years. In these jurisdictions, regulators have allowed rates to be based on current costs. In Virginia and Maryland, where different regulators use different rules and current rates are based on previous costs, the company must continually seek rate increases to catch up with current costs.



THE DEPARTMENT OF ENERGY PRESENTED DELMARVA POWER WITH A NATIONAL AWARD FOR HELPING DESIGN AN INNOVATIVE HOT WATER STORAGE SYSTEM AT A FITNESS CLUB.

COMPANY PUBLICATIONS FOCUS ON INFORMATION CUSTOMERS CAN USE.

On the supply side, the company is seeking more efficient use of existing facilities through Time-of-Use rates, promotion of off-peak sales, especially heat pumps, programs which encourage residential energy efficiency, such as Super E+, and the monitoring of load management technology development.

While the fuel conversion and workforce reduction programs

"The company has worked to understand better the needs of customers and to provide them with useful information."

are completed, daily efforts to manage costs are ongoing. In 1984 significant cost-savings were achieved, for example, in reducing transmission and distribution inventories by about \$500,000 without impacting the ability to serve.

To help manage the price of natural gas, the company has sought cheaper gas supplies. Also, it has proposed innovative rate structures designed to compete with the declining price of oil and to allow customers to transport gas on Delmarva Power's system. The company is also actively seeking conversion gas customers where gas mains are in place.

USEFUL INFORMATION

The company has worked to under-

stand better the needs of customers and to provide them with useful information. Some of the programs include:

- Consumer roundtables, where customers discuss their concerns about company programs and policies and suggest changes such as upcoming revisions in the bill format.
- Publications such as "Energy News You Can Use"—a monthly customer newsletter with tips on how to use energy wisely, and "60 Plus"—a senior citizens information service.

- Face-to-face advice to builders on how to use energy wisely through the Super E+ program and to homeowners through the Residential Energy Conservation service.
- Customer services such as budget billing, installment payments for overdue bills, load limiters, extra notification if service is about to be disconnected, and work with human service agencies throughout the Delmarva Peninsula to distribute energy-assistance funds.

COMMUNITY PARTICIPATION

In 1984, more than \$135,000 of customer and stockholder contributions were given to the Salvation Army through the Good Neighbor Energy Fund to help people having trouble paying energy bills.

And again, employees exceeded their goal in contributions to the United Fund.



THROUGH RADIO WATCH, EMPLOYEES SUMMONED AID FOR MORE THAN 600 PEOPLE.



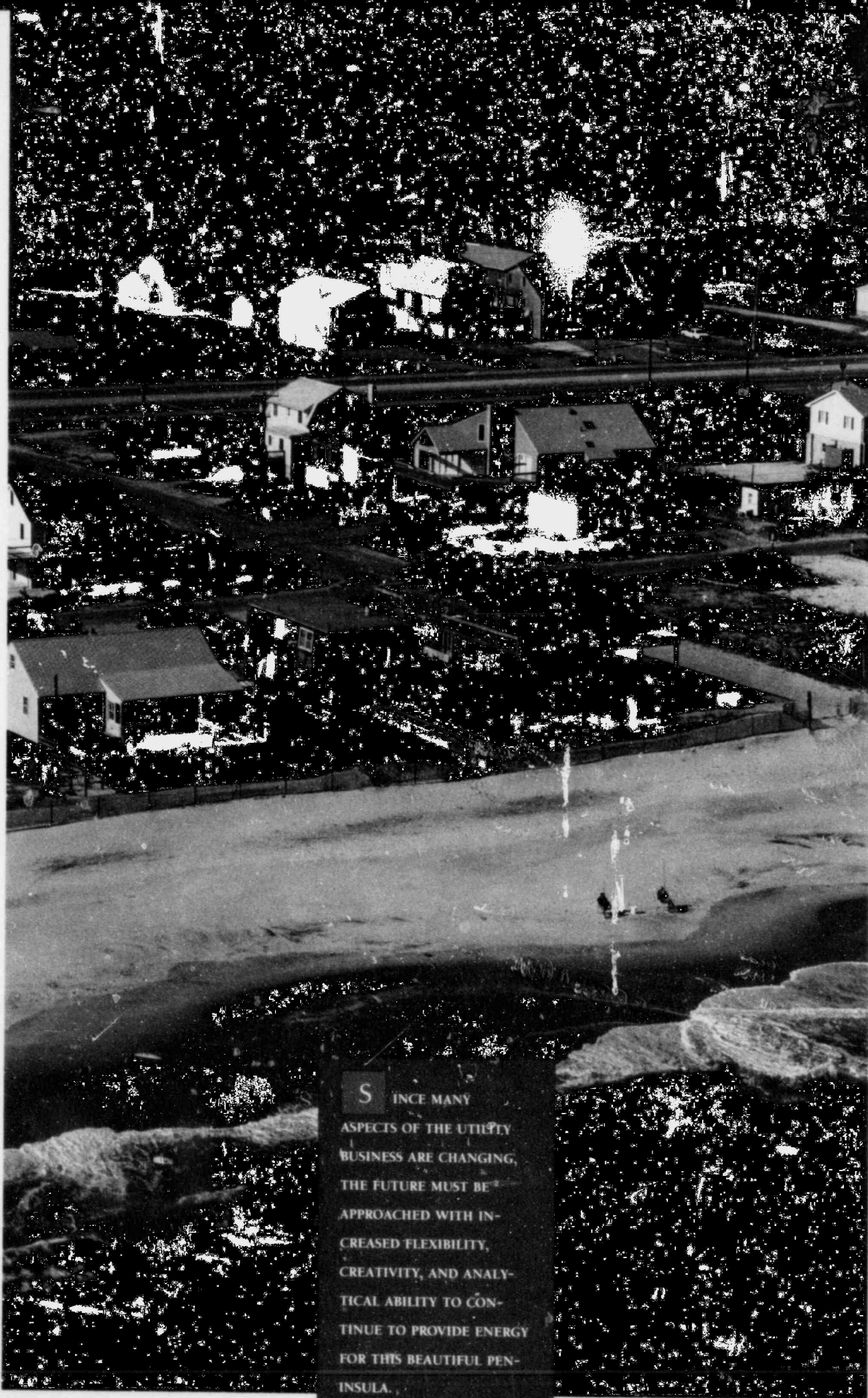
EMPLOYEES RARELY SEEN BY CUSTOMERS ALSO WORK HARD BEHIND THE SCENES.



MARKETING REPRESENTATIVES PROVIDE ADVICE TO HELP CUSTOMERS USE ENERGY WISELY.



HELPING YOUNGSTERS LEARN AT A LIBRARY READ-ALOUD NIGHT IS JUST ONE EXAMPLE OF THE MANY WAYS DELMARVA POWER EMPLOYEES WORK TO MAKE THE DELMARVA PENINSULA A BETTER HOME. A SURVEY OF EMPLOYEES SHOWED 58% OF THEM PARTICIPATED IN COMMUNITY VOLUNTEER ACTIVITIES.



SINCE MANY ASPECTS OF THE UTILITY BUSINESS ARE CHANGING, THE FUTURE MUST BE APPROACHED WITH INCREASED FLEXIBILITY, CREATIVITY, AND ANALYTICAL ABILITY TO CONTINUE TO PROVIDE ENERGY FOR THIS BEAUTIFUL PENINSULA.

Although Delmarva Power has sufficient facilities to supply electricity through the middle 1990s, the company is approaching a period where decisions must be made to supply energy beyond that time.

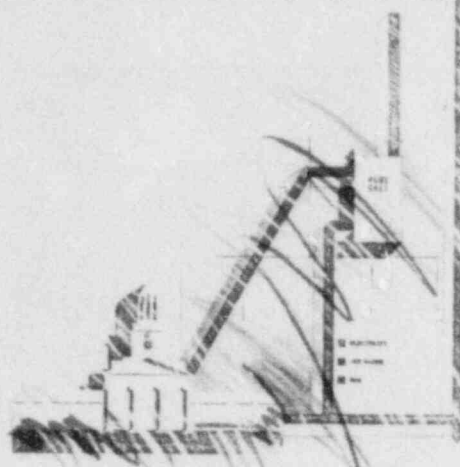
The company is concerned about the magnitude of investment required for a new generating plant, the impact of such an investment on rates, technology breakthroughs which could diminish the value of that investment, and forces on the horizon likely to bring increased competition in the utility business.

"... the company has refined a method to seek, encourage, and respect the ideas of the individual so it can continue to prosper through innovation."

Therefore, the company is approaching the future with flexibility, creativity, and thorough analysis.

TECHNOLOGY EVALUATION

The company has installed a fuel cell as part of a demonstration project to evaluate the technology, market potential, and customer reaction to such backyard energy sources. The fuel cell converts the hydrogen in natural gas into both electricity and hot water, making it a potentially more efficient generating source than a central power plant. Fuel cells also can be built quickly in small increments.



AN EXPERIMENTAL FUEL CELL SUPPLIES ELECTRICITY AND HOT WATER TO THE EPISCOPAL CHURCH HOME IN HOCKESSIN, DELAWARE.

