Delmarva Power

1990 Annual Report

Our part of the world is the Delmarva Peninsula. Our people work hard to improve the quality of life here by producing and distributing energy and protecting and preserving the environment.

Cover view: The Indian River in southern Delaware from on top of the power plant.

FINANCIAL HIGHLIGHTS

	1990		1989		Percent Increase (Decrease)
Revenues	$ 811.2	million	$789.7	million	2.7
Net Income	$ 37.3	million	$ 91.3	million	(59.1)
Earnings Per Share of Common Stock	$ 0.60		$ 1.80		(66.7)
Dividends Declared Per Share of Common Stock	$1.54		$1.51		2.0
Average Shares of Common Stock Outstanding	47,534,272		46,686,745		1.8
Common Stock Book Value Per Share	$ 12.84		$ 13.67		(6.1)
Construction Expenditures (1)	$ 187.8	million	$ 175.8	million	6.8
Internally Generated Funds (2)	$ 112.6	million	$ 106.7	million	5.5
Electric Sales	11,081,211	mWh	10,828,839	mWh	2.3
Electric Customers (year end)	368,277		361,160		2.0
Average Annual Residential Usage	9,524	kWh	9,639	kWh	(1.2)
Gas Sales	16.07	million mcf	16.64	million mcf	(3.5)
Gas Transported	2.19	million mcf	0.68	million mcf	224.3
Total Gas and Transportation Sales	18.26	million mcf	17.32	million mcf	5.4
Gas Customers (year end)	85,044		82,883		2.6
Average Annual Residential Usage	83.29	mcf	89.58	mcf	(7.0)

(1) Excludes Allowance for Funds Used During Construction

(2) Net cash provided by operating activities less common and preferred dividends

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"The decline in earnings was primarily caused by one-time losses in the subsidiary businesses. . .The core businesses are strong and the Company is positioned well to meet the competitive challenges of the 90's."

"All of these people programs are designed to create a work environment which maximizes productivity and quality through employee involvement."

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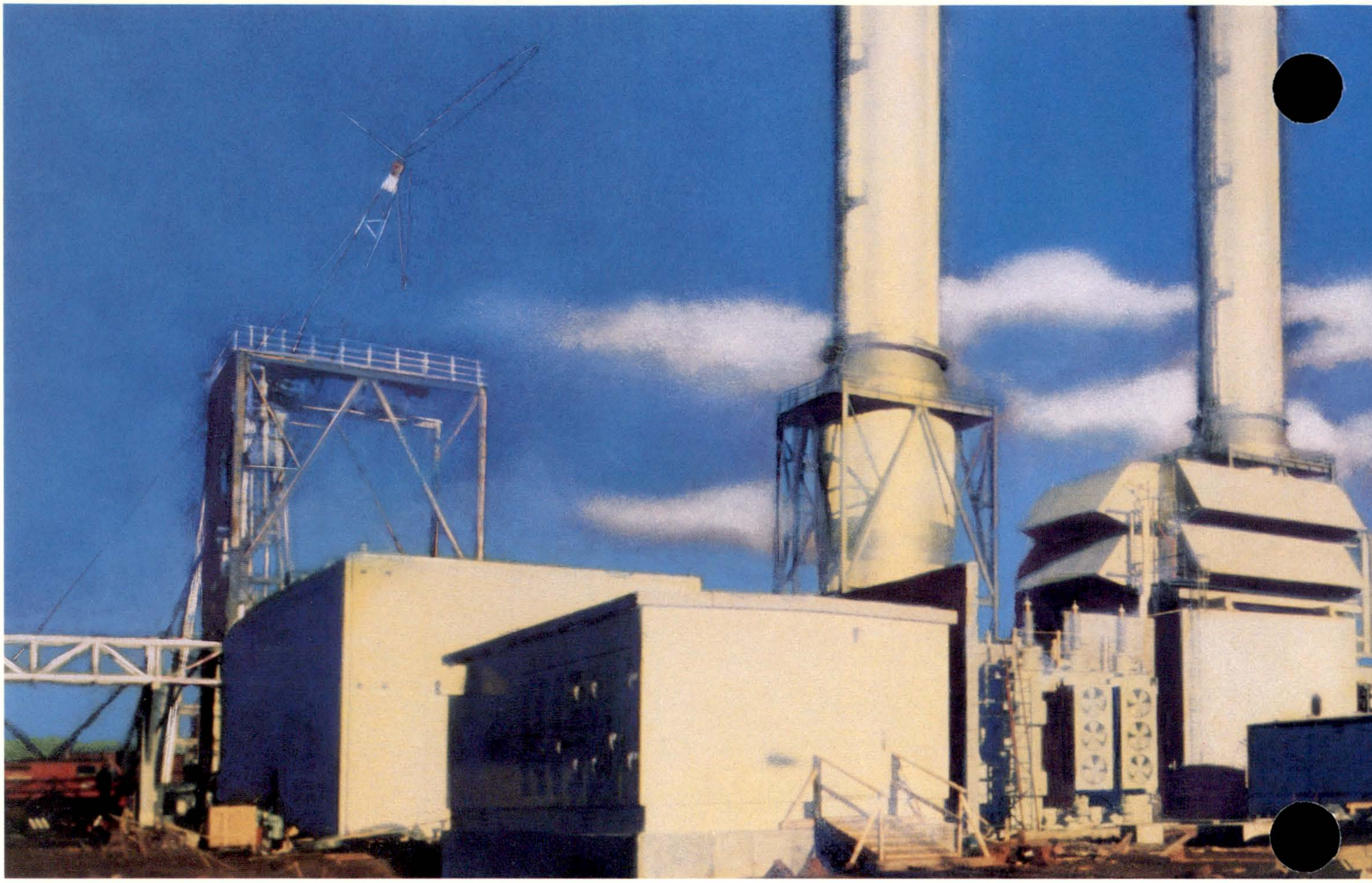
"The combined cycle plant will generate electricity from the waste heat of the three Hay Road gas turbines. . . It will be Delmarva Power's cleanest, most economical unit."

More than 465 bluebird houses have been placed throughout the peninsula as part of the Serving & Conserving Delmarva program.



Chairman's Letter to Stockholders The 1990 financial performance of the Company was unsatisfactory. However, we expect to be back on track in 1991.

The decline in earnings from $1.80 to $ 0.60 per share was primarily caused by one-time losses in the Company's unregulated subsidiary businesses. These losses were the result of unanticipated changes in the market conditions in California affecting our wood-burning power plants there and unexpected changes in siting laws in Pennsylvania affecting a solid waste-to-energy project. This situation is summarized on pages 8 and 9 of this report and detailed in the fourth quarter 1990 report to you.

We have faced the problem. The Company's management has written off 89 cents per share from 1990 earnings to cover losses from the investment in these projects. The dividend rate, however, was maintained.

I, along with other managers of your Company, regret these losses. It has been an agonizing year of trying to manage, then mitigate them. But, action has been taken, and it's time to move on. Because of these experiences and the need to commit all internally-generated cash to the utility businesses as they enter another construction cycle, we will focus on the electric and natural gas businesses for the foreseeable future. These core

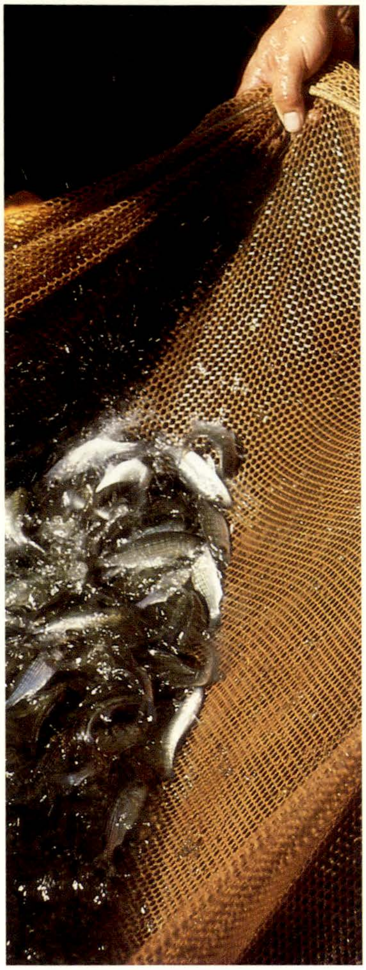
businesses at Delmarva Power are strong, and the Company is positioned well to meet the competitive challenges of the 90's. The remainder of this letter will focus on the strengths of the core businesses and how the Company is prepared for the 90's.

The Hay Road combustion turbines behind Nev Curtis, CEO and Chairman of the Board, are key parts of the Challenge 2000 plan for the future.

CORE COMPANY PERFORMANCE Performance in the gas and electric businesses in 1990 was solid. The customer opinion rating rose for the eighth consecutive year. Employees achieved seven of eight goals in the gainsharing program. Power plants ran generally better than plants of similar size and age nationwide. The price of electricity and natural gas remained essentially the same.

Delmarva Power's service territory, the Delmarva Peninsula, is not dominated by any one industry. Rather, the diverse blend of industries (chemicals, food processing, automobiles, plastics, agriculture, and recreation) makes the peninsula less susceptible to wide fluctuations in the national economy compared with some other areas in the country.

Several strategies developed in the 80's have worked to position this Company well for the 1990's.



Employee volunteers at the Vienna power plant in Maryland have raised more than 100,000 striped bass over the past six years for discharge into the Nanticoke River and Chesapeake Bay.

CHALLENGE 2000 With the high cost of new power plants, the need to keep prices to customers competitive, and the widely fluctuating growth in the 80's on the Delmarva Peninsula, the Company recognized that a series of single, large power plant projects was not the solution. Rather, the Company developed a flexible, integrated plan, named Challenge 2000, which calls for a blend of conserving energy and managing growth in demand, purchasing power, and adding new plants in both small and intermediate increments to provide customers with energy in the future at the lowest reasonable price. So far it has worked well. The progress and plans of Challenge 2000 are detailed in the text of this report.

SERVING & CONSERVING DELMARVA This is Delmarva Power's environmental stewardship program. It provides a balance to the Company's obligation to serve customers through Challenge 2000 and to protect and preserve the environment of the Delmarva Peninsula. This program was launched in 1990 at a ceremony marking the Company's contribution of 341 acres of ecologically-valuable Delaware Bay wetlands to The Nature Conservancy, an internationally known wildlife protection organization.

For years, Delmarva Power has had environmental protection programs, such as managing of rights-of-way for wildlife habitat, raising striped bass by employee volunteers at the Vienna power plant, and removing PCB contaminated capacitors ahead of federal deadlines. Serving & Conserving Delmarva includes ongoing and future programs. Environmental protection of our service territory was the top issue of public concern identified by customers in the annual customer opinion survey.

PARTICIPATION A major strategy of the 80's was to move Delmarva Power's work culture to a more participatory style in order to generate new ideas from the people working closest to situations. This was designed to help provide the Company with a better edge as the electric and natural gas utility industry moves more toward competition in the 90's.

Delmarva Power employees have responded well. All employees are on at least one team. Teams often set for themselves challenges higher than supervisors or managers would have dictated. Examples of cost savings include meter readers reducing the cost per reading by 11%; power plant workers unloading coal cars faster, saving large demurrage charges; and purchasing department employees recycling used resources.

OTHER STRATEGIES A major effort for Delmarva Power in the 80's was to make the price of electricity more competitive in the region.

Delmarva Power now has some of the lowest prices in the region and has accomplished this by converting from a predominately oil-generating Company to a predominately coal-generating Company; by instituting major cost-cutting programs; and by seeking increased cost-cutting and efficiency ideas from its employees through participative programs.

Another strategy in the 1980's was called the "window of opportunity." In the mid-1980's when no major power plant was under construction, funds were used to refurbish support facilities which had become inadequate or deteriorated over time. Now that the Company expects to be building power plants in the mid and late 90's, suitable support facilities are in place.

CHALLENGES AHEAD As we move into a building cycle, increased funds will be required both to build the new generation, transmission, and distribution facilities needed by existing and new customers and to provide for programs to manage demand or conserve energy needed under Challenge 2000. This will lead to additional external financings and also modest rate increase requests during the next decade. A major challenge will be to synchronize new rates with the completion of new facilities and the implementation of demand management projects in order to provide our stockholders a fair return on their investments.

At the same time, there will be a need to keep rates as low as possible to position the Company well as competition increases and to make it possible for our commercial and industrial customers to compete effectively in domestic and international markets.