Delmarva Power is also continuing its investment in the utility industry research pool. This investment in the Electric Power Research Institute (EPRI) provides many types of research including projects designed to improve existing coal-fired and nuclear generating systems, transmission designs, and computer forecasting techniques.

OUTSIDE OPPORTUNITIES

Delmarva Power is also looking at outside opportunities with the policy direction of staying within the energy or investment field.

Two wholly-owned subsidiaries, Delmarva Energy Company and Delmarva Industries, continue to explore for and produce natural gas and oil.

PARTICIPATIVE SKILLS PROGRAM

One of the keys to the success of supplying energy in the future will be the creativity and determination of the people who will provide it.

During the past two years, the company has refined a method to

seek, encourage, and respect the ideas of the individual so it can continue to prosper through innovation in a changing business and people can work in an atmosphere of increased appreciation for each other.

At the end of 1984, about 1,740 of Delmarva Power's employees had received training and had undertaken more than 600 projects.

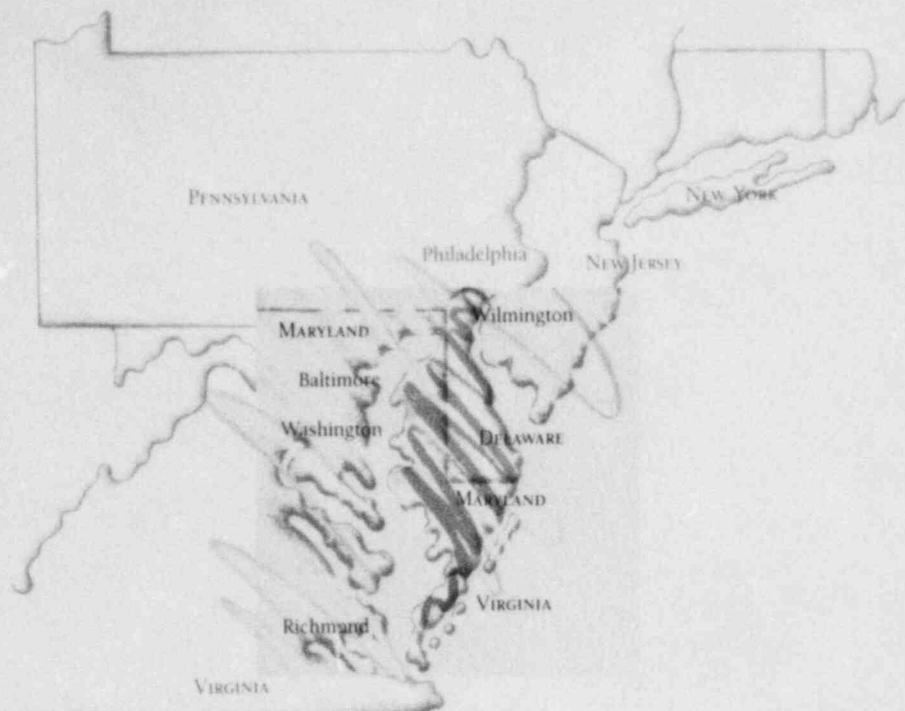
An employee survey showed that on many issues, those people who had received this training were more positive about their work than those who had not yet been involved in the program.

In these ways, Delmarva Power is developing both the technology and the people to meet the energy challenges of the next decade.



THE TESTING OF SAFETY GLOVES WAS IMPROVED THROUGH AN EMPLOYEE PARTICIPATION PROJECT.

S E R V I N G T H E D E L M A R V A P E N I N S U L A



The Delmarva Peninsula has a diverse blend of industrial, agricultural, commercial, and recreational activities which makes the demand for electricity and natural gas here less affected by extreme fluctuations in the national economy than in other areas of the nation.

Located halfway between Wall Street and the nation's capital, the peninsula is within overnight access to approximately $\frac{1}{3}$ of the nation's population and $\frac{1}{5}$ of the total U.S. effective buying income.

The peninsula's economy is growing as shown by the 1984 increase in commercial sales and the large number of new residential hookups in the shore communities.

DELMARVA POWER

Delmarva Power provides electric service throughout most of the 5,700 square-mile peninsula which includes Delaware, portions of nine Eastern Shore counties in Maryland, and two Eastern Shore counties in Virginia. The company also distributes natural gas in a 275-square-mile area in northern

To serve this area, Delmarva Power maintains an electric system with 2,225 megawatts of generation capacity, 1,304 miles of transmission lines, and 8,856 miles of distribution lines and a natural gas system with 1,036 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.

"The peninsula's economy is growing as shown by the increase in commercial sales and the large number of new residential hookups in the shore communities."

Our 308,000 electric customers and 75,000 natural gas customers are served by 2,529 employees working in 15 customer service locations on the peninsula with division headquarters in Christiana, Delaware, and Salisbury, Maryland, and corporate headquarters in Wilmington, Delaware.

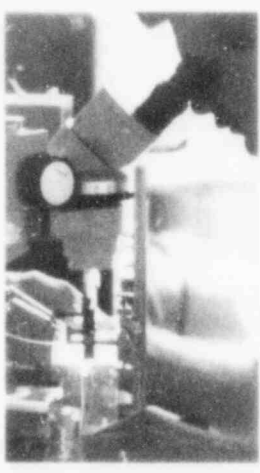
Quality of life is this peninsula's richest resource. After a day's work, the people here enjoy recre-

ational and cultural activities ranging from opera to golf, horse racing to sailing or just floating around in a small boat watching the setting sun.



THE CITY OF BOSTON

The City of Boston is a city of many faces. It is a city of old and new, of tradition and innovation. It is a city of many stories, of many dreams, of many hopes. It is a city of many faces, of many stories, of many dreams, of many hopes.



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Selected Financial Data

(Dollars in Thousands)

	For the Years Ended December 31	1984	1983	1982	1981	1980
Operating						
Operating Revenues	\$	702,593	\$ 649,799	\$ 636,666	\$ 608,504	\$ 520,470
Operating Income		133,209	129,138	116,573	107,325	80,716
Net Income		92,110	85,063	73,571	58,711	48,957
Earnings and Dividends						
Earnings Per Share		2.63	2.45	2.13	1.78	1.60
Dividends Declared on						
Common Stock		1.83	1.68	1.595	1.535	1.49
Average Shares						
Outstanding (000)		30,248	29,541	28,489	25,747	24,682
Total Assets		1,594,340	1,533,263	1,509,771	1,460,529	1,380,922
Construction						
Expenditures ⁽¹⁾		79,488	76,056	110,646	84,206	110,739
Internal Generation						
of Funds		110,485	117,582	77,061	72,346	37,866
Capitalization						
Long Term Debt ⁽²⁾		567,761	567,935	592,615	596,219	569,724
Preferred Stock without						
mandatory redemption		105,000	105,000	105,000	105,000	105,000
Preferred Stock with						
mandatory redemption ⁽³⁾		47,836	49,383	50,000	50,000	50,000
Common Equity		539,650	503,513	468,073	437,080	395,546
Total	\$	1,260,247	\$ 1,225,831	\$ 1,215,688	\$ 1,188,299	\$ 1,120,270
Capitalization Ratios						
Long Term Debt		45%	46%	49%	50%	51%
Preferred Stock without						
mandatory redemption		8%	9%	9%	9%	9%
Preferred Stock with						
mandatory redemption		4%	4%	4%	4%	5%
Common Equity		43%	41%	38%	37%	35%
Total		100%	100%	100%	100%	100%
Electric/Gas Sales						
Electric Sales (Kwh 000)		8,308,233	7,878,476	7,249,442	7,395,324	7,460,380
Gas Sales (Mcf 000)		17,239	16,449	15,604	16,520	15,693

⁽¹⁾Excludes Allowance for Funds Used During Construction.⁽²⁾Includes long-term debt due within one year.⁽³⁾Includes mandatory redemption due within one year.

Financial Review and Analysis**Results of Operations****Earnings**

For the fourth consecutive year, Delmarva Power & Light Company's financial performance and strength continue to improve. Earnings per share of common stock were \$2.63 for 1984, an increase of 18¢ or 7% from 1983. Increased sales, impacted primarily as a result of a strong economy in the service territory and the cold winter weather conditions contributed to this increased earnings level. Earnings per share of common stock were \$2.45 for 1983, an increase of 32¢ or 15% from 1982. The increase in 1983 earnings was primarily attributed to increased sales as a result of an unusually warm summer, timely rate relief and reduced construction expenditures.

Dividends

In December 1984, the Board of Directors increased the quarterly dividend 6.7% to 48¢ per share, the eighth consecutive annual increase. The current indicated annual dividend rate has increased to \$1.92 per share from \$1.80 per share. This increase reflects a dividend policy which is to moderately increase dividends on an annual basis, earnings permitting, and thus provide stockholders with a fair and competitive return on their investment. Effective January 1, 1985 all reinvested dividends under the Dividend Reinvestment Plan (DRIP) will be used to purchase shares on the open market.

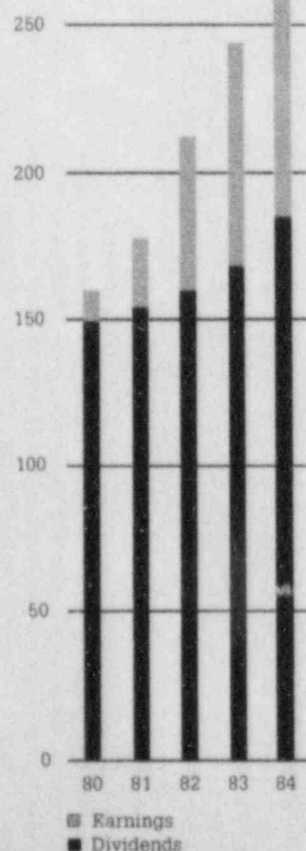
Electric Revenues and Sales

Operating revenues reflect effects of rate changes in prices of units sold as well as volume changes in unit sales. Electric revenues, net of fuel costs, increased \$19.4 million or 4.9% in 1984 and \$42.7 million or 12.1% in 1983. These increases in both years are net of voluntary revenue refunds to Delaware retail electric customers. A potential refund of at least \$7.5 million in 1985 as well as a refund of \$5.8 million in 1984 were designed to bring actual 1984 and 1983 earned rates of return in line with authorized rates of return as sales of electricity were greater than projected in both years.

Electric rate changes did not have a significant impact due primarily to the fact that the company voluntarily decreased its electric rates to Delaware retail customers in June 1984, the first reduction since 1964. A similar rate reduction for wholesale customers was also approved by the Federal Energy Regulatory Commission in July 1984. The decreases offset rate increases in the company's other jurisdictions, Maryland and Virginia. Stabilization of the company's rates has been aided by the successful switch from oil to coal, higher sales and a maintenance level construction budget. See the accompanying text "Rate Regulation" for additional information concerning rate case filings.

The increase in volume-related electric revenues in 1984 was primarily due to higher sales in the residential and commercial classes. These sales increases were mainly the result of the improving overall economic situation and colder winter weather conditions in the first quarter of 1984. Residential sales increased 5.3% with an increase of 16.2% in residential space heating sales due to the cold winter as well as an increase in customers with electrically-heated dwelling units. An improved economy has been the main factor in sales increases considering the abnormally warm summer weather in 1983. Commercial sales, which are not as weather-sensitive, increased 12.4% being strongly impacted by the improved economy and the continued growth of commercial buildings, primarily in the Wilmington area. In Delmarva's service territory, the popular beach areas have been significantly impacted by the strong economy as indicated by expanded residential construction and a resulting increase in the number of commercial businesses. 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, additional heating installations, and customer conservation efforts.

**Earnings and
Dividends Declared**
(cents)



Financial Review and Analysis**Gas Sales**

Gas sales increased 4.8% in 1984 compared to a 5.4% increase in 1983. Residential space-heating sales increased 11.3% reflecting an increase in customers and the cold weather conditions earlier in the year. Commercial sales increased 11.0% reflecting an improved economy. Future gas sales will be affected by the price and availability of gas and competitive fuels, as well as by the ongoing impact of such factors as weather conditions, gas conversions and conservation efforts by our customers.

Rate Regulation

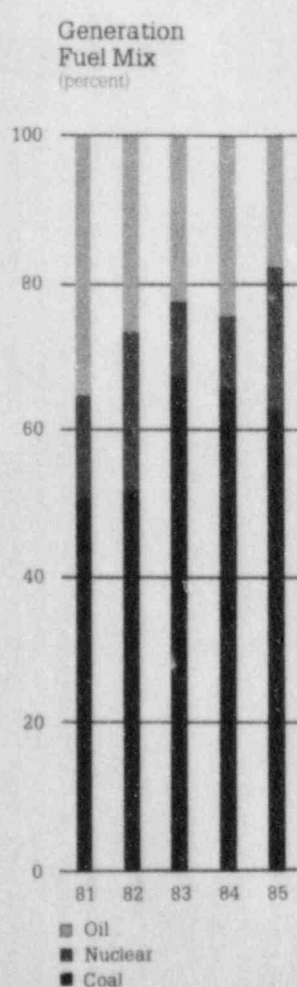
The company is subject to regulation with respect to its retail sales of electricity by the Delaware and Maryland Public Service Commissions and the Virginia State Corporation Commission, which have broad powers over rate matters, accounting and terms of service. The Federal Energy Regulatory Commission (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. However, due to the stabilization of rates in Delaware, the company filed a 1.4% decrease in electric rates effective June 1, 1984, and has pledged not to seek an electric rate increase in Delaware which would become effective before June 1985. A similar rate reduction of 1.5% for wholesale customers was also approved by the FERC effective June 20, 1984.

Rate increases were filed in the company's other retail jurisdictions in 1984 and were structured to recover increases in operating costs and to improve the return on utility investment. During 1984, rate increases were granted in Virginia for \$449,000 or 2.7% and in Maryland for \$4.8 million or 3.9%. On August 3, 1984, the company filed an application with the Delaware Public Service Commission for an increase in gas revenues of \$5.2 million or 5.5%. The case is still pending and a final order is expected by March 1985.

Fuel Mix

The effective customer fuel cost, which includes fuel, interchange and purchased power costs, has decreased 5% since 1982, from 2.06¢/kWh in 1982 to 1.96¢/kWh in 1984 reflecting a favorable shift in the company's interchange power position and the use of less expensive generation facilities and sources. In 1984, generation from coal, nuclear and oil sources was 65%, 11% and 24% respectively.



Financial Review and Analysis

Operating Expenses

Other operation and maintenance expenses have increased since 1982 primarily as a result of higher payroll and associated benefits, the increased costs of materials and supplies, and the higher cost of maintenance of jointly-owned nuclear generating units. During 1984, both Salem Units #1 and #2 were removed from service due to electric generator failures. Peach Bottom Unit #3 was also removed from service for a portion of the year for maintenance repairs. Salem #1 has been returned to service and the other units are scheduled to begin operating again by the end of the first quarter of 1985.

Impact of Inflation

Supplementary unaudited financial information showing the estimated effects of inflation on the company's operations is shown in Note 12 of the Financial Statements. This data should be viewed as estimates of the approximate effects of inflation, rather than as precise measures.

Liquidity and Capital Resources

Financing and Capitalization

The company is committed to maintaining its financial strength and flexibility and believes that it is important to have a strong capital structure. The company's capitalization goals are 45-48% long-term debt, 10-12% preferred stock and 42-45% common equity. These goals have been attained by increasing common equity through increased earnings and the sale of common equity primarily through the Dividend Reinvestment Plan. New debt has been minimized and has been primarily issued on a tax-exempt basis. See "Selected Financial Data" for the actual capitalization ratios.

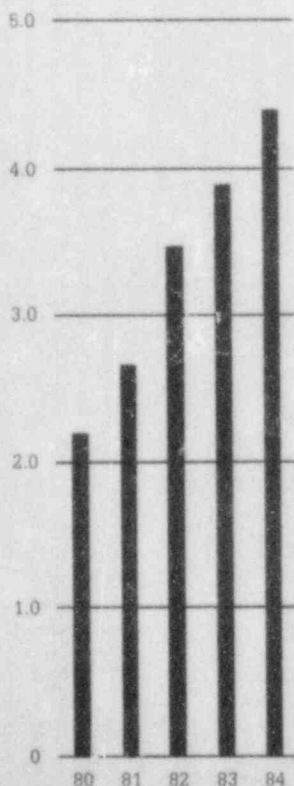
Due to continued improvements in cash flow and to control the rapidly improving equity position, the company further modified its Dividend Reinvestment and Common Share Purchase Plan (DRIP). Effective January 1985, all reinvested dividends are being used to purchase shares on the open market.

Credit ratings on the company's first mortgage bonds were further upgraded during the year. Moody's Investors Service has raised its rating to Aa1 from Aa2 and Standard & Poor's raised its rating to AA. Duff and Phelps raised the rating from a D&P '3' to a D&P '2' which is equivalent to the Aa1 rating from Moody's. The upgrades are primarily due to the company's continued strong financial performance.

The Ratio of Earnings to Fixed Charges, which is measured by the amount of pre-tax earnings as related to fixed interest charges, showed improvement over the last three years. This ratio, computed under the SEC method, for 1984 was 4.4 as compared to 3.9 in 1983 and 3.5 in 1982.

In 1984, financing activity consisted of common equity sales under the Dividend Reinvestment Plan as well as the issuance of \$15.5 million Floating Rate Weekly Demand Gas Facilities Revenue Bonds (Flexible Demand Series). The Flexible Demand Series, issued through the Delaware Economic Development Authority, was used to refund \$5.5 million short-term tax-exempt commercial paper with the balance being used for the future construction of gas facilities. As of December 31, 1984 there was \$33 million in outstanding tax-exempt commercial paper classified as a term loan agreement which is expected to be refinanced on a more permanent basis. The company does not expect any further external long-term financings through 1986 except for the aforementioned refinancing and future refundings of maturing debt.