In addition, there will be increasing pressure from our customers for the Company to take more of a leadership role in quality of life issues in our communities.

In other words, what's ahead is what you would expect—to provide gas, electricity, and energy-related services to our customers in a safe, reliable, courteous, and environmentally-acceptable manner at the lowest rates consistent with an adequate return to investors.

Essentially, that is our mission statement. We intend to accomplish it.

The employees at your Company are dedicated and really do a super job of producing and distributing energy and serving customers. I appreciate their efforts and look forward to working with them in 1991.

Sincerely,

Nev Curtis
February 8, 1991

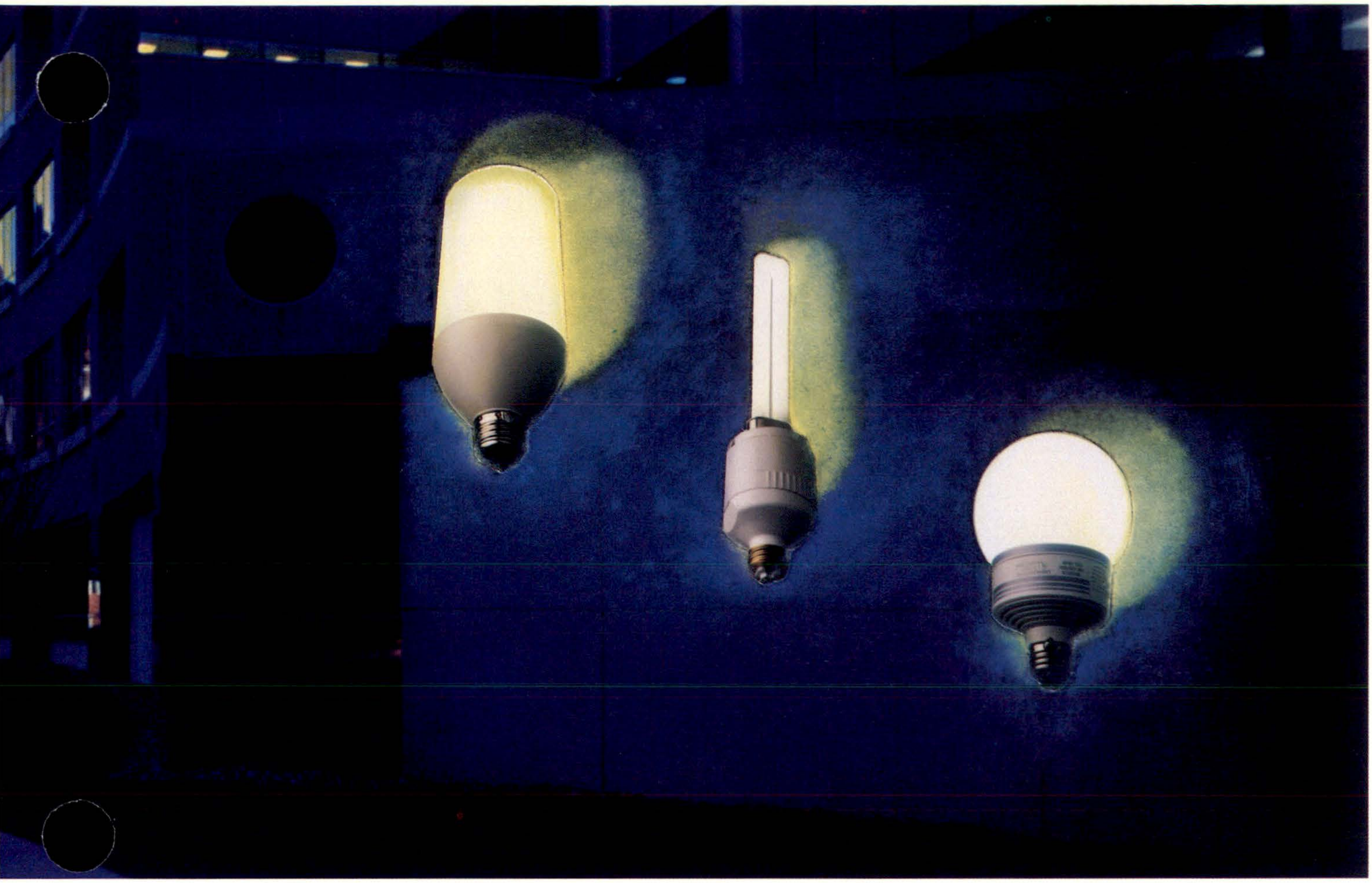
"The decline in earnings was primarily caused by one-time losses in the subsidiary businesses . . . The core businesses are strong and the Company is positioned well to meet the competitive challenges of the 90's."

1990 Financial and Operational Review Earnings were $0.60 compared to $1.80 per share in 1989. The decrease in earnings is primarily attributable to a write-off of the investment in non-regulated subsidiary projects in California and Pennsylvania.

Quarterly dividends remained at 38.5 cents per share per quarter or $1.54 on an annual basis. The dividend was not increased because of concerns related to the general slowdown in the economy, the financial requirements to support the utility construction program, and the lack of earnings from the subsidiaries. At the same time, dividends were not decreased because it is expected that earnings from the electric and gas business will support the current dividend level subject to reasonable regulatory actions in the future.

Total electric sales increased 2.3% over last year. The number of electric customers increased 2% to 368,277. Residential and commercial sales growth rates (1.1% and 3.6% respectively) were lower than previous years due to a weaker economy and milder winter weather. Industrial sales growth of 3.9% was strong despite the softening economy.

The number of natural gas customers increased 2.6% to 85,044. Total natural gas and transportation sales increased 5.4% over last year.



The Company's bond ratings remained A1 by Moody's Investors Service, A+ by Standard & Poor's, and A+ by Duff & Phelps.

In 1990, internally-generated funds represented 60% of $188 million of utility construction expenditures. External financings provided $95 million of capital. In 1991, construction expenditures are expected to be $190 million and external financings are expected to be $104 million. A more thorough discussion of the Company's financial position can be found on pages 21-27.

ENERGY SUPPLY & DEMAND On July 5, 1990 a new record peak demand for electricity was set at 2,235 megawatts, 1% higher than the previous summer peak set in August, 1988. Installed capacity is 2,503 megawatts and reserve margin, 12%.

Sources of electricity in 1990 were 50% coal, 10% oil, 4% natural gas, 17% nuclear fuel and 19% interchange. The availability rate of Delmarva Power's wholly-owned and operated coal, oil, and natural gas plants in 1990 was 78.3%.

From the customer point of view, the average total outage time per customer for the year, excluding major storms, was 103.8 minutes, well below the goal of 120 minutes. This equates to a reliability rate of 99.98%.

The Company began an incentive program to encourage commercial and industrial customers to use energy-efficient lighting. The first participant was the Little Falls office complex in northern Delaware.

"All of these people programs are designed to create a work environment which maximizes productivity and quality through employee involvement."

In Delmarva Power's natural gas business, supplies were adequate.

TEAM EFFECTIVENESS As the participative work culture matures at Delmarva Power, evidence mounts that teamwork pays off in generating new ideas to cut costs or improve service.

In the employee gainsharing program, the Corporate Performance Incentive Plan (CPIP), employees achieved seven of eight goals.

Through the Actions Prevent Accidents program, more than 200 employees nominated actions they had taken on their own to prevent accidents. Actions included installing a steel cover over an opening in a slurry tank, building a guard on a pump, and building a special dolly to transport equipment.

Also, a Workforce Diversity Committee, made up of employees of different races, sexes, and job levels, continued its work to improve cultural understanding in an effort to encourage increased cooperation and efficiency within the workforce. All of these people programs are designed to create a work environment which maximizes productivity and quality through employee involvement. In that way, we believe Delmarva Power can best meet the rapidly changing work and economic environment of the 90's for the benefit of customers and stockholders.

The Company signed a two-year contract with its northern division union, the International Brotherhood of Electrical Workers Local 1238. The contract calls for modest wage increases and provides more flexibility for the Company to deal with the dramatically rising health care costs.

SUBSIDIARIES The performance of the subsidiaries was the principal reason for the decrease in earnings compared to the previous year.

The largest losses are attributable to the subsidiaries' investment in two wood-burning power plants and adjoining sawmills in Redding, and Burney, California. The sawmills provide a significant portion of the fuel for the plants and also produce finished lumber. The power plants operated well. However, the price of logs in the northern California lumber market was high because of environmental and regulatory actions to curtail logging, the continued foreign demand for logs, and the demand for wood fuel by other similar projects in the region. At the same time, domestic demand for finished lumber was low because of depressed housing starts.

The investment in a solid waste-to-electric energy generating facility planned for Glendon, Pennsylvania, ran into problems when more restrictive siting legislation was adopted which did not include grandfathering provisions. This project was well into the planning stages before passage of the new legislation.

As a result, the Company's management decided to write off 89 cents per share from 1990 earnings to cover losses from the investment in these projects. This decision, though difficult to make, should result in the elimination of an adverse impact of these projects on future earnings. However, despite the write-off, management intends to work aggressively to recover as much of these investments as possible.

In other aspects of the subsidiaries, the financial projects, leases, and small real estate projects are performing as expected.

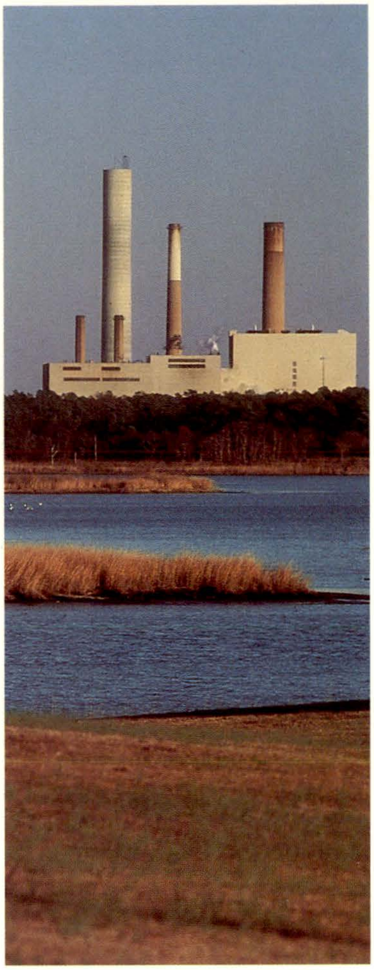
CLEAN AIR ACT The exact impact of the Clean Air Amendments of 1990 on Delmarva Power is unclear at this time because the regulations defining the law have not yet been developed by the government.

However, it does appear that the Company's wholly-owned plants will not be affected by the 1995 sulfur dioxide reduction requirements. The installation of flue gas desulfurization (FGD) equipment in at least one unit of the jointly-owned Conemaugh plant will be required. Delmarva Power owns a 3.72% share of this plant. Some nitrous oxide control equipment may be needed on Company facilities by 1995.

Sulfur dioxide limits for the year 2000 can be met through a combination of lower sulfur fuels and the possibility of FGD systems on some Company units.

However, depending on the strategies eventually selected, the effect on rates should be on the order of a 5% increase by the year 2000.

On another air quality issue, the shell for the 500-foot smokestack at Indian River has been completed and the project is on schedule to meet the 1992 completion date. The stack is required by the federal government to solve an infrequent air pollution problem at the plant when the wind blows from a certain direction.



The Indian River winds past the Indian River power plant where a new, large smokestack is under construction.