Ratio of Earnings
to Fixed Interest
Charges
(SEC method)



Financial Review and Analysis**Capital and Construction Requirements**

For the period of 1982-1984, the company had total capital requirements of \$387 million, including \$266 million for construction (excluding AFUDC). During the same period, \$305 million was generated internally which represents 79% of the capital requirements and 115% of the construction requirements. Capital requirements for the period 1985-1987 are estimated to be \$338 million, including \$315 million for construction (excluding AFUDC). The company presently anticipates that, for the period 1985-1987, internally generated funds will be \$367 million which equals 109% of the total capital requirements and 116% of its construction requirements.

The company estimates that its annual energy and peak load growth for the next 10 years will be at a rate of 2.22% and 1.40%, respectively. The company's present generating capacity of 2,225 megawatts provides a reserve of approximately 37% against its company peak of 1,625 mw experienced in the summer of 1983. In 1984 the company peak was 1,624 mw. In addition, during January 1985 the company reached an all time peak of 1,682 mw due to the extreme winter weather conditions. The company continues to plan for new generation at Vienna, Maryland (Nanticoke #1) in the mid-1990's. Prior to the commitment of significant capital expenditures, the company is looking at various alternative scenarios which may influence the timing and method of meeting customer load requirements. These scenarios include cogeneration; implementing effective load management; generation options; weather; economic demographics and customer behavior. The company continues to be committed to maintaining a high degree of flexibility as long as possible in its planning to meet future capacity requirements.

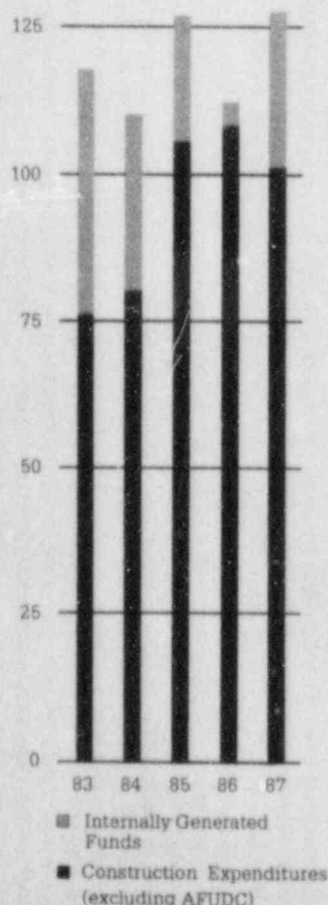
The construction program and related expenditures have been developed in response to the need to extend the life of existing production plant, upgrade the transmission and distribution systems and provide for projected growth. These expenditures may vary from the estimates set forth above as a result of, among other factors, changes in anticipated inflation, timing of expenditures, regulation and legislation, rates of load growth, licensing and construction delays, results of rate proceedings, and the cost and availability of capital.

The company issues commercial paper supported by adequate lines of credit to meet seasonal fluctuations in working capital requirements as well as the interim financing necessary for construction projects. The company has lines of credit with banks in the amount of \$44.5 million. These lines are available for bank loans and to secure commercial paper borrowings as the need arises. At December 31, 1984, the company had no commercial paper or bank loans outstanding.

Liquidity

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. As a result of lower construction expenditures and an improved financial condition, temporary cash investments and marketable securities increased from \$7.9 million in 1983 to \$27.6 million in 1984 with no short term debt outstanding at the end of either year. The company's plan for utilizing cash generated from ongoing operations beyond construction requirements is to focus on energy diversification and financial opportunities.

Construction Expenditures and Internally Generated Funds
(millions of dollars)



Report of Management on the Financial Statements

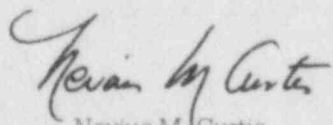
Report of Management

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.

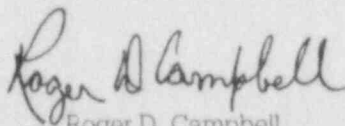
Delmarva Power & Light Company maintains a system of internal controls designed to provide reasonable, but not absolute, assurance of the reliability of the financial records and the protection of assets. The internal control system is supported by written administrative policies, a program of internal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



Nevius M. Curtis
Chairman of the Board and
Chief Executive Officer



Roger D. Campbell
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 63,094 holders of common stock as of December 31, 1984.

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, 1984 were approximately \$121,974,000 under the most restrictive of these provisions.

	1984			1983		
	Dividend Declared	Price		Dividend Declared	Price	
		High	Low		High	Low
First Quarter	\$.45	19 $\frac{1}{8}$	17 $\frac{1}{8}$	\$.41	16 $\frac{7}{8}$	15 $\frac{1}{2}$
Second Quarter	.45	18 $\frac{1}{8}$	17 $\frac{1}{4}$.41	17	15 $\frac{1}{8}$
Third Quarter	.45	20 $\frac{1}{8}$	17 $\frac{3}{4}$.41	17 $\frac{1}{8}$	15 $\frac{1}{2}$
Fourth Quarter	.48	22 $\frac{1}{8}$	20 $\frac{1}{8}$.45	19 $\frac{1}{8}$	16 $\frac{1}{8}$

Report of Independent Certified Public Accountants

To the Board of Directors
and Stockholders
Delmarva Power
& 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, 1984 and 1983, 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, 1984. 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, 1984 and 1983, 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, 1984, in conformity with generally accepted accounting principles applied on a consistent basis.

COOPERS & LYBRAND
1900 Three Mellon Bank Center
Philadelphia, Pennsylvania
February 7, 1985

Consolidated Statements of Income

(Dollars in Thousands)				
For the Years Ended December 31		1984	1983	1982
Operating Revenues	Electric	\$ 584,163	\$ 542,252	\$ 534,770
	Gas	101,578	94,358	84,747
	Steam	16,852	13,189	17,149
		702,593	649,799	636,666
Operating Expenses	Operation:			
	Fuel for electric generation	278,474	275,117	239,965
	Net interchange and purchased power	(108,011)	(108,654)	(79,678)
	Purchased gas	74,082	72,475	58,690
	Deferral of energy costs	(2,345)	(24,507)	20,837
	Other operation	108,001	107,496	100,956
	Maintenance	56,752	53,781	43,947
	Depreciation	53,702	49,596	49,929
	Taxes on income	77,577	67,584	58,500
	Taxes other than income	31,152	27,773	26,947
		569,384	520,661	520,093
Operating Income		133,209	129,138	116,573
Other Income	Allowance for other funds used during construction	2,780	2,447	4,548
	Other, net	3,243	2,440	2,015
		6,023	4,887	6,563
Income Before Interest Charges		139,232	134,025	123,136
Interest Charges	Long-term debt	45,815	45,697	48,895
	Short-term debt and other	2,090	3,999	2,181
	Allowance for borrowed funds used during construction	(783)	(734)	(1,511)
		47,122	48,962	49,565
Earnings	Net income	92,110	85,063	73,571
	Dividends on preferred stock	12,662	12,818	12,818
	Earnings applicable to common stock	\$ 79,448	\$ 72,245	\$ 60,753
Common Stock	Average shares outstanding (thousands)	30,248	29,541	28,489
	Earnings per average share	\$ 2.63	\$ 2.45	\$ 2.13
	Dividends declared per share	\$ 1.83	\$ 1.68	\$ 1.595

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		1984	1983	1982
Sources of Funds	Provided from operations:			
	Net income	\$ 92,110	\$ 85,063	\$ 73,571
	Less—Preferred dividends declared	12,662	12,818	12,818
	—Common dividends declared	55,361	49,668	45,471
	Earnings reinvested during the year	24,087	22,577	15,282
	Items not requiring (providing) funds:			
	Depreciation	58,464	56,599	51,121
	Amortization of credit arising from sale of contracts	(4,762)	(7,003)	(1,192)
	Amortization of nuclear fuel	2,071	2,394	6,192
	Allowance for funds used during construction	(3,563)	(3,181)	(6,059)
	Investment tax credit adjustments, net	2,253	3,495	5,718
	Deferred income taxes, net	31,935	42,701	5,999
	Funds provided from operations	110,485	117,582	77,061
	External financing:			
	Long-term debt:			
	Flexible demand series	15,500	—	—
	Term loan	(5,500)	15,500	(3,550)
	Common stock	11,921	12,863	15,711
	Redemption of long-term debt	(10,100)	(40,100)	—
	Redemption of preferred stock	(1,418)	(617)	—
	Externally financed funds	10,403	(12,354)	12,161
	Other sources (uses):			
	Decrease (increase) in working capital*	(29,557)	(17,709)	(13,172)
	Construction funds held by trustee	(4,933)	(1,041)	32,507
	Other, net	(6,910)	(10,422)	2,089
	Other sources (uses)	(41,400)	(29,172)	21,424
Construction Expenditures	(excluding allowance for funds used during construction)	\$ 79,488	\$ 76,056	\$110,646
Decrease (increase) in working capital*	Temporary cash investments	\$ (12,150)	\$ 634	\$ (1,545)
	Marketable securities	(7,604)	(4,948)	(2,035)
	Accounts receivable	(3,050)	(7,586)	679
	Deferred fuel costs, net	(1,831)	(23,126)	21,374
	Inventories	(15,114)	5,428	(9,516)
	Accounts payable	(5,865)	7,993	(3,607)
	Taxes accrued	6,842	(4,488)	(21,877)
	Interest accrued	908	(1,016)	(9,265)
	Other, net	8,307	9,400	12,620
	Total	\$ (29,557)	\$ (17,709)	\$ (13,172)

*Other than long-term debt due and preferred stock redeemable within one year and current deferred income taxes.