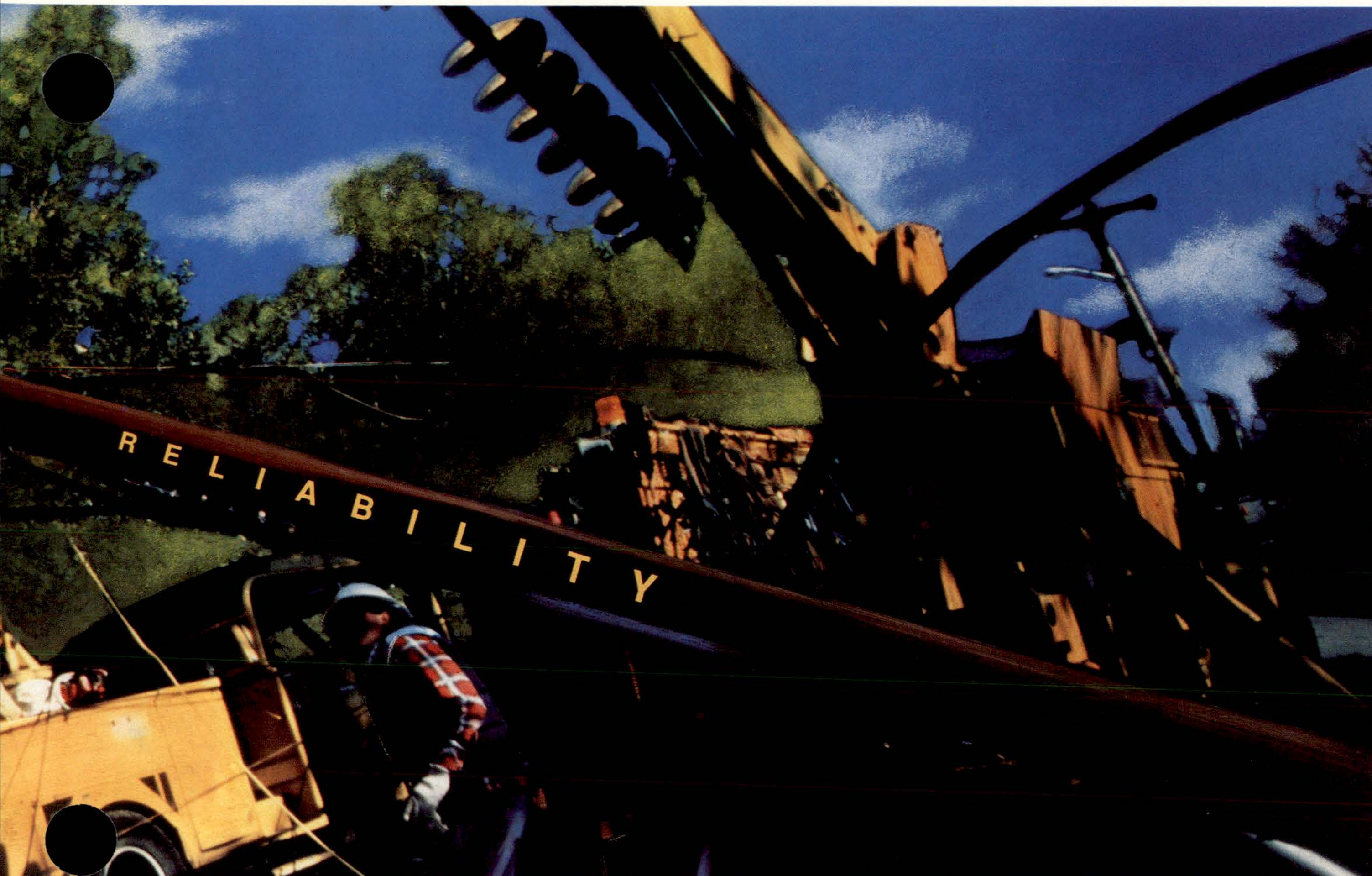
Customers Appreciate Good Service The Company's customer favorability rating increased for the eighth consecutive year. In the 1990 survey, 82% of customers surveyed gave the Company a favorable rating. In 1982, the rating was 46%.

Reliability and responsive customer service were top reasons given for a favorable rating. Environmental protection was listed as the top public issue concerning the people of the service territory.

In addition to the annual customer opinion survey, special surveys were taken of customers losing power during storms. An interesting finding was that most customers will say in a general survey that four to six hours is an acceptable length of time for a storm-caused power outage. However, when asked right after a storm, the acceptable length of time is closer to two to three hours.

The post-storm surveys showed that nearly nine out of ten customers on a system-wide basis felt that the Company deserved a positive rating for its efforts and eight out of ten customers said the Company did an "extremely good" job in handling power outages.

Customers said that crews were doing the best and fastest job they could under the circumstances and were polite and courteous.



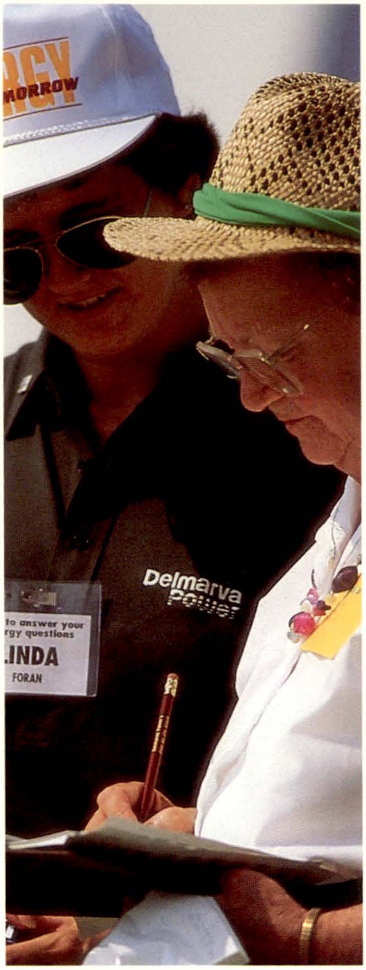
Delmarva Power spends a considerable effort through surveys and face-to-face meetings to understand better customer needs and expectations. They are planning tools for the more efficient use of resources.

Crews worked around the clock to restore electricity north of Wilmington, Delaware, after one of the most intense storms ever to hit part of the service territory.

ENERGY PRICES One of the most important customer concerns is the price of energy. The Company's prices for energy continue to be among the most competitive in the region. The Company realizes that many industrial customers use electricity as a raw material and need the lowest prices possible to make a profit and remain in or move into the service territory. For residential customers, reasonable prices are important to their quality of life.

Electric price comparisons (for all customer categories in cents per kilowatt hour) are: New York, 12.1; Philadelphia, 9.6; Newark, NJ, 9.0; Baltimore, 6.8; Delmarva Peninsula, 6.3; and Norfolk, VA, 6.2.

Natural gas prices (in cents per 100 cubic feet) are: New York, 71.7; Philadelphia, 69.8; Baltimore, 58.4; Norfolk, VA, 56.1; Wilmington, DE, 49.0; and Newark, NJ, 48.4.



Employees provided more than 35,000 customers with useful energy information at fairs and shows around the service territory.

RATE MATTERS The cost of electricity for most customers was only marginally higher in 1990. This was caused by increases in fuel charges.

The Company has not sought electric base rate increases in Delaware since July, 1982, in Maryland since June, 1984, in Virginia since March, 1984 and for wholesale customers since July, 1987.

However, the Company has requested fuel charge increases in Delaware for 1991 ranging from about 5% for residential customers using 750 kilowatt hours of electricity per month to 8% to 12% for most larger customers. Similar increases are expected for Maryland, Virginia, and wholesale customers.

In the natural gas business, the Company returned $6.2 million to customers in the form of bill credits. Fuel costs were lower than expected because of refunds from pipeline suppliers through the settlement of litigation, strategic purchases on the spot market by Delmarva Power, and greater-than-expected sales to non-firm customers.

CUSTOMER INFORMATION The Company produced "Bright Ideas For Your Home," a video tape designed to provide new homeowners with useful tips on how to use energy more efficiently in their homes. The video, which is mailed to all new customers and shown at consumer fairs, earned first prize for customer service in the Edison Electric Institute's 1990 Marketing Achievement Award competition from among 381 entrants. The tape has been viewed by more than 25,000 customers.

The Company concluded its "Famous Tips" Campaign designed to provide useful energy information about several topics including air conditioning, energy costs, lighting, and power surges. It began a "Serving & Conserving Delmarva" campaign which included the slogan found on the cover of the annual report, "Doing our part for our part of the world."

Other publications include the monthly residential customer newsletter, "Energy News You Can Use," the quarterly newsletter for customers older than 60, "Silver Bulletin," and the quarterly commercial customer newsletter, "Energy Exchange."

Employees talked with more than 35,000 customers at fairs and trade shows within the service territory. For several years, customer service, community relations, and marketing representatives have worked one-on-one with customers having difficulty paying their energy bills. They have provided customers with information about saving energy, credit extensions, budget billing, installment payments, load limiters, and community sources of funds.

Given the importance customers and the general public place on the wise use of energy and environmental protection, significant customer information work in these areas is scheduled for 1991.

COMMUNITY PROGRAMS Through contributions of stockholders and customers, the Good Neighbor Energy Fund contributed more than $1.5 million during the last eight years to customers having trouble paying energy bills. Employees, through the highly successful Radio Watch program, continued to summon aid to people in the community by using radios in their vehicles and, through the Gatekeeper program, linked 61 older customers they observed in distress with appropriate community services.

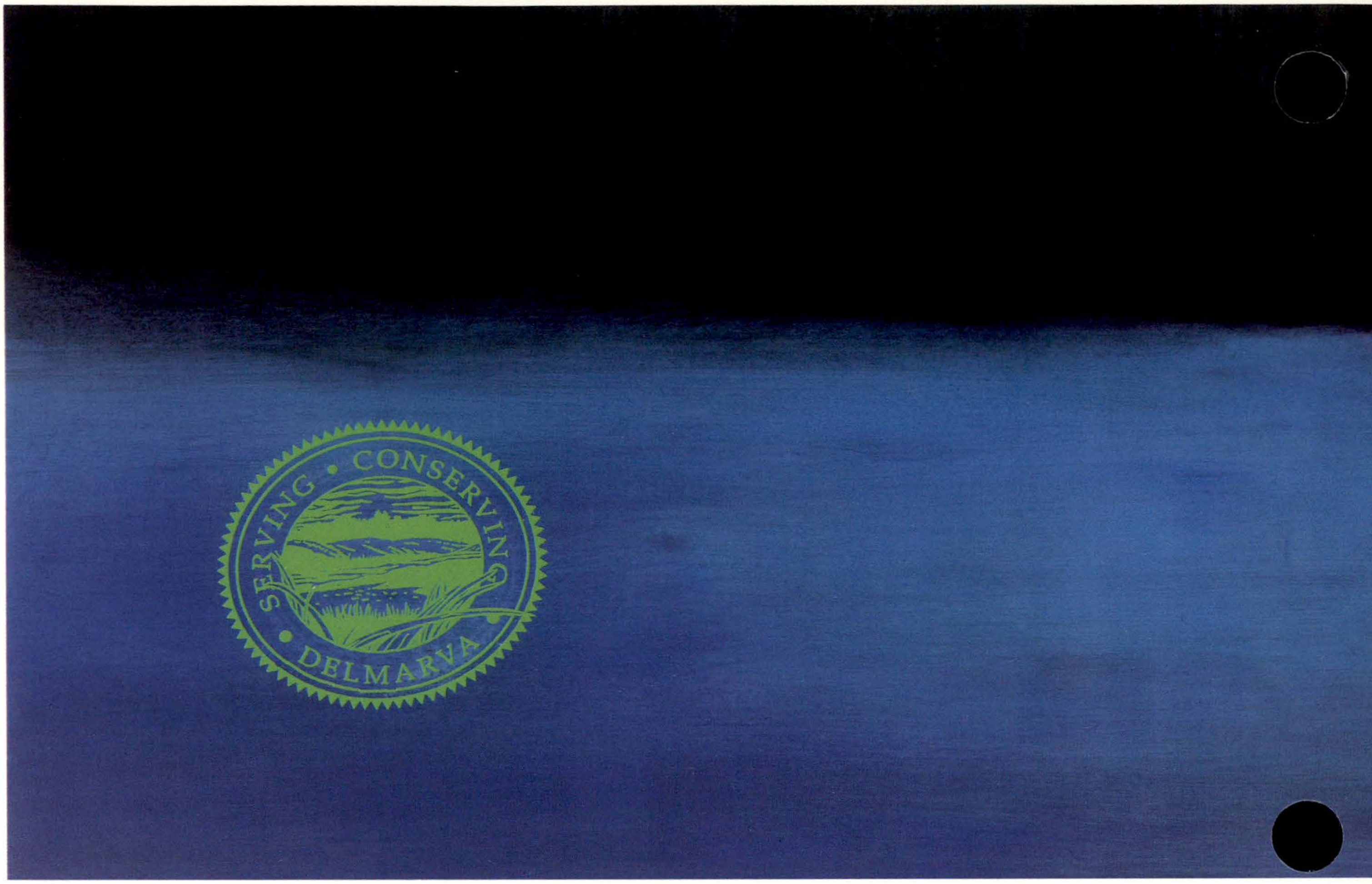
Employees contributed $303,215 to the United Way, surpassing their 1990 campaign goal by 16%. About 60% of Delmarva Power's employees volunteered their personal time to help others in the community.