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

		(Dollars in Thousands)	
ASSETS	<i>As of December 31</i>	<i>1984</i>	<i>1983</i>
Utility Plant— at original cost	Electric	\$ 1,555,174	\$ 1,499,606
	Gas	83,104	75,067
	Steam	24,143	24,108
	Common	71,391	65,772
		1,733,812	1,664,553
	Less: Accumulated depreciation	488,987	440,079
	Net utility plant in service	1,244,825	1,224,474
	Plant held for future use	15,022	14,844
	Construction work in progress	36,372	36,264
	Nuclear fuel, at amortized cost	24,955	22,520
		1,321,174	1,298,102
Nonutility Property and Other Investments	Net nonutility property, at cost	5,385	12,436
	Construction funds held by trustee	15,578	10,645
		20,963	23,081
Current Assets	Cash	16,673	14,674
	Temporary cash investments	13,061	911
	Marketable securities, at cost	14,587	6,983
	Accounts receivable:		
	Customers	48,839	47,938
	Other	24,568	22,419
	Inventories, at average cost:		
	Fuel (coal, oil and gas)	68,364	51,693
	Materials and supplies	21,975	23,532
	Prepayments	3,776	3,943
	Deferred income taxes	1,661	3,128
		213,504	175,221
Deferred Charges and Other Assets	Refundable taxes and interest	32,322	30,134
	Unamortized debt expense	4,827	4,915
	Other	1,550	1,810
		38,699	36,859
	Total	\$ 1,594,340	\$ 1,533,263

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

(Dollars in Thousands)

LIABILITIES	<i>As of December 31</i>	1984	1983
Capitalization (see Statements of Capitalization)	Common stock	\$ 102,876	\$ 100,714
	Additional paid-in capital	235,473	225,585
	Retained earnings	201,301	177,214
	Total common stockholders' equity	539,650	503,513
	Preferred stock:		
	Without mandatory redemption	105,000	105,000
	With mandatory redemption	47,036	48,583
	Long-term debt	557,661	557,835
		1,249,347	1,214,931
Current Liabilities	Long-term debt due and preferred stock redeemable within one year	10,900	10,900
	Accounts payable	26,244	32,109
	Taxes accrued	20,636	13,794
	Deferred fuel costs, net	1,049	2,880
	Interest accrued	20,197	19,289
	Dividends declared	14,631	13,409
	Nuclear fuel disposal costs	10,888	—
	Other	15,026	16,229
		119,571	108,610
Deferred Credits And Other Liabilities	Credit arising from sale of contracts	27,949	33,637
	Deferred income taxes, net	128,444	98,744
	Deferred investment tax credits	65,386	63,133
	Nuclear fuel disposal costs	—	10,888
	Other	3,643	3,320
		225,422	209,722
Other	Commitments and Contingencies (Notes 6 and 10)		
	Total	\$ 1,594,340	\$1,533,263

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Capitalization

(Dollars in Thousands)

	As of December 31	1984		1983
Common Stockholders' Equity	Common stock, par value \$3.375 per share authorized 35,000,000 shares, outstanding 30,481,925 and 29,841,182 shares	\$ 102,876		\$ 100,714
	Additional paid-in capital	235,473		225,585
	Retained earnings	201,301		177,214
	Total Common Stockholders' Equity	539,650	43%	503,513 41%
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 Issued			
	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
	Preferred Stock without Mandatory Redemption	105,000	8%	105,000 9%
	With Mandatory Redemption: *			
	9.00% Series 192,000 shares	19,200		20,000
	12.56% Series 300,000 shares	30,000		30,000
		49,200		50,000
	Less: Reacquired preferred shares held in treasury (at cost)	1,364		617
		47,836	4%	49,383 4%
	Less: Amount to be redeemed within one year	800		800
	Preferred Stock with Mandatory Redemption	47,036		48,583
Long-Term Debt	First Mortgage and Collateral Trust Bonds:			
	Maturity Interest Rates			
	May 1, 1984 3½%	—		10,000
	Dec. 1, 1985 3½%	10,000		10,000
	Jun. 1, 1988 3¾%	25,000		25,000
	1994-1997 4½%-6¾%	50,000		50,000
	1998-2002 7%-11¾%	158,100		158,100
	2003-2007 6.6%-11%	121,250		121,250
	2008-2011 9½%-12%	111,900		111,900
		476,250		486,250
Pollution Control Notes	Series, 1973 5.7% effective rate, due 1985-1998	7,800		7,900
	Series, 1976 7.3% effective rate, due 1992-2006	34,500		34,500
		42,300		42,400
	Flexible Demand Series, due 2014	15,500		—
	Term Loan	33,000		38,500
	Unamortized premium and discount, net	711		785
		567,761	45%	567,935 46%
	Long-term debt due within one year	(10,100)		(10,100)
	Total Long-Term Debt	557,661		557,835
	Total Capitalization	\$ 1,249,347	100%	\$ 1,214,931 100%

* Redemption prices at December 31, 1984 are \$107 (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, 1984	Common Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Total
Balance as of January 1, 1982		27,908,345	\$ 94,191	\$203,534	\$139,355	\$437,080
Net income					73,571	73,571
Cash dividends declared						
Common stock (\$1.595)					(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
Common stock expense				(250)		(250)
Balance as of December 31, 1982		29,048,445	98,039	215,397	154,637	468,073
Net income					85,063	85,063
Cash dividends declared						
Common stock (\$1.68)					(49,668)	(49,668)
Preferred stock					(12,818)	(12,818)
Issuance of common stock:						
Dividend Reinvestment and Common Share Purchase Plan		792,737	2,675	10,526		13,201
Common stock expense				(338)		(338)
Balance as of December 31, 1983		29,841,182	100,714	225,585	177,214	503,513
Net income					92,110	92,110
Cash dividends declared						
Common stock (\$1.83)					(55,361)	(55,361)
Preferred stock					(12,662)	(12,662)
Issuance of common stock:						
Dividend Reinvestment and Common Share Purchase Plan		640,743	2,162	9,888		12,050
Gain on retirement of preferred stock				125		125
Common stock expense				(125)		(125)
Balance as of December 31, 1984		30,481,925	\$102,876	\$235,473	\$201,301	\$539,650

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. Accounting policies are in accordance with those prescribed by the regulatory commissions having jurisdiction with respect to accounting matters.

In December 1982, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 71 "Accounting for the Effects of Certain Types of Regulation" (Statement). The provisions of the Statement are effective with respect to the company's 1984 financial statements. Implementation of this Statement does not have a significant impact on financial position or results of operations.

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.

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 the costs of decommissioning of nuclear plant is made to the extent of the net cost of removal allowed for rate purposes (approximately 20% of plant cost). The relationship of the annual provision for depreciation for financial accounting purposes to average depreciable property was 3.4% for 1984 and 1983, and 3.6% for 1982.

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.

Nuclear Fuel

The company's share of nuclear fuel costs relating to jointly-owned nuclear generating stations is charged to fuel expense on a unit of production basis, which includes a factor for spent nuclear fuel disposal costs pursuant to the Nuclear Waste Policy Act of 1982. The company is collecting future storage and disposal costs for spent fuel as authorized by the regulatory commissions in each jurisdiction and is paying such amounts quarterly to the Department of Energy.

Notes to Consolidated Financial Statements**1. Significant Accounting Policies**
(continued)*Income Taxes*

Deferred income taxes result from timing differences in the recognition of certain income and 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) deferred fuel and gas production costs deducted currently for income tax purposes, and (3) other timing differences involving 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 ½ % in 1983 and 1984 related to the Payroll Based Employees Stock Ownership Plan (a "PAYSOP" plan) and of 1½ % in 1982 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 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 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 9.0% in 1984, 7.8% in 1983, and 9.1% in 1982.

2. Taxes on Income

Income tax expense for 1984, 1983 and 1982 is as follows:

(Dollars in Thousands)

	1984	1983	1982
Operations:			
Federal:			
Current	\$ 36,131	\$ 16,557	\$ 37,508
Deferred	27,380	36,654	4,700
State:			
Current	6,560	4,345	7,672
Deferred	4,555	6,047	1,363
Investment tax credit adjustments, net	2,951	3,981	7,257
Other income:			
Current	1,528	816	2,046
Deferred	—	—	(64)
Total	\$ 79,105	\$ 68,400	\$ 60,482

Investment tax credits utilized to reduce federal income taxes payable amounted to \$6,890,000 in 1984, \$7,654,000 in 1983 and \$10,445,000 in 1982. The amounts for 1984, 1983 and 1982 include Employee Stock Ownership Plan credits of \$707,000, \$360,000 and \$1,553,000, 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)

	Amount	1984 Rate	Amount	1983 Rate	Amount	1982 Rate
Statutory income tax expense	\$ 78,758	46%	\$ 70,594	46%	\$ 61,664	46%
Increase (Decrease) in taxes resulting from:						
Exclusion of AFUDC for income tax purposes	(1,639)	(1)	(1,463)	(1)	(2,787)	(2)
Depreciation not normalized	2,490	1	(171)	—	(1,312)	(1)
Investment tax credits amortized to income	(3,939)	(2)	(3,673)	(2)	(3,188)	(2)
State income taxes, net of federal tax benefit	6,067	3	5,682	4	5,065	4
Amortization of credit arising from sale of contracts	(2,190)	(1)	(3,221)	(2)	(549)	(1)
Other, net	(442)	—	652	—	1,588	1
Income tax expense	\$ 79,105	46%	\$ 68,400	45%	\$ 60,482	45%

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

(Dollars in Thousands)

	1984	1983	1982
Depreciation	\$ 18,887	\$ 19,251	\$ 18,493
Deferred fuel costs	954	12,480	(10,402)
Capitalized overhead costs	1,508	1,648	926
Nuclear fuel disposal costs	—	5,675	(2,054)
Pollution control amortization	3,687	3,548	781
ADR repair allowance	4,863	—	—
Other, net	2,036	99	(1,745)
Total	\$ 31,935	\$ 42,701	\$ 5,999

The company has not provided deferred income taxes of approximately \$129 million on cumulative timing differences arising before the adoption of full tax normalization for ratemaking purposes by the regulatory authorities. The company is currently collecting the unnormalized taxes in its Delaware and resale electric rate jurisdictions, on a levelized basis, over the life of the related plant facilities with similar rate treatment anticipated for the gas jurisdiction beginning in 1985. For the other jurisdictions, it is estimated that the amounts will be recoverable for rate purposes when paid.

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. The assessment would result in net additional federal and state income taxes of approximately \$20.3 million and interest of \$17.6 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's appeal on the taxability of the net proceeds is presently in Tax Court. 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. 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

(Dollars in Thousands)

3. Taxes Other Than Income

	1984	1983	1982
Delaware utility	\$ 13,732	\$ 12,341	\$ 11,733
Property	6,652	6,483	6,129
Other gross receipts	4,995	4,149	3,601
Payroll, franchise and other	5,773	4,800	5,484
Total	\$ 31,152	\$ 27,773	\$ 26,947

4. Pension Plan and Post-Retirement Benefits

The company has a trustee noncontributory pension plan covering all regular employees. Pension contributions for 1984, 1983, and 1982 were \$2,354,000, \$4,400,000 and \$4,895,000 including \$1,010,000, \$765,000 and \$914,000 charged to construction, respectively. The contributions provide for normal cost and amortization of prior service costs over periods of five to twenty-five years.

The actuarial present value of accumulated plan benefits, determined as of January 1, 1984, was \$80,311,000 for vested benefits and \$13,816,000 for accrued nonvested benefits. The market value of net assets at that date, available for plan benefits were \$191,062,000. The actuarial present value of accumulated plan benefits, determined as of January 1, 1983 was \$72,432,000 for vested benefits and \$11,901,000 for accrued nonvested benefits. The market value of net assets, at that date, available for plan benefits were \$161,749,000. The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 8.0% for 1984 and 1983.

The company provides certain health care and life insurance benefits for retired employees. Substantially all of the company's employees may become eligible for these benefits if they reach normal retirement age while still working for the company. The company recognizes the cost of providing those benefits by expensing the insurance claims as they are paid. These costs totalled \$1,640,000, \$2,075,000 and \$1,445,000 for 1984, 1983 and 1982, respectively.

5. Capitalization*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, 1984 was approximately \$121,974,000.

Preferred Stock

The annual preferred dividend requirements on all outstanding preferred stock at December 31, 1984 are \$12,599,000. If 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, 1984).

Notes to Consolidated Financial Statements**5. Capitalization**
(continued)*With Mandatory Redemption*

(1) The 9% series, issued in 1978, has a sinking fund requirement, which commenced 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 1985 and \$1,700,000 in 1986, 1987, 1988 and 1989. (5) During 1984, the company purchased 17,150 shares of its 9% preferred stock for a total cost of \$1,418,000. In December 1984, 8,000 shares were used to satisfy the mandatory sinking fund requirement. As of December 31, 1984, 16,350 shares are held in Treasury at a cost of \$1,364,000.

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 1982-1984, 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 \$33,000,000 revolving credit commitment through November 1, 1989, convertible into a term loan due November 1, 1992. From time to time, the company issues short-term tax-exempt revenue notes, and, in recognition of the long-term financing commitment, these notes have been classified as long-term debt (term loan). The loan agreement requires a commitment fee of ¼% on any unused portion of the revolving credit commitment and term loans may be prepaid at any time without penalty and would bear interest at 100% of the prime rate.

(4) On November 1, 1984, the company issued, through the Delaware Economic Development Authority, \$15,500,000 tax-exempt Floating Rate Weekly Demand Gas Facilities Revenue Bonds—Series 1984, due November 1, 2014 (Flexible Demand Series). Proceeds were used to refinance \$5,500,000 of existing tax-exempt commercial paper, with the balance being deposited with the trustee to finance the construction of certain gas facilities. This series was collateralized with \$16,500,000 First Mortgage Bonds due November 1, 2014, which secure repayment of principal and accrued interest. The interest rate on the Flexible Demand Series is subject to change weekly on the basis of prevailing market rates for these bonds and may be converted to a fixed rate under specified conditions. The Flexible Demand Series has a put option for the bondholder, whereby the bonds can be presented for payment at specified times. The bonds can be sold by the remarketing agent. The company has sufficient long-term financing arrangements available to redeem any bonds not remarketed. In recognition of the long-term financing capability, these bonds have been classified as long-term debt.

(5) Maturities of long-term debt during the next five years are 1985—\$10,100,000; 1986 and 1987—\$150,000; 1988—\$25,150,000; 1989—\$150,000.

(6) The annual interest requirements on all borrowings classified as long-term debt at December 31, 1984 are \$46,182,000.

Notes to Consolidated Financial Statements**5. Capitalization**
(continued)*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.

6. Commitments

The company estimates that approximately \$107,745,000, excluding AFUDC, will be expended for construction purposes in 1985. The company also has commitments under long-term fuel supply contracts.

Under SFAS No. 71, regulated industries were required to adopt the lease accounting requirements of SFAS No. 13 for all capital leases commencing on or after January 1, 1983. The company's capital leases commencing after January 1, 1983, were not material and, therefore, were not recorded. All capital leases, including leases commencing prior to January 1983, were treated as operating leases. However, if capital leases had been recorded on the balance sheet, related assets and liabilities would have increased by \$13,324,000 and \$13,791,000 at December 31, 1984 and 1983, respectively.

Minimum commitments as of December 31, 1984 under all non-cancellable lease agreements are as follows:

1985	\$ 5,892,000
1986	4,617,000
1987	3,213,000
1988	3,116,000
1989	1,159,000
Remainder	4,149,000
Total	<u>\$ 22,146,000</u>

The total minimum rental commitments are applicable to the following types of property: railroad coal cars, \$1,664,000; distribution facilities, \$5,022,000; other, principally transportation and computer equipment, \$15,460,000. Rentals charged to operating expenses aggregated \$6,213,000 in 1984, \$6,677,000 in 1983 and \$6,837,000 in 1982.

Nuclear fuel requirements for Peach Bottom Generating Station are being provided by the operating company through a fuel purchase contract. The company is responsible for payment of its share of fuel consumed and interest expense. Nuclear fuel expense totalled \$6,072,000 in 1984, \$4,283,000 in 1983 and \$7,112,000 in 1982.

The company has 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 \$1,912,000 in 1984, \$2,101,000 in 1983 and \$2,454,000 in 1982. The amount of required payments is \$1,682,000 in 1985, \$2,004,000 in 1986, \$1,701,000 in 1987, \$1,173,000 in 1988, \$1,027,000 in 1989 and \$11,915,000 between 1990 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 (Summit) 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. As a result of ratemaking orders commencing in 1982, the company is amortizing the net credit in all retail jurisdictions over approximately five years and is recording the credit for financial reporting purposes as a reduction in depreciation expense. Amounts amortized in 1984, 1983 and 1982 were \$4,762,000, \$7,003,000 and \$1,192,000, respectively, which includes, in 1983, amortization of \$3,818,000 for the resale jurisdiction.

Notes to Consolidated Financial Statements**7. Sale of Contracts
for Nuclear Plant**
(continued)

In December 1984, the company entered into an agreement to sell the land that was originally acquired as the site for the nuclear plant. The loss on the sale of the land and write down to fair market value of associated rights-of-way, net of taxes was \$1,644,000. The net loss has been recorded against the related deferred credit in the balance sheet.