SERVING CUSTOMERS To service a diverse area encompassing urban, rural, and recreational settings, Delmarva Power maintains an electric system with 2,503 megawatts of generation capacity, 1,324 miles of transmission lines, and 9,166 miles of distribution lines. The natural gas system has 1,203 miles of gas main.

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

The electric customers and natural gas customers are served by 2,755 employees through 13 customer service locations throughout the peninsula; division headquarters in Salisbury, MD, Harrington, DE, and Christiana, DE, and corporate headquarters in Wilmington, DE.

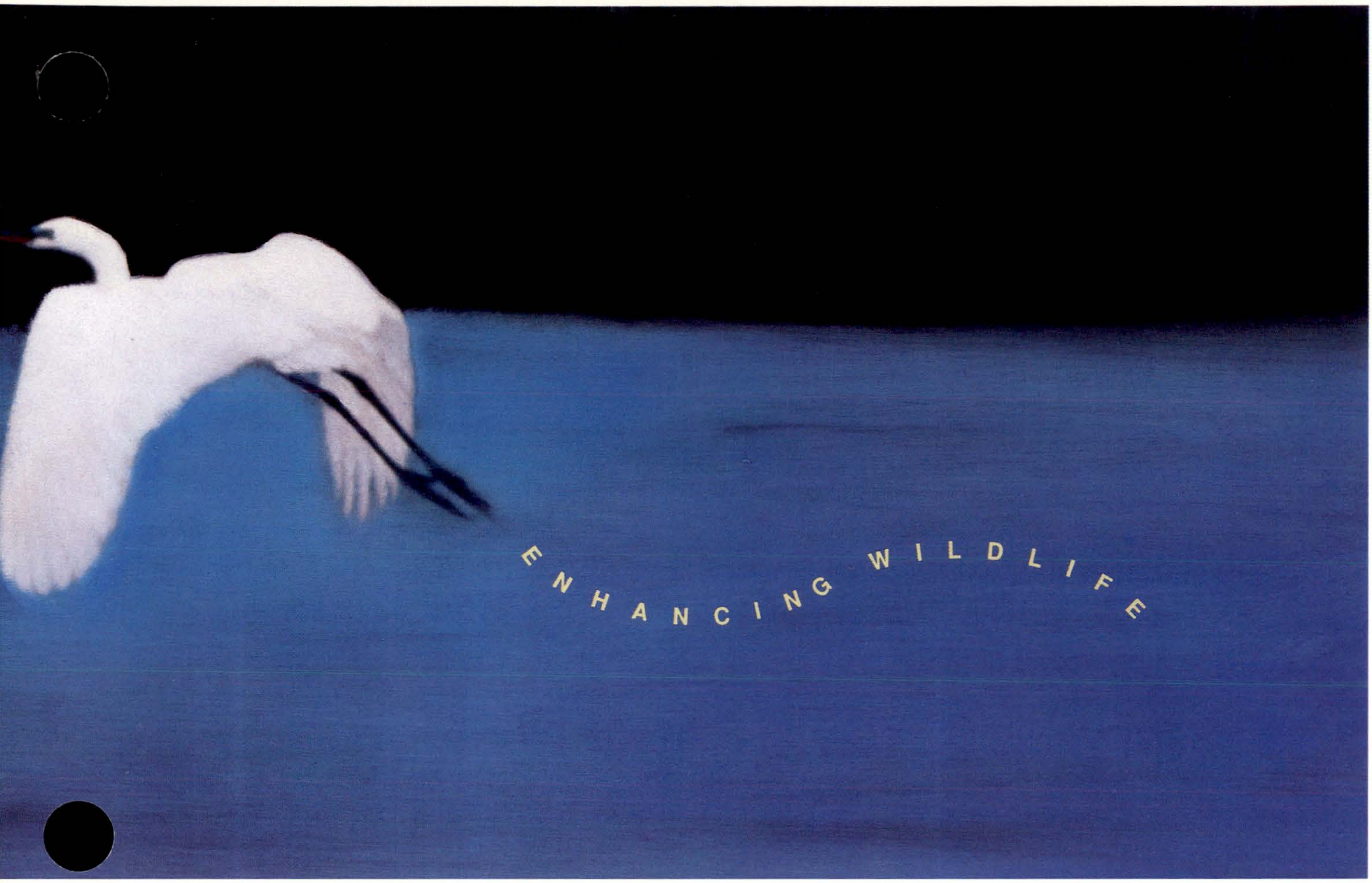
"The cost of electricity for most customers was only marginally higher in 1990... Prices for energy continue to be among the most competitive in the region."



Balance and Flexibility are Keys to the Future For years, Delmarva Power's Challenge 2000 plan to provide customers with energy at affordable prices has emphasized balance through a combination of programs to encourage energy conservation at the peak, to buy energy, and to build new facilities. This concept of balance is also fundamental in the environmental stewardship program put together this year under an umbrella theme of "Serving & Conserving Delmarva." This program seeks a balance in the obligation to serve customers while preserving and protecting the environment of the Delmarva Peninsula.

Flexibility is also crucial. When growth exceeded expectations in the 1980's, Delmarva Power was in a position to accelerate the first two combustion turbines at its Hay Road power station and its residential and commercial "Save Some" energy conservation programs. If growth slows, as predicted, the Company can also slow down its plans for the future.

This section looks ahead in the areas of Serving & Conserving Delmarva, Challenge 2000, and growth.



SERVING & CONSERVING DELMARVA This is Delmarva Power's environmental stewardship program. It includes existing and planned environmental activities. More importantly, it provides a focus for employee and community attention to these efforts and a symbol for the Company's concern about the quality of life in its service territory.

There are four basic parts in this program: protecting the environment, saving energy, using and recycling waste, and enhancing wildlife.

The campaign and identifying logo were announced at a ceremony in Little Creek, Delaware, marking the Company's contribution of 341 acres of ecologically-valuable wetlands at Port Mahon, Delaware, to The Nature Conservancy, an international wildlife protection organization. In addition to providing nutrients at the head of the marine food chain in the Delaware Bay, these wetlands also provide valuable habitat for horseshoe crabs and migrating shorebirds.

Other programs to enhance wildlife include the special care of more than 8,000 acres of land under rights-of-way for wildlife and plant habitat, the raising of more than 100,000 striped bass over the past six years by employee volunteers at the Vienna power

An egret flies over part of the 341 acres of ecologically-valuable wetlands at Port Mahon, Delaware, donated to The Nature Conservancy as part of the Company's Serving & Conserving Delmarva program.

"The combined cycle plant will generate electricity from the waste heat of the three Hay Road gas turbines . . . It will be Delmarva Power's cleanest, most economical unit."

plant, the building of 16 osprey nesting platforms to provide alternative nesting sites to this threatened species instead of nesting on transmission poles, and the installation of 465 bluebird and 11 wood duck houses.

Through recycling, the Company has found uses for about 25% of the waste ash generated at power plants as a base material for highways, backfills for building foundations, and material for artificial reefs to attract marine life in the Atlantic Ocean. Waste oil is burned in power plants. Scrap metals and paper are routinely recycled. An employee program to recycle aluminum cans has begun.

Under protecting the environment, the Company responded to customer concern by voluntarily adopting standards to limit electromagnetic fields around transmission lines and substations even though the scientific community is unsure if these fields are a health hazard. It removed PCB contaminated capacitors ahead of federal deadlines.

As part of the Company's energy-saving program, a new program to inform customers about the energy-saving value of compact fluorescent lights, including the distribution of 1,000 of these lights free to customers, was developed to begin in the first quarter of 1991. Similar programs are being planned for water heater wraps and low-flow showerheads.

Also, the Company is beginning a pilot program to equip four of its vehicles to use compressed natural gas as a fuel.

A corporate-wide Environmental Coordinating Committee and several subcommittees of employees have been established to find more ways Delmarva Power can use its resources to protect and enhance our part of the world.

CHALLENGE 2000 Delmarva Power is in the midst of its Challenge 2000 plan which is designed to provide energy in the future at competitive prices. It is a flexible, multi-faceted approach also known as "Save Some, Buy Some, Build Some." Substantial progress was made in 1990 and is expected to continue into the decade.

By the end of 1991, the Company plans to have a total of more than 40,000 customers participating in its "Save Some" programs—the residential Energy For Tomorrow program, the commercial and industrial Peak Management program, and the recently-introduced commercial and industrial program to encourage efficient lighting.

The residential Energy For Tomorrow program allows the Company to manage by remote control the routine cycling of central air conditioners, heat pumps, and electric water heaters. This is done to reduce the demand for electricity as the load approaches a peak. Surveys show high customer satisfaction and that customers rarely know when the Company is managing the cycling. This occurred two times in 1990 and five times in 1989. Large commercial and industrial customers who participate in the Peak Management program reduce their use through auxiliary generation and load reduction to pre-arranged levels when notified. Customers in the commercial and industrial indoor lighting program receive financial incentives to convert to energy-efficient lighting. So far, more than 14 million square feet of commercial and industrial building space has been surveyed for consideration in this program.

New energy demand management programs are planned in the areas of commercial and industrial air conditioning, cool storage, and load shifting.

At the peak, the Company plans to be able to reduce the demand for electricity by 163 megawatts in 1991 and 209 megawatts in 1995. For comparison, a new 105-megawatt combustion turbine unit costs $41 million.

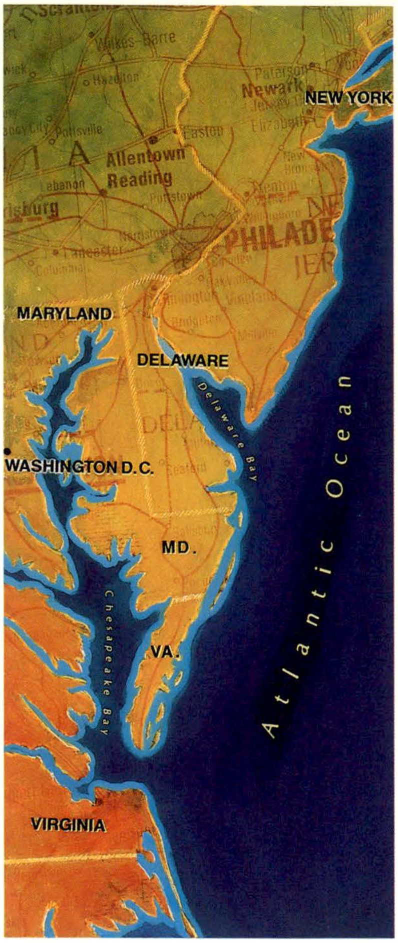
In the "Buy Some" portion of Challenge 2000, the Company decided not to go ahead with a proposal to buy 100 megawatts of coal-fired electricity from Duquesne Light Company after the Delaware Public Service Commission denied a Company request to approve entry into the contract. However, the Company signed a contract to purchase 48 megawatts of electricity from Star Enterprise of Delaware City, DE, beginning in 1992.

The Company began a feasibility study with Star Enterprise, which owns the refinery at Delaware City, Mission Energy Co., and Texaco Syngas, Inc., to build a 150-megawatt power plant burning gasified coke. The coke is a high-energy waste product of the refinery. Results of the study are expected in 1991. The joint effort has been named the Delaware Clean Energy Project. The Company also plans to ask for bids to supply 150 megawatts of capacity in 1996.

In "Build Some," the Company secured permits and set the foundation during 1990 for a third, 105-megawatt combustion turbine scheduled for completion in 1991 at its Hay Road facility. Siting permits for a 150-megawatt combined cycle plant at Hay Road were also secured. The combined cycle plant will generate electricity from the waste heat of the three Hay Road gas turbines. This plant is scheduled for completion in 1993. It will be Delmarva Power's cleanest, most economical unit.

The Company is also working on plans for a baseload plant of about 300 megawatts to be completed near the turn of the century.

Waste fly ash from coal-burning power plants has been recycled as a grouting material in the restoration of this museum in Delaware.



Delmarva Power provides electric service to customers throughout most of the 5700 square-mile Delmarva Peninsula which includes Delaware and the Eastern Shore counties of Maryland and Virginia. It provides natural gas in a 275 square-mile area of northern Delaware.

All of these efforts are planned to achieve a minimum 15% reserve margin.

In the natural gas business, employees are in the midst of a multi-year plan to replace 90 miles of uncoated, unwrapped steel pipe installed prior to 1968 with new polyethylene pipe.

GROWTH The economy of the Delmarva Peninsula continues to be strong — not as strong as the boom years of the mid to late 1980's but not as slow as predicted for the economy of the nation as a whole.

While an economic slowdown is predicted for most of the nation in 1991, the Delmarva Peninsula's diverse blend of industries (chemicals, food processing, automobiles, agriculture, plastics and recreation) makes the demand for electricity and natural gas here less affected by fluctuations in the national economy than in many other areas of the nation. These industries have performed well during the growth slowdowns of the past and are expected to continue to do so.

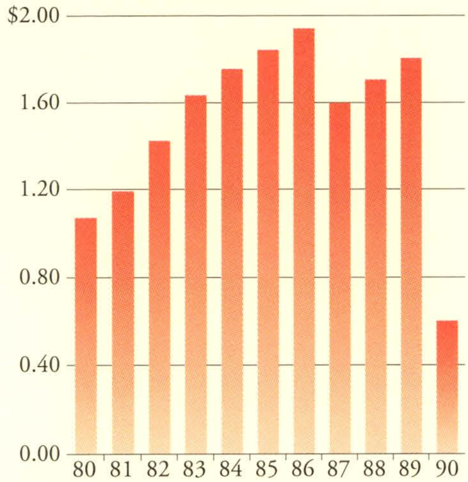
In the six years since 1984, sales of electricity have grown 33% compared to 30% in the entire decade between 1975 and 1984. During that period, demand for electricity at peak periods has grown 37.6% compared to 12.5% between 1975 and 1984. Delmarva Power's generating reserves dropped from 37.1% beyond peak demand in 1984 to 3.3% at the end of 1988. This growth was fueled by the Delaware Financial Center Development Act which encouraged more than 30 banks and financial services companies to move operations to Delaware, the building boom in the coastal tourist areas of the service territory especially around Kent Island, MD, growth in the Salisbury, MD, area and the strong national economy.

The Company predicts that any recession-oriented industrial sales declines in 1991 will be partially offset by continued growth in the commercial and residential sectors, especially residential space heating. This will yield an essentially flat growth year. However, a 2.8% average annual electricity sales growth rate is predicted for 1992 to 1995 because of known new commercial and industrial facilities and expansions planned, such as the opening of a Hewlett-Packard research and manufacturing center in northern Delaware; increases in residential electrical heating demand; and a general economic rebound.

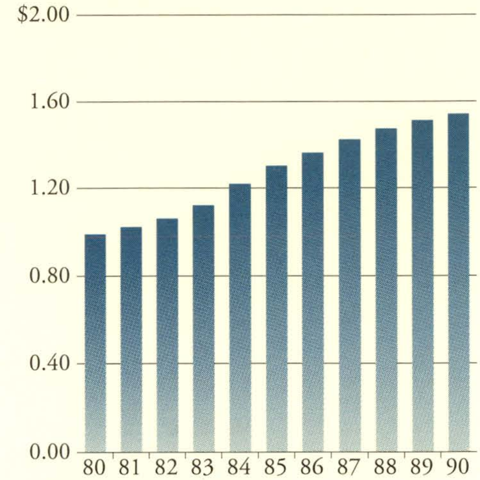
In the area of growth at the peak, the Company forecasts flat growth in 1991 and about a 1.3% average annual peak growth through 1995. Without the energy conservation programs, growth at the peak would have increased 1.8% annually through 1995.

The outlook for firm gas sales is an average annual growth rate of about 1.9% per year through 1995.

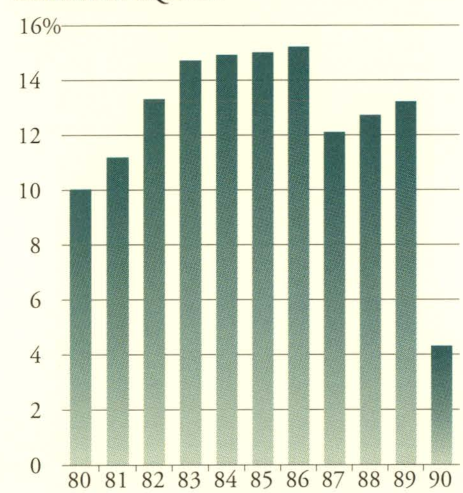
EARNINGS PER SHARE OF COMMON STOCK



DIVIDENDS DECLARED PER SHARE OF COMMON STOCK

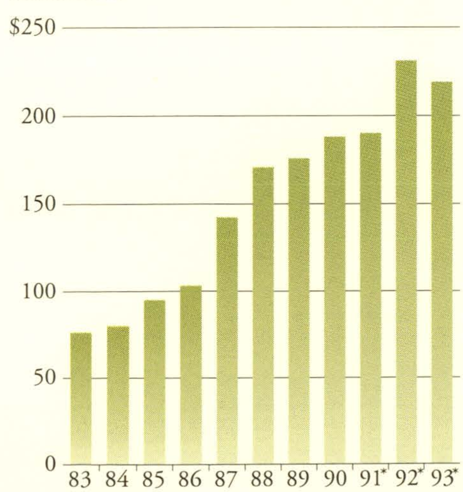


RETURN ON AVERAGE COMMON EQUITY



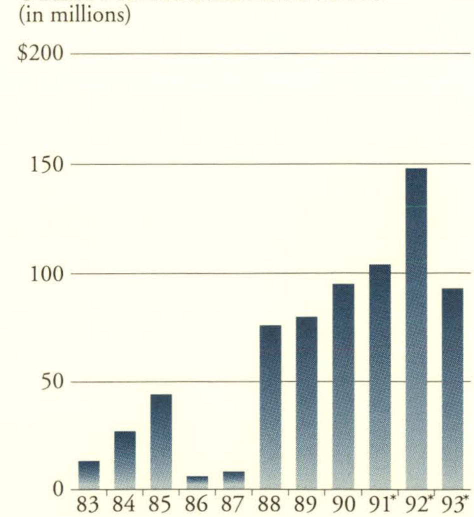
AVERAGE COMMON STOCK MARKET PRICE

UTILITY CONSTRUCTION EXPENDITURES
(in millions)



*Forecast

UTILITY EXTERNAL FINANCING
(in millions)



*Forecast

	(Dollars in Thousands) For the Years Ended December 31	1990	1989	1988	1987	1986
Operating Data	Operating Revenues	**$ 811,238**	$ 789,707	$ 768,322	$ 712,479	$ 714,863
	Operating Income	**$ 146,374**	$ 139,421	$ 129,494	$ 124,967	$ 134,738
	Net Income	**$ 37,311**	$ 91,308	$ 84,721	$ 79,803	$ 96,123
	Electric Sales (kWh 000)	**11,081,211**	10,828,839	10,225,043	9,565,276	9,205,795
	Gas Sales (mcf 000)	**16,069**	16,645	16,154	15,411	15,952
	Gas Transported (mcf 000)	**2,194**	677	2	-	-
Common Stock Data	Earnings Per Share of Common Stock	**$ .60**	$ 1.80	$ 1.70	$ 1.60	$ 1.94
	Dividends Declared Per Share of Common Stock	**$ 1.54**	$ 1.51	$ 1.47	$ 1.42 ½	$ 1.36 ⅓
	Average Shares Outstanding (000)	**47,534**	46,687	45,892	45,717	45,717
	Year-End Stock Price	**$ 18 ⅛**	$ 20 ⅞	$ 17 ¾	$ 18	$ 22
	Book Value Per Share	**$12.84**	$13.67	$13.28	$13.01	$12.85
Capitalization	Variable Rate Demand Bonds[1]	**$ 41,500**	$ 41,500	$ 75,000	$ -	$ -
	Long-Term Debt[2]	**741,748**	663,084	641,291	670,738	666,979
	Preferred Stock [3]	**136,365**	137,242	105,783	106,583	107,383
	Common Stockholders' Equity	**614,692**	642,641	613,177	594,975	587,449
	Total Capitalization	**$1,534,305**	$1,484,467	$1,435,251	$1,372,296	$1,361,[illegible]
Capitalization Ratios	Variable Rate Demand Bonds	**3%**	3%	5%	0%	0%
	Long-Term Debt	**48%**	45%	45%	49%	49%
	Preferred Stock	**9%**	9%	7%	8%	8%
	Common Stockholders' Equity	**40%**	43%	43%	43%	43%
	Total Capitalization	**100%**	100%	100%	100%	100%
Other Information	Total Assets	**$2,134,320**	$2,028,661	$1,907,790	$1,807,831	$1,747,324
	Construction Expenditures[4]	**$ 187,823**	$ 175,843	$ 171,102	$ 142,239	$ 102,597
	Internally Generated Funds (IGF)[5]	**$ 112,551**	$ 106,698	$ 107,413	$ 130,778	$ 163,193
	IGF as a Percent of Construction Expenditures	**60%**	61%	63%	92%	159%
	Capacity Reserve at Time of Summer Peak	**12.0%**	10.1%	3.3%	9.3%	23.9%

(1)Variable rate demand bonds were reclassified from long-term debt to current liabilities as of December 31, 1988. The Company intends to use the bonds as a source of long-term financing as discussed in Note 5 on page 40.
(2)Includes Long-Term Debt due within one year.
(3)Includes preferred stock with mandatory redemption.
(4)Excludes Allowance for Funds Used During Construction.
(5)Net cash provided by operating activities less common and preferred dividends.

RESULTS OF OPERATIONS

Earnings

The earnings per share of common stock attributed to the core utility business and nonutility subsidiaries are shown below.

	1990	1989	1988
Core Utility	**$1.70**	$1.69	$1.60
Nonutility Subsidiaries	**(1.10)**	.11	.10
Total	**$0.60**	$1.80	$1.70

Core Utility Earnings

Earnings per share of the core utility for 1990 remained approximately the same as 1989 despite the absence of replacement power costs related to the shutdown of the Peach Bottom Atomic Power Station (Peach Bottom) through November 1989. Peach Bottom replacement power costs had decreased 1989 earnings per share by 18.5¢ since these costs were not recovered through customer rates. Also, 1989 earnings per share had been increased by 5¢ due to a one-time credit adjustment for previously expensed spare parts at certain jointly-owned generating plants. After excluding the effect of these two unusual items on 1989 earnings per share, 1990 core utility earnings per share decreased in comparison to 1989. This decrease was primarily due to higher operation and maintenance expenses, depreciation and net financing costs. A substantial portion of these cost increases resulted from capital additions to the Company's electric system. New facilities continue to be added to the electric system in order to meet the growing demand for electricity within the service territory. Additional revenue from a 2.3% increase in 1990 kilowatt-hour (kWh) sales partly offset the effect of the higher expenses. Looking forward to 1991, the Company anticipates that kWh sales will grow at a slower rate due to weaker economic conditions. Also, costs are expected to continue to increase due to capital additions and normal inflationary pressures. Thus, core utility earnings may decline until adequate rate relief is obtained.

Core utility earnings per share for 1989 increased 9¢ from 1988 primarily due to increased residential and commercial kWh sales which resulted from customer growth and a strong 1989 economy in the service territory. Core utility earnings per share also increased due to the effect of the one-time credit adjustment for previously expensed spare parts at certain jointly-owned generating plants. These earnings increases were partly offset by the effect of higher Peach Bottom replacement power costs (which decreased earnings per share by 18.5¢ in 1989 compared to 13.5¢ in 1988) and increased depreciation and interest expenses.

Nonutility Subsidiary Earnings

In 1987, the Company began investing in two wood-burning power plants and their associated sawmills (Redding Power and Burney Forest Products). The sawmills were intended to provide fuel for the power plants and to produce finished lumber. These joint venture projects, which are located in northern California, generated pre-tax losses of $12.8 million in 1990 due to continued unfavorable conditions in the timber and lumber markets. Environmental efforts and regulatory actions to curtail logging in the region, continued foreign demand for timber and the demand for wood fuel by other projects in the region have resulted in high log and fuel costs. At the same time, finished lumber prices are low due to lower demand for lumber from the housing industry. Both projects are in default on their loans and the Redding Power lender has filed for foreclosure on the project. The Redding Power sawmill has been shut down, and actions are underway to shut down and secure the power plant. At Burney Forest Products, negotiations are underway to restructure the bank debt. The Company is considering shutting down the sawmill and purchasing all fuel requirements of the power plant.

In 1987, the Company also began investing in a waste-to-energy project (Glendon Energy) planned to be located in Pennsylvania. An environmental permit issued by the Pennsylvania Department of Environmental Resources contains a condition which, based on legislation adopted well after the project was underway, restricts the siting of the facility. In 1990, the Company's appeal of the siting condition was denied. The project also needs to obtain acceptable financing in order to be feasible.