**8. Short-Term Debt and
Lines of Credit**

As of December 31, 1984, the company had unused bank lines of credit of \$44,500,000 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, 1984 is as follows:

(Dollars in Thousands)

	Ownership Share	Plant in Service	Accumulated Depreciation	Construction Work in Progress
Nuclear:				
Peach Bottom	7.51%	\$ 76,632	\$24,004	\$ 8,630
Salem	7.41%	179,754	41,039	16,665
Coal-Fired:				
Keystone	3.70%	10,061	3,836	1,093
Conemaugh	3.72%	13,030	5,088	242
Total		\$279,477	\$73,967	\$26,630

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 (\$858,831 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.

a) FERC Rate Cases

On May 29, 1981 the company filed an application with the Federal Energy Regulatory Commission (FERC) for an increase in wholesale electric revenues. Settlement with seven customers was approved by FERC, and the remaining six customers have stipulated that rates be based on the results of the cost of service issues decided in the previously approved FERC cases. Based upon settlements with the resale customers, net revenues recorded pursuant to this interim rate increase are approximately \$1.6 million. This increase is subject to refund pending FERC approval, and the company believes that substantially all such revenues will be approved.

b) Plant Held for Future Use

In 1982, the company delayed the construction schedule for the coal-fired Nanticoke #1 (formerly Vienna #9) generating unit. The plant is now scheduled to begin commercial operation in the mid 1990's. 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 of \$14,295,000 is classified as plant held for future use and is anticipated to be recoverable through the normal ratemaking process.

Notes to Consolidated Financial Statements**10. Contingencies**

(continued)

c) Nuclear Insurance

The Company's insurance coverages applicable to its nuclear power units are as follows:

(Millions of Dollars)

Type and Source of Coverage	Maximum Coverage	Maximum Retrospective Assessment for a single incident
Public Liability:		
Private	\$160	None
Price Anderson Assessment ⁽¹⁾	420	\$1.5 ⁽²⁾
	\$580 ⁽³⁾	
Property Damage: ⁽⁴⁾		
Peach Bottom ⁽⁵⁾	\$585	—
Salem ⁽⁶⁾	\$585	\$2.8
All units ⁽⁷⁾	\$450	\$1.3
Replacement Power:		
Nuclear Electric Insurance Limited (NEIL) ⁽⁸⁾	\$2.8	\$2.3

⁽¹⁾ 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 an incident at any licensed nuclear reactor in the United States.

⁽²⁾ Maximum assessment would be \$5,000,000 in the event of more than one incident in any year.

⁽³⁾ Limit of liability under the Price Anderson Act for each nuclear incident.

⁽⁴⁾ The company is a self insurer, to the extent of its ownership interest, for any property loss in excess of the stated amounts.

⁽⁵⁾ For property damage to the Peach Bottom nuclear plant facilities, the company and its co-owners have private insurance up to \$585 million.

⁽⁶⁾ Nuclear Mutual Limited, a utility-owned mutual insurance company with which the company and the Salem nuclear facility co-owners are members. Subject to retrospective assessment of ten times annual premium with respect to loss at any nuclear generating station insured by the mutual insurance company.

⁽⁷⁾ All units are insured by Nuclear Electric Insurance Limited (NEIL II) for losses in excess of \$500 million. In the event of losses, the company would be subject to a minimum assessment of seven and a half times the annual premiums.

⁽⁸⁾ Utility owned mutual insurance company with which the company is a member which provides coverage against extra expense incurred in obtaining replacement power during prolonged accidental outages of nuclear power units. Maximum weekly indemnity for 52 weeks which commences after the first 26 weeks of an outage. Also provides \$1,400,000 weekly for an additional 52 weeks.

d) Atlantic City Contract

The company entered into a five-year contract, to expire May, 1985, 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.

e) Other

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.

Notes to Consolidated Financial Statements**11. Segment Information**

Segment information with respect to electric, gas and steam operations was as follows:
(Dollars in Thousands)

	1984	1983	1982
Operating Revenues:			
Electric	\$ 584,163	\$ 542,252	\$ 534,770
Gas	101,578	94,358	84,747
Steam	16,852	13,189	17,149
Total	\$ 702,593	\$ 649,799	\$ 636,666
Operating Income:			
Electric	\$ 125,200	\$ 122,993	\$ 109,620
Gas	6,616	4,928	5,800
Steam	1,393	1,217	1,153
Total	\$ 133,209	\$ 129,138	\$ 116,573
Utility Plant: ^{(1) (2)}			
Electric	\$ 1,257,728	\$ 1,242,145	\$ 1,226,140
Gas	59,097	51,033	47,044
Steam	4,349	4,924	5,653
	1,321,174	1,298,102	1,278,837
Other Identifiable Assets:			
Electric	121,959	106,308	114,931
Gas	30,774	12,351	14,710
Steam	440	471	455
	153,173	119,130	130,096
Assets Not Allocated	119,993	116,031	100,838
Total Assets	\$ 1,594,340	\$ 1,533,263	\$ 1,509,771
Depreciation Expense: ⁽³⁾			
Electric	\$ 54,255	\$ 52,530	\$ 47,276
Gas	3,310	3,173	2,950
Steam	899	896	895
Total	\$ 58,464	\$ 56,599	\$ 51,121
Construction Expenditures: ⁽⁴⁾			
Electric	\$ 69,233	\$ 70,927	\$ 107,533
Gas	10,109	5,070	3,019
Steam	146	59	94
Total	\$ 79,488	\$ 76,056	\$ 110,646

⁽¹⁾Includes plant held for future use, construction work in progress and allocation of common utility property.

⁽²⁾Stated net of the respective accumulated provisions for depreciation.

⁽³⁾Excludes amortization of credit arising from sale of contracts.

⁽⁴⁾Excludes allowance for funds used during construction.

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

Notes to Consolidated Financial Statements

**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, as amended, 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.

Current cost amounts reflect the change in specific prices of plant from the date the plant was acquired to the present. 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. 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, and differ from current cost amounts to the extent that prices in general have increased more or less rapidly than specific prices.

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

<i>For the Year ended December 31,</i>	<i>Historical Cost</i>	<i>Current Cost</i> <i>(Average 1984 Dollars)</i>
Operating Revenues	\$ 702,593	\$ 702,593
Operating Expenses:		
Operation and Maintenance	406,953	406,953
Depreciation	58,464	102,927
Amortization—Summit	(4,762)	(4,762)
Taxes	108,729	108,729
Other Income—Net	(6,023)	(6,023)
Interest Charges	47,122	47,122
Net Income ⁽¹⁾	\$ 92,110	\$ 47,647
Earnings per common share (after preferred dividend requirements) ⁽²⁾	\$ 2.63	\$ 1.16
Increase in current cost of utility plant held during the year ⁽³⁾		75,006
Adjustment to net recoverable cost		8,236
Effect of increase in general price level		(93,398)
Excess of increase in current costs after adjustment to net recoverable cost over increase in general price level		(10,156)
Purchasing power gain on net amounts owed		25,029
Net		\$ 14,873

⁽¹⁾ Including the adjustment to net recoverable cost, the income on a current cost basis for 1984 would have been \$55,883.

⁽²⁾ Excluding adjustment to net recoverable cost.

⁽³⁾ At December 31, 1984, the current cost of net utility plant was \$2,265,604 while historical cost was \$1,321,174.

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 1984 Dollars)

<i>For the Years ended December 31</i>	<i>1984</i>	<i>1983</i>	<i>1982</i>	<i>1981</i>	<i>1980</i>
Operating revenues					
Historical cost dollars	\$702,593	\$649,799	\$636,666	\$608,504	\$520,470
Constant dollars	702,593	677,672	685,335	695,178	656,281
Net income					
Current costs	47,647	32,963	24,209	17,167	10,545
Earnings per common share					
Current costs	1.16	.67	.37	.10	(.05)
Net assets at year end ⁽²⁾					
Historical cost dollars	644,650	608,513	573,073	542,080	500,546
Current costs	634,055	623,951	609,919	599,273	602,825
Excess of increase in general price level over increase in Current costs ⁽³⁾	(10,156)	5,648	3,896	(68,785)	(117,994)
Purchasing power gain on net amounts owed	25,029	23,653	24,413	57,164	78,591
Cash dividends declared per common share					
Historical cost dollars	\$ 1.83	\$ 1.68	\$ 1.595	\$ 1.535	\$ 1.49
Constant dollars	1.83	1.75	1.72	1.75	1.88
Market price per common share at year-end					
Historical cost dollars	22.00	19.25	16.38	12.63	11.75
Constant dollars	21.64	19.74	17.43	13.96	14.15
Average Consumer Price Index (1967 = 100)	311.2	298.4	289.1	272.4	246.8

⁽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 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 1980-1984, the company's monetary liabilities exceeded monetary assets which resulted in a purchasing power gain on net amounts owed during the year.

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 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.