RESULTS OF OPERATIONS (CONTINUED)

Due to the circumstances discussed above, management believes it is probable that the future cash flows of these projects will not be sufficient to recover the book value of the Company's investment. Accordingly, in December 1990's accounting, the Company recorded a $62,534,000 pre-tax charge to earnings ($42,497,000 after-tax or $.89 per share) to write off the investments in these joint venture projects.

After excluding the 1990 write-off of these joint venture investments, subsidiary earnings per share decreased from $.11 in 1989 to a $.21 loss in 1990. Earnings per share generated by subsidiaries in 1989 included a gain on the sale of a partial interest in Burney Forest Products which had resulted in pre-tax income of $5.6 million and after-tax income of $4.8 million or $.10 per share. Prior year subsidiary earnings also reflected a $1.9 million pre-tax ($1.3 million after-tax) write-off of an investment in a municipal waste water treatment venture. The remaining decrease in subsidiary earnings was mainly due to larger operating losses from Redding Power and Burney Forest Products, investment tax credits recorded on these projects in 1989, and a larger operating loss from a solid waste landfill located in Pine Grove, Pennsylvania which started up in mid-1989. Although the Pine Grove landfill is incurring operating losses, cash flows are positive.

In comparing 1989 to 1988 subsidiary earnings, the gain from the sale of partial interest in Burney Forest Products and investment tax credits recorded in 1989 were offset by the 1989 write-off of the investment in the municipal waste water treatment venture, start-up losses on the Redding Power and Pine Grove projects, and lower investment income from leveraged leases and marketable securities.

Dividends

On December 20, 1990, the Board of Directors decided to maintain the quarterly dividend at 38½ cents per share. The dividend was not increased in December because of concerns related to the general slowdown in the economy, the financial requirements to support the utility construction program and the lack of earnings from the subsidiaries. At the same time, dividends were not decreased because it is expected that earnings from the electric and gas business will support the current dividend level, subject to reasonable regulatory actions in the future.

Electric Revenues and Sales

1990 electric operating revenues increased $30.1 million from 1989 due to a $19.6 million increase in fuel revenues and a $10.5 million increase in non-fuel (base) electric revenues. Fuel revenues generally do not affect net income since fuel costs recovered through fuel adjustment clauses are adjusted to match amounts recovered through revenues. The $10.5 million increase in 1990 base electric revenues was principally due to a 2.3% increase in total kWh sales. The residential and commercial sales classes continued to provide most of the increase in electric base revenues. Residential 1990 sales growth of 1.1% was lower than previous years due to a weaker economy and milder winter weather. Commercial sales growth of 3.6% was strong, particularly after considering that the financial services industry is growing at a slower rate. Industrial sales growth of 3.9% was also strong despite the softening economy. The service territory's diverse mix of industrial customers should help lessen the impact of an economic downturn on industrial sales.

Total 1989 electric revenues increased $10.8 million from 1988 due to a $15.2 million increase in base revenues which was partially offset by a $4.4 million decrease in fuel revenues. The increase in base revenues was primarily due to a 5.9% increase in kWh sales. Although about half of the total kWh sales increase was contributed by the industrial sales class, most of the base revenue increase was attributed to the residential and commercial sales classes. Growth rates of 3.6% and 5.2% in 1989 residential and commercial kWh sales, respectively, were attributed to strong economic conditions in the service territory. However, the growth rates were more moderate than the vigorous growth rates reported in 1988 due to milder weather and a slowdown in new residential and commercial construction. The unusually large increase in industrial kWh sales, which grew by 10.9%, was mainly due to resumption of production by a steel mill and another major customer temporarily running two plants.

RESULTS OF OPERATIONS (CONTINUED)

Gas Revenues, Sales and Transportation

Gas revenues decreased by $6.9 million in 1990 mainly due to a $7.4 million decrease in fuel revenues. In October 1990, the Company credited firm gas customers' bills by $6.2 million in order to return over-recovered gas fuel costs. The over-recovery was principally due to unexpected refunds received by the Company from its gas suppliers. The $6.2 million bill credit did not affect net income since fuel costs are adjusted to match fuel revenues. Base revenues (revenues other than fuel and transportation revenues) remained relatively unchanged from 1989. Total gas sales decreased 3.5% primarily due to milder winter weather and some customers transporting gas directly from gas producers and pipelines. Transportation revenues were $0.6 million and $0.2 million in 1990 and 1989, respectively. In total, gas sales and gas transported increased by 5.4% in comparison to 1989.

Gas revenues increased $8.1 million in 1989 due to a $6.2 million increase in fuel revenues and a $1.9 million increase in base revenues. Base gas revenues increased primarily due to a 3.0% total sales increase which was mainly a result of higher industrial and commercial sales. Industrial sales benefited from higher customer production levels and the resumption of production by a steel mill. Commercial sales increased primarily due to customer growth.

Electric Fuel and Net Interchange Expenses

The components of the changes in electric fuel and net interchange expenses are shown in the table below.

Comparative Increase (Decrease) From Prior Year in
Electric Fuel and Net Interchange Expenses
(Dollars in Millions)

	1990	1989
Average Cost of Electric Fuel and Net Interchange	$(10.5)	$ 17.9
Increased kWh Output	0.0	14.3
Deferral of Energy Costs	12.4	(33.9)
Total	$ 1.9	$ (1.7)

The average cost of 1990 electric fuel and net interchange decreased from 1989 primarily due to increased low cost nuclear generation and a decrease in the cost of interchange energy. Nuclear generation increased in 1990 mainly due to greater availability of the Peach Bottom units which were shut down during part of 1989 (as discussed in Note 13). Increased oil prices due to Iraq's August 1990 invasion of Kuwait partly offset the benefit of increased nuclear generation. The potential effects of ongoing higher oil prices on the Company and its customers should be mitigated by the Company's balanced mix of fuel sources to generate electricity. In 1990, the Company's total kWh output was provided by coal generation (50%), nuclear generation (17%), oil generation (10%), gas generation (4%), and interchange energy (19%). Any under or over-recovery of fuel costs from the Company's customers is generally recovered from or refunded to customers through fuel adjustment clauses. The Company has received regulatory approval on an interim basis for an increase in electric fuel rates charged to Delaware customers, effective January 1, 1991. The 1991 Delaware electric fuel rate increase is intended to recover projected increases in 1991 electric fuel costs and previous under-recoveries of electric fuel costs.

The 1989 average cost of electric fuel and net interchange increased from 1988 mainly due to increased oil prices and increased interchange purchases of electricity. More electricity purchases were necessary in 1989 due to outages at the Company's coal-fired generating plants and increased energy demand by customers. The timely mid-1989 installation of two 105 megawatt combustion turbines, which primarily burn gas, helped satisfy the increased energy demands. Nuclear generation increased moderately since the Peach Bottom units, which were shut down during 1988, were restarted and available for part of 1989.

RESULTS OF OPERATIONS (CONTINUED)

Operation, Maintenance, and Depreciation Expenses

Operation and maintenance expenses increased by $7.6 million in 1990 primarily due to higher payroll and other costs related to serving the Company's growing number of customers. Expenses decreased at Peach Bottom since costs related to the restart effort were incurred in 1989. Offsetting the Peach Bottom decrease in expenses was an increase due to last year's one-time $3.9 million credit adjustment for previously expensed spare parts at certain jointly-owned generating units. The Company anticipates that its cost control programs will help to minimize future increases in operation and maintenance expenses which are expected to occur mainly due to the aging of the Company's existing plant, additions of new utility plant and normal inflationary pressures. Also, 1991 operation and maintenance expenses will increase by $1.9 million since the Company began expensing the retail portion of the lease cost for the Merrill Creek Reservoir in July 1990. Depreciation expense increased $6.1 million in 1990 due to capital additions to the electric system. Continued increases in depreciation expense are expected as the Company adds electric plant to serve the growing demand for electricity in the service territory.

Operation and maintenance expenses increased $4.4 million in 1989 mainly due to outage expenses at the Company's generating plants and increased payroll expenses. A $2.5 million increase in steam expenses, which are billed and reflected in increased steam revenues, also contributed to the increase. These increases were partly offset by lower expenses related to the preparation for the restart of Peach Bottom and a one-time $3.9 million credit adjustment for previously expensed spare parts at the jointly-owned generating plants. Depreciation increased $5.0 million in 1989 principally due to an increase in electric utility plant which resulted from installation of two 105 megawatt combustion turbines and additions to the transmission and distribution system.

Utility Financing Costs

Interest charges on debt of the core utility business were $53.1 million in 1988, $59.1 million in 1989, and $62.8 millio[illegible] 1990. Preferred dividends were $6.9 million in 1988, $7.4 million in 1989, and $8.8 million in 1990. The increases in utility debt interest charges and preferred dividends were mainly due to higher average debt and preferred stock balances required to finance the Company's increased investment in utility plant. The combined total of core utility capitalized interest and allowance for equity funds was $5.5 million in 1988, $7.5 million in 1989, and $5.5 million in 1990. The variances between years in capitalized financing costs are principally a result of fluctuations in the average balance of construction work-in-progress which was higher in 1989 due to construction of the first two combustion turbines at the Hay Road site.

AMENDMENTS TO THE CLEAN AIR ACT

On November 15, 1990, the Clean Air Act Amendments (the Act) were signed into law by President Bush. The Act contains a number of provisions that will impact the Company, including the Acid Rain Control Title. These provisions are designed to reduce nationwide sulfur dioxide (SO_2) emissions by approximately 8.9 million tons and nitrogen oxide (NO_x) emissions by approximately two million tons below 1980 levels in two phases. The Phase I and Phase II reductions are required to be implemented by the years 1995 and 2000, respectively. The Act will require the Company to reduce SO_2 and NO_x emissions from some of its wholly and jointly-owned generating units. The Company is presently reviewing the Act in order to determine its impact on Company operations. Regulations and rulemakings associated with implementation of the Act have yet to be promulgated. The Company's strategy is to maintain flexibility in order to respond to changing developments. The Company's wholly-owned plants will not be affected by Phase I SO_2 reduction requirements. The Company owns a 3.72% share of the Conemaugh Power Plant which is considered an affected Phase I Unit. A flue gas desulfurization system will probably be installed on at least one unit of the Conemaugh Power Plant by 1995. The Company's wholly and jointly-owned units will need to meet a lower SO_2 emission cap in Phase II. Although it is too early to choose a specific compliance plan for Phase II, reductions are likely to occur at the wholly-owned units and at the jointly-owned Keystone Station in which the Company owns a 3.70% share. It is anticipated that these units will employ some combination of fuel switching, flue gas desulfurization, repowering, environmental dispatch or allowance trading. In addition to the SO_2 reduction requirements, coal units will reduce NO_x emissions through operating changes or the installation of low NO_x burners. All affected units will install continuous emission monitors to determine compliance and all units must obtain operating permits. The Company anticipates that [illegible] to comply with the Act will be recovered from its customers and, depending on the compliance strategy selected, the Comp[illegible] electric rates could increase by approximately five percent by the year 2000.

IMPACT OF ACCOUNTING PRONOUNCEMENTS

In December 1990, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (SFAS No. 106). SFAS No. 106 requires employers, if obligated or committed to provide postretirement benefits other than pensions, to recognize their obligation on an accrual basis. The cost of the postretirement benefit obligation is to be attributed to the period of employee service ending on the date the employee becomes eligible for the postretirement benefits. The Company currently expenses these costs as paid (Note 9). SFAS No. 106, which becomes effective in 1993, allows employers to recognize the net accumulated postretirement benefit obligation immediately (as a cumulative effect of a change in accounting) or amortize the transition obligation over the average remaining service period of active plan participants or 20 years, if longer. The Company has not yet determined the magnitude of the impact that SFAS No. 106 will have on its financial statements or which method of recognizing the accumulated postretirement benefit obligation will be selected. The Company plans to petition the regulatory commissions for approval to recover in utility rates the increase in expense for postretirement benefits as a result of adopting SFAS No. 106. Should the regulatory commissions not approve the Company's request, but rather continue to allow recovery of postretirement benefits other than pensions as the costs are paid, the Company plans to record a regulatory asset in accordance with SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," for the unpaid amount. Accordingly, the results of operations should not be materially affected by adoption of SFAS No. 106.

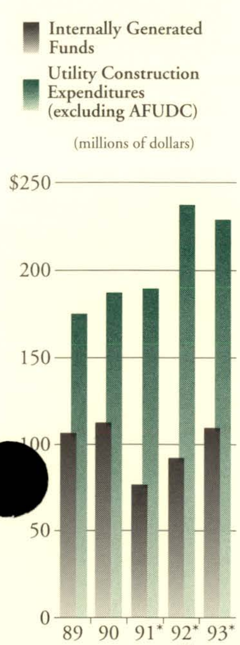
See Note 2 to the Consolidated Financial Statements for a discussion on Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes," and its anticipated effects on the Company's financial statements.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary capital resources are internally generated funds (net cash provided by operating activities less common and preferred dividends) and external financings. These resources provide capital for the Company's utility construction program and other utility capital requirements, such as repayment of maturing debt and capital lease obligations.

In 1990, internally generated funds represented 60% of $187.8 million of utility construction expenditures in comparison to 61% for 1989 and 63% for 1988. External utility financings (net of refinancings) provided $94.8 million of capital. In April 1990, the Company issued $35 million of tax exempt bonds bearing a fixed interest rate of 7.6%. In May 1990, the Company refinanced $15 million of 10 ¼% tax exempt bonds with new bonds bearing an interest rate of 7.3%. In November 1990, the Company issued $39 million of 30 year Medium Term Notes (MTNs) at an average rate of 9.91% and $4 million of 12 year MTNs at an average rate of 9.27%. During 1990, the Company raised $16.8 million of equity capital through the Dividend Reinvestment and Common Share Purchase Plan. The Company also raised $18.7 million in October 1990 by financing its share of nuclear fuel at the Salem Nuclear Generating Station through a nuclear fuel energy contract which is considered a capital lease. In January 1991, $7 million of 30 year 9.95% MTNs were issued.

Capital requirements for the period 1991-1993 are estimated to be $666 million, including $640 million for utility construction (excluding AFUDC). The Company anticipates that during this period $279 million will be generated internally, which represents 42% of capital requirements and 44% of utility construction expenditures. Actual internally generated funds and construction expenditures may vary from the above estimates due to, among other factors, the rate of inflation, regulation and legislation, rates of load growth, licensing and construction delays, economic conditions and the cost and availability of capital.

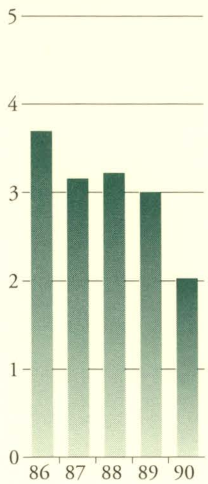


The Company's forecast of internally generated funds reflects lower revenue growth due to a slowing economy. The Company estimates that total electric kWh sales will grow at an average annual rate of 2.3% during 1991 to 1993 in comparison to growth rates of 2.3% in 1990, 5.9% in 1989 and 6.9% in 1988. Also, costs resulting from new utility facilities added to meet load growth within the service territory are expected to continue increasing. Thus, the Company anticipates that modest rate relief will be required in order to achieve its forecast of 1991-1993 internally generated funds. The Company's forecasts of 1991-1993 capital expenditures do not include possible additional costs for the construction of cooling towers for the Salem Nuclear Generating Station. The New Jersey Department of Environmental Protection has issued Public Service Electric and Gas (PSE&G), the Salem operator, a draft permit which would require construction of cooling towers and a shutdown of the plant during the construction period. PSE&G is opposing the draft permit. If the cooling towers are constructed, the Company would incur replacement power costs during the construction period and estimated capital costs of $40 million or more.

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

As of December 31, 1990, the Company's capital structure was comprised of 51.0% long-term debt and variable rate demand bonds, 8.9% preferred stock and 40.1% common stockholders' equity. As of December 31, 1989, the Company's capital structure was comprised of 47.5% long-term debt and variable rate demand bonds, 9.2% preferred stock and 43.3% common stockholders' equity.

Ratio of Earnings to Fixed Interest Charges (SEC Method)



The Company estimates its long-term external financing requirements to be $104 million in 1991, $148 million in 1992, and $93 million in 1993. The Company plans to satisfy its estimated need for external financings during 1991 to 1993 by issuing $122 million of long-term debt, $50 million of preferred stock, and $173 million (market value) of common stock. The Company's plans include a common stock issuance of up to 3,500,000 shares in 1991, another common stock issuance in 1993, and the ongoing issuance of shares through the Dividend Reinvestment and Common Stock Purchase Plan. Certain provisions in the Company's Certificate of Incorporation limit the issuance of preferred stock. The most restrictive of these provisions requires that the pro forma ratio of consolidated earnings to fixed charges and preferred stock dividend requirements combined for any twelve consecutive months within the fifteen months preceding an issuance of preferred stock be 1.50 or greater. This ratio was 1.33 for the twelve months ended December 31, 1990. Excluding the Company's December 1990 write-off of joint venture investments, the 1990 ratio would have been 1.88. The Company expects to be restricted from issuing preferred stock in 1991. However, the Company does not plan to issue preferred stock until 1992 when twelve month earnings will no longer reflect the effect of the write-off.

The Company's planned financing mix should result in a capital structure over the next three years which is within the target ranges of 44-52% debt, 8-10% preferred stock, and 42-46% common stock. The Company's ratio of pre-tax earnings to fixed interest charges (computed according to SEC regulations) was 2.03 for 1990. Excluding the write-off of joint venture investments, the ratio of pre-tax earnings to fixed interest charges was 2.89 for 1990. As of December 31, 1990, the Company's senior debt was rated A1 by Moody's Investor Service, A+ by Standard & Poor's, and A+ by Duff & Phelps. The Company's objective is to maintain its financial parameters within the ranges that warrant a strong "A" bond rating.

Capital resources available to the Company for short-term financing needs include commercial paper, loan placement agreements and lines of credit. As of December 31, 1990, the Company had $75 million in lines of credit available for the short-term financing needs of the utility business. The short-term debt balance of the core utility business was $8.0 million as of December 31, 1990.

The Company's nonutility subsidiaries financed 1990 investments in joint ventures and nonutility operations primarily through the liquidation of marketable securities.

CAPACITY

The Company's peak summer load in 1990 was 2,235 megawatts (MW) in comparison to 2,175 MW in 1989, an increase of 2.8%. The Company's generating capacity of 2,503 MW at the time of the 1990 summer peak provided a 12.0% reserve margin which met the Company's generating reserve obligation to the PJM Interconnection. On a long-term basis, the Company's objective is to meet the PJM Interconnection reserve requirements which are expected to range between 15% to 20% for Delmarva Power & Light Company. The Company estimates that its peak load will grow by an average of 1.3% annually over the next five years.

The Challenge 2000 Plan is the Company's strategy for providing reliable electric service at competitive rates to customers. The plan combines customer-oriented conservation alternatives, called demand-side options, and the use of emerging and existing generation technologies, called supply-side options. The strategy can be characterized as "Save Some, Buy Some, Build Some." The plan is flexible and can be adapted to lower or higher than anticipated load growth. As of December 31, 1990, the demand side ("Save Some") of Challenge 2000 had enrolled over 27,000 residential customers and 61 commercial and industrial customers which provide the Company with the ability to reduce its peak load by 155 MW. The Company forecasts a 209 MW peak load reduction through demand side programs by 1995's summer peak. The supply side of the Challenge 2000 Plan combines the use of power purchases from regulated and nonregulated utilities ("Buy Some") and the construction of new generating capacity ("Build Some") as follows: In 1991, a third combustion turbine, with approximately 105 MW of capacity, is scheduled for commercial operation at the Hay Road site; in 1992, the Company plans to sell the Delaware City generating plant to Star Enterprise and then purchase the plant's capacity over a 26 year period (See Note 11); and in 1993, a 150 MW combined cycle addition to the Hay Road combustion turbines is planned. Preliminary plans for the remainder of 1990's include the purchase of base-load capacity in 1996 and construction, by the Company, of a new base-load unit in 1998.

REPORT OF MANAGEMENT

Management is responsible for the information and representations contained in the Company's financial statements. Our financial statements have been prepared in conformity with generally accepted accounting principles, based upon currently available facts and circumstances and management's best estimates and judgments of the expected effects of events and transactions.

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.

Coopers & Lybrand, independent certified public accountants, are engaged to audit the financial statements and express their opinion thereon. Their audits are conducted in accordance with generally accepted auditing standards which include a review of internal controls.

The Audit Committee of the Board of Directors, composed of outside directors only, meets with management, internal auditors and 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 stockholder approval.

Nevius M. Curtis
Chairman, President and
Chief Executive Officer

Paul S. Gerritsen
Vice President and
Chief Financial Officer

REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets and statements of capitalization of Delmarva Power & Light Company and Subsidiary Companies as of December 31, 1990 and 1989, and the related consolidated statements of income, changes in common stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1990. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Delmarva Power & Light Company and Subsidiary Companies as of December 31, 1990 and 1989, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1990 in conformity with generally accepted accounting principles.

Coopers & Lybrand

2400 Eleven Penn Center
Philadelphia, Pennsylvania
February 5, 1991

	(Dollars in Thousands) For the Years Ended December 31	1990	1989	1988
Operating Revenues	Electric	$708,476	$678,396	$667,553
	Gas	79,836	86,742	78,615
	Steam	22,926	24,569	22,154
		811,238	789,707	768,322
Operating Expenses	Electric fuel and net interchange	227,617	225,758	227,426
	Gas purchased	46,576	52,653	45,843
	Operation and maintenance	224,141	216,583	212,230
	Depreciation	82,439	76,327	71,333
	Taxes other than income taxes	34,939	31,829	31,261
	Income taxes	49,152	47,136	50,735
		664,864	650,286	638,828
Operating Income		146,374	139,421	129,494
Other Income	Write-off of joint venture investments	(62,534)	(1,929)	-
	Equity in earnings (losses) of joint ventures	(12,772)	(2,667)	47
	Allowance for equity funds used during construction	2,845	3,730	3,312
	Income taxes on other income	24,596	3,002	1,189
	Other	2,470	8,095	6,913
		(45,395)	10,231	11,461
Income Before Interest Charges		100,979	149,652	140,955
Interest Charges	Debt	64,308	62,222	56,086
	Other	2,359	1,943	2,356
	Capitalized interest	(2,999)	(5,821)	(2,208)
		63,668	58,344	56,234
Earnings	Net income	37,311	91,308	84,721
	Dividends on preferred stock	8,784	7,427	6,889
	Earnings applicable to common stock	$ 28,527	$ 83,881	$ 77,832
Common Stock	Average shares outstanding (thousands)	47,534	46,687	45,892
	Earnings per average share	$ .60	$ 1.80	$ 1.70
	Dividends declared per share	$ 1.54	$ 1.51	$ 1.47

See accompanying Notes to Consolidated Financial Statements.

ASSETS	(Dollars in Thousands) As of December 31	1990	1989
Utility Plant-at Original Cost	Electric	$2,112,198	$2,022,732
	Gas	134,311	121,920
	Steam	24,982	24,913
	Common	123,198	113,722
		2,394,689	2,283,287
	Less: Accumulated depreciation	812,419	757,598
	Net utility plant in service	1,582,270	1,525,689
	Construction work-in-progress	95,911	44,413
	Nuclear fuel, at amortized cost	42,774	17,876
		1,720,955	1,587,978
Other Property and Investments	Investment in leveraged leases	83,852	81,804
	Investment in joint ventures	6,296	54,633
	Other property, net	54,228	56,167
	Funds held by trustee	14,962	5,742
		159,338	198,346
Current Assets	Cash and cash equivalents	27,129	24,294
	Marketable securities, at lower of cost or market	-	16,215
	Accounts receivable:		
	Customers	62,055	64,12[illegible]
	Other	8,059	11,860
	Inventories, at average cost:		
	Fuel (coal, oil and gas)	49,271	31,999
	Materials and supplies	36,939	34,412
	Prepayments	6,572	6,701
	Deferred income taxes, net	9,862	5,525
	Deferred energy costs	8,605	7,995
		208,492	203,128
Deferred Charges and Other Assets	Unamortized debt expense	8,983	7,984
	Deferred recoverable plant costs	11,920	12,966
	Other	24,632	18,259
		45,535	39,209
	Total	$2,134,320	$2,028,661

See accompanying Notes to Consolidated Financial Statements.