Notes to Consolidated Financial Statements

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)						
1984						
March 31	\$190,185	\$ 36,823	\$25,996	\$22,809	30,003	\$0.76
June 30	164,181	29,957	19,130	15,954	30,172	0.53
September 30	188,901	42,862	33,092	29,937	30,337	0.99
December 31	159,326	23,567	13,392	10,748	30,482	0.35
	\$702,593	\$133,209	\$92,110	\$79,448	30,248	\$2.63
1983						
March 31	\$156,749	\$ 30,164	\$19,906	\$16,702	29,237	\$0.57
June 30	152,452	27,485	16,218	13,013	29,443	0.44
September 30	188,155	45,130	33,687	30,483	29,655	1.03
December 31	152,443	26,359	15,252	12,047	29,831	0.41
	\$649,799	\$129,138	\$85,063	\$72,245	29,541	\$2.45

In the fourth quarter of 1984, adjustments for a voluntary Delaware revenue refund and other regulatory items were recorded. The effect of these adjustments reduced fourth quarter net income by approximately \$4,200,000 (14¢ per share).

In the fourth quarter 1983, adjustments were recorded for FERC rate issues which increased income and charges for a voluntary Delaware revenue refund and other regulatory items. The net effect of these adjustments was to reduce fourth quarter net income by approximately \$2,200,000 (7¢ per share).

Consolidated Statistics

10 Years of Review

1984

1983

1982

1981

Electric Revenues

(thousands)

Residential	\$ 205,910	\$ 193,021	\$ 183,258	\$ 164,919
Commercial	156,507	140,809	137,434	123,099
Industrial	128,833	126,703	127,441	129,601
Other utilities, etc.	79,235	68,991	73,469	73,602
Miscellaneous revenues	13,678	12,728	13,168	12,898
Total electric revenues	\$ 584,163	\$ 542,252	\$ 534,770	\$ 504,119

Electric Sales

(1,000 kilowatt-hours)

Residential	2,249,270	2,136,265	2,026,398	1,996,647
Commercial	2,073,457	1,844,324	1,729,863	1,660,147
Industrial	2,569,572	2,600,492	2,255,673	2,454,685
Other utilities, etc.	1,415,934	1,297,395	1,237,508	1,283,845
Total electric sales	8,308,233	7,878,476	7,249,442	7,395,324

Electric Customers

(end of period)

Residential	275,175	267,357	260,371	255,646
Commercial	31,548	30,525	29,966	29,450
Industrial	929	949	741	788
Other utilities, etc.	502	434	434	434
Total electric customers	308,154	299,265	291,512	286,318

Gas Revenues

(thousands)

Residential	\$ 40,933	\$ 36,694	\$ 36,505	\$ 34,123
Commercial	18,663	16,527	15,792	14,344
Industrial	22,940	23,232	20,112	22,259
Interruptible	18,098	17,026	11,733	11,711
Other utilities, etc.	160	115	53	61
Miscellaneous revenues	784	764	552	572
Total gas revenues	\$ 101,578	\$ 94,358	\$ 84,747	\$ 83,070

Gas Sales

(million cubic feet)

Residential	6,213	5,640	6,062	6,193
Commercial	2,971	2,677	2,768	2,704
Industrial	4,245	4,378	4,108	4,809
Interruptible	3,769	3,723	2,656	2,802
Other utilities, etc.	41	31	10	12
Total gas sales	17,239	16,449	15,604	16,520

Gas Customers

(end of period)

Residential	70,183	69,608	69,092	68,608
Commercial	4,233	4,075	4,057	3,967
Industrial	165	160	166	167
Interruptible	19	19	18	16
Other utilities, etc.	1	1	1	1
Total gas customers	74,601	73,863	73,334	72,759

Refinery Service

Electricity delivered (1,000 kilowatt-hours)	298,203	309,043	322,804	343,063
Steam delivered (1,000 pounds)	6,683,335	6,965,904	7,778,929	7,673,420

1980	1979	1978	1977	1976	1975	1974	Average Annual Compound % Rate of Growth
\$ 144,637	\$ 115,381	\$ 105,237	\$ 97,691	\$ 80,416	\$ 77,069	\$ 68,730	11.60
112,166	91,798	82,796	74,641	60,111	58,169	51,192	11.82
116,401	98,023	83,972	76,801	64,458	64,141	66,381	6.86
63,698	53,782	40,840	38,974	34,896	35,606	32,976	9.16
7,025	4,682	5,261	3,461	2,398	4,370	9,194	4.05
\$ 443,927	\$ 363,666	\$ 318,106	\$ 291,568	\$ 242,279	\$ 239,355	\$ 228,473	9.84
2,046,546	1,968,452	1,979,624	1,924,723	1,787,663	1,672,180	1,597,472	3.48
1,648,776	1,598,299	1,568,600	1,495,796	1,412,259	1,359,673	1,303,053	4.75
2,429,842	2,624,438	2,418,527	2,277,630	2,260,661	2,142,151	2,461,303	0.43
1,335,216	1,300,611	1,281,498	1,207,941	1,199,155	1,218,765	1,230,528	1.41
7,460,380	7,491,800	7,248,249	6,906,090	6,659,738	6,392,789	6,592,356	2.34
246,887	242,745	237,925	233,106	230,579	221,780	215,516	2.47
28,162	27,998	28,421	29,648	28,345	27,345	27,132	1.52
821	874	858	921	1,002	923	891	0.42
440	478	480	561	550	545	501	0.02
276,310	272,095	267,684	264,236	260,476	250,593	244,040	2.36
\$ 26,525	\$ 25,719	\$ 28,370	\$ 21,829	\$ 18,826	\$ 15,365	\$ 14,298	11.09
10,342	8,954	10,154	7,133	6,062	4,676	4,201	16.08
12,404	9,884	10,191	6,950	5,984	4,343	3,726	19.93
9,293	4,440	716	169	1,301	1,211	1,532	28.01
46	55	93	49	44	33	26	19.93
430	270	116	103	31	45	96	23.37
\$ 59,040	\$ 49,322	\$ 49,640	\$ 36,233	\$ 32,248	\$ 25,673	\$ 23,879	15.58
6,321	6,423	6,941	6,751	6,956	6,540	6,863	(0.99)
2,683	2,415	2,593	2,439	2,586	2,429	2,526	1.64
3,937	3,388	3,290	2,811	3,264	2,849	3,215	2.82
2,738	1,720	319	81	953	1,073	2,257	5.26
14	16	29	17	20	18	16	9.87
15,693	13,962	13,172	12,099	13,779	12,909	14,877	1.48
67,784	66,631	66,364	66,231	67,754	68,160	68,262	0.28
3,846	3,712	3,773	3,738	4,154	4,189	4,356	(0.29)
155	131	163	163	198	198	195	(1.66)
16	16	21	21	21	21	21	1.00
1	1	1	1	1	1	1	—
71,802	70,491	70,322	70,154	72,128	72,569	72,835	0.24
328,420	262,159	270,006	289,049	318,389	297,282	350,021	(1.59)
7,570,944	6,378,705	6,016,095	4,888,366	5,301,421	5,517,000	5,921,000	1.22

Officers and General Information

Nevius M. Curtis

Chairman of the Board, President
and Chief Executive Officer

Howard E. Cosgrove

Executive Vice President

Frank A. Cook

Senior Vice President

H. Ray Landon

Senior Vice President

Harland M. Wakefield, Jr.

Senior Vice President

Roger D. Campbell

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

Thomas S. Shaw, Jr.

Vice President, Production

Alfred C. Thawley, Jr.

Secretary and Treasurer

Charles Marchyshyn

Comptroller

Executive Committee

Nevius M. Curtis, Chairman;
Oscar L. Carey; William G. Simeral;
Dr. E. Arthur Trabant; Harland M.
Wakefield, Jr.

Audit Committee

Oscar L. Carey, Chairman;
John R. Cooper; James O. Pippin, Jr.

Nominating Committee

Dr. E. Arthur Trabant, Chairman;
Nevius M. Curtis; Sally V. Hawkins

Compensation Committee

William G. Simeral, Chairman;
Oscar L. Carey; Nevius M. Curtis;
David D. Wakefield

Investment Committee

David D. Wakefield, Chairman;
James O. Pippin, Jr.; Nevius M. Curtis

Trustees

First Mortgage and Collateral Trust Bonds—
Chemical Bank,
New York, New York.

Pollution Control Revenue Bonds—

Mellon Bank (DE) N.A.
Wilmington, Delaware

Bank of Delaware,
Wilmington, Delaware

Wilmington Trust Company,
Wilmington, Delaware.

Irving Trust Company
New York, New York.

Transfer Agents and Registrars

Preferred Stock—
Wilmington Trust Company,
Wilmington, Delaware.

Common Stock—
Wilmington Trust Company,
Wilmington, Delaware.

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 30 at 11:00 a.m., in the Clayton Hall, University of Delaware, Newark, Delaware.

ADDITIONAL REPORTS

To supplement information in this Annual Report, a Financial and Statistical Review (1974-1984) 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.