CAPITALIZATION AND LIABILITIES	(Dollars in Thousands) As of December 31	1990	1989
Capitalization (see Statements of Capitalization)	Common stock	$ 107,751	$ 105,737
	Additional paid-in capital	271,694	256,951
	Retained earnings	235,247	279,953
	Total common stockholders' equity	614,692	642,641
	Preferred stock	136,365	136,442
	Long-term debt	741,032	662,544
		1,492,089	1,441,627
Current Liabilities	Short-term debt	15,300	23,000
	Long-term debt due and preferred stock redeemable within one year	716	1,340
	Variable rate demand bonds	41,500	41,500
	Accounts payable	56,183	47,847
	Taxes accrued	8,938	4,550
	Interest accrued	13,744	13,307
	Dividends declared	18,588	18,484
	Current capital lease obligations	12,747	791
	Other	31,282	20,668
		198,998	171,487
Deferred Credits and Other Liabilities	Deferred income taxes, net	330,493	326,327
	Deferred investment tax credits	57,251	60,450
	Long-term capital lease obligations	32,354	2,071
	Other	23,135	26,699
		443,233	415,547
Other	Commitments and Contingencies (Notes 10 and 14)	-	-
	Total	$2,134,320	$2,028,661

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

	(Dollars in Thousands) For the Years Ended December 31	1990	1989	1988
Cash Flows from Operating Activities	Net income	$ 37,311	$ 91,308	$ 84,721
	Adjustments to reconcile net income to net cash provided by operating activities:			
	Depreciation and amortization	93,118	82,856	78,716
	Allowance for equity funds used during construction	(2,845)	(3,730)	(3,312)
	Investment tax credit adjustments, net	(3,199)	(3,220)	(2,658)
	Deferred income taxes, net	(128)	37,358	20,361
	Net change in:			
	Accounts receivable	(1,629)	(11,797)	(9,728)
	Inventories	(16,255)	4,464	(2,117)
	Accounts payable	8,190	1,254	(771)
	Other current assets and liabilities*	6,449	(17,508)	16,560
	Equity in losses (earnings) of joint ventures	12,772	2,667	(47)
	Write-off of joint venture investments	62,534	1,929	-
	Other, net	(1,862)	(2,109)	(571)
	Net cash provided by operating activities	194,456	183,472	181,154
Cash Flows from Investing Activities	Construction expenditures, excluding AFUDC	(187,823)	(175,843)	(171,102)
	Capitalized interest	(2,999)	(5,821)	(2,208)
	Proceeds from sales of ownership interests in:			
	Nuclear fuel - Salem	18,706	-	[illegible]
	Nonutility joint venture	-	12,113	[illegible]
	Merrill Creek Reservoir	-	-	39,121
	Investment in leveraged leases	(1,649)	(7,280)	(2,330)
	Investment in joint ventures and nonutility operations	(20,495)	(27,257)	(34,193)
	Decrease in marketable securities	14,808	17,132	28,087
	Funds held by trustee	(8,974)	(4,545)	180
	Other, net	1,283	(699)	7,466
	Net cash used by investing activities	(187,143)	(192,200)	(134,979)
Cash Flows from Financing Activities	Dividends: Common	(72,881)	(69,738)	(66,852)
	Preferred	(9,024)	(7,036)	(6,889)
	Issuances: Long-term debt	94,111	20,000	50,000
	Variable rate demand bonds	-	-	18,000
	Common stock	16,792	15,235	7,853
	Preferred stock	-	45,000	-
	Redemptions: Long-term debt	(15,573)	(15,637)	(25,499)
	Preferred stock	(877)	(13,515)	(800)
	Principal portion of capital lease payments	(8,495)	(864)	(1,099)
	Net change in short-term debt	(6,200)	8,500	(6,000)
	Other, net	(2,331)	478	(1,157)
	Net cash used by financing activities	(4,478)	(17,577)	(32,443)
	Net change in cash and cash equivalents	2,835	(26,305)	13,732
	Beginning of year cash and cash equivalents	24,294	50,599	36,867
	End of year cash and cash equivalents	$ 27,129	$ 24,294	$ 50,599

*Other than debt classified as current, preferred stock redeemable within one year and current deferred income taxes.

See accompanying Notes to Consolidated Financial Statements.

(Dollars in Thousands) As of December 31					1990	1989
Common Stockholders' Equity	Total Common Stockholders' Equity[1]				$ 614,692	$ 642,641
Cumulative Preferred Stock	Par value $1 per share, 10,000,000 shares authorized, none issued					
	Par value $25 per share, 3,000,000 shares authorized, none issued					
	Par value $100 per share, 1,800,000 shares authorized					
	Without Mandatory Redemption:					
	Series	Shares outstanding (1990 and 1989)	Call price per share			
	3.70%-4.56%	240,000 and 240,000	$103 – $105		24,000	24,000
	5.00%-7.88%	512,800 and 512,800	$103 – $104		51,280	51,280
	Adjustable-6.40%[2]	160,850 and 160,850	$106		16,085	16,085
	Auction rate-6.41%[2]	450,000 and 450,000	$100		45,000	45,000
	Preferred Stock without Mandatory Redemption				136,365	136,365
	With Mandatory Redemption:					
	9.00% Series	0 and 8,766 shares			-	877
	Less: Amount to be redeemed within one year				-	800
	Preferred Stock with Mandatory Redemption				-	77
Long-Term Debt	First Mortgage Bonds:					
	Maturity	Interest Rates				
	1994	4 5/8%			25,000	25,000
	1997	6 3/8%			25,000	25,000
	1998–2002	7%-11 3/4%			158,100	158,100
	2003–2004	6.6%–10%			77,150	77,150
	2005[3]	10 1/4%			-	15,000
	2008–2011	9 5/8%–12%			81,900	81,900
	2014–2020	7.3%–10 1/8%			226,000	176,000
					593,150	558,150
	Other Bonds, due 2015–2017, 7.3%-7.5%				53,500	53,500
	Pollution Control Notes:					
	Series 1973, due 1991–1998, 5.55%–5.75%				6,950	7,100
	Series 1976, due 1992–2006, 7 1/8%–7 1/4%				34,500	34,500
					41,450	41,600
	Medium Term Notes[4], 9.26%–9.95%				43,000	-
	First Mortgage Notes[5], 9.65%				9,788	10,211
	Other Obligations, due 1991–2001, 10.98%				1,610	245
	Unamortized premium and discount, net				(750)	(622)
	Subtotal				741,748	663,084
	Less: Long-Term Debt due within one year				716	540
	Total Long-Term Debt				741,032	662,544
	Total Capitalization				1,492,089	1,441,627
	Variable Rate Demand Bonds[6]				41,500	41,500
	Total Capitalization with Variable Rate Demand Bonds				$1,533,589	$1,483,127

(1) Refer to statement on page 34 for additional information.
(2) Average rate during 1990.
(3) Refinanced on May 7, 1990. See Note 3.
(4) $4 million matures on December 1, 2002 and $39 million matures on December 1, 2020.
(5) Repaid through monthly payments of principal and interest over 15 years ending November 2002.
(6) Classified under current liabilities as discussed in Note 5.

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, 1990	Common Shares Outstanding	Par[1] Value	Additional Paid-in Capital	Retained Earnings	Total
Balance as of January 1, 1988	45,717,450	$102,864	$234,890	$257,221	$594,975
Net income				84,721	84,721
Cash dividends declared:					
Common stock ($1.47)				(67,479)	(67,479)
Preferred stock				(6,889)	(6,889)
Issuance of common stock:					
Dividend Reinvestment and Common Share Purchase Plan	452,552	1,019	6,834		7,853
Other expenses			(3)		(3)
Redemption of preferred stock			6	(7)	(1)
Balance as of December 31, 1988	46,170,002	103,883	241,727	267,567	613,177
Net income				91,308	91,308
Cash dividends declared:					
Common stock ($1.51)				(70,517)	(70,5[illegible]
Preferred stock				(7,427)	(7,[illegible]
Issuance of common stock:					
Dividend Reinvestment and Common Share Purchase Plan	824,428	1,854	13,381		15,235
Other expenses			(31)		(31)
Preferred stock:					
Issuance			(782)		(782)
Redemptions and Retirements			2,656	(978)	1,678
Balance as of December 31, 1989	46,994,430	105,737	256,951	279,953	642,641
Net income				37,311	37,311
Cash dividends declared:					
Common stock ($1.54)				(73,225)	(73,225)
Preferred stock				(8,784)	(8,784)
Issuance of common stock:					
Dividend Reinvestment and Common Share Purchase Plan	891,328	2,006	14,723		16,729
Other	3,600	8	26		34
Redemption of preferred stock			(6)	(8)	(14)
Balance as of December 31, 1990	47,889,358	$107,751	$271,694	$235,247	$614,[illegible]

[1]The Company's common stock has a par value of $2.25 per share and 90,000,000 shares are authorized.

See accompanying Notes to Consolidated Financial Statements.

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Company is a public utility which provides electric service on the Delmarva Peninsula in an area consisting of about 5,700 square miles with a population of approximately one million. The Company also provides gas service in an area consisting of about 275 square miles with a population of approximately 442,000 in northern Delaware, including the City of Wilmington. In addition, the Company has wholly-owned subsidiaries engaged in nonutility activities.

Financial Statements

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Delmarva Energy Company, Delmarva Industries, Inc., Delmarva Services Company, and Delmarva Capital Investments, Inc. and its subsidiaries. Delmarva Capital Investments, Inc. accounts for its 20% to 50% investments in joint ventures with the equity method.

The results of operations of the Company's nonutility subsidiaries are reported in the consolidated statements of income as "Other Income" with the exceptions of interest charges and capitalized interest which are reported in those respective classifications. Refer to Notes 8 and 16 for financial information about the Company's subsidiaries.

In conformity with generally accepted accounting principles, the accounting policies reflect the financial effects of rate regulation and decisions issued by regulatory commissions having jurisdiction over the Company's utility business.

For purposes of the Statement of Cash Flows, the Company considers highly liquid marketable securities and debt instruments purchased with a maturity of three months or less to be cash equivalents.

Certain reclassifications, not affecting income, have been made to amounts reported in prior years to conform to the presentations used in 1990.

Revenues

Revenues are recorded at the time billings are rendered to customers on a monthly cycle basis. 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 charged to operations on the basis of fuel costs included in customer billings under the Company's tariffs, which are subject to periodic regulatory review and approval. The difference between fuel costs recovered in customer billings and fuel costs actually incurred is generally deferred and reported as deferred energy costs.

Depreciation

The annual provision for depreciation on utility property is computed on the straight-line basis using composite rates by classes of depreciable property. The relationship of the annual provision for depreciation for financial accounting purposes to average depreciable property was 3.6% for 1990 and 3.7% for 1989 and 1988. Provision for the costs of decommissioning nuclear plant is made to the extent of the net cost of removal allowed for rate purposes (approximately 20% of original plant cost). In July 1990, the Company filed a funding plan with the Nuclear Regulatory Commission which certifies financial assurance for the Company's share of the future costs of decommissioning the Peach Bottom and Salem nuclear reactors. This funding plan is subject to the approval of regulatory commissions which have jurisdiction over the Company. Delmarva has deposited $6.5 million in an external nuclear decommissioning trust to begin to externally fund its share of the future cost of decommissioning the Peach Bottom and Salem nuclear reactors. Payments to the trust fund and trust earnings are included in funds held by trustee on the balance sheet.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Funds Held by Trustee

Funds held by trustee generally includes deposits in the Company's external nuclear decommissioning trusts and unexpended restricted or tax exempt bond proceeds including any earnings on such trust funds.

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 United States Department of Energy. See Note 10 for a discussion of the Company's financing arrangements for nuclear fuel.

Leveraged Leases

The Company's net investment in leveraged leases includes the aggregate of rentals receivable (net of principal and interest on nonrecourse indebtedness) and estimated residual values of the leased equipment less unearned and deferred income (including investment tax credits). Unearned and deferred income is recognized at a level rate of return during the periods in which the net investment is positive.

Income Taxes

The Company and its wholly-owned subsidiaries file a consolidated federal income tax return. Income taxes are allocated to the Company's utility business and subsidiaries based upon their respective taxable incomes, tax credits, and effects of the alternative minimum tax, if any. Deferred income taxes are provided on timing differences between the tax and financial accounting recognition of certain income and expenses. The principal timing difference arises from accelerated depreciation methods used for income tax purposes. Investment tax credits from regulated operations utilized to reduce federal income taxes are deferred and generally amortized over the useful lives of the related utility plant. Investment tax credits of the Company's nonregulated subsidiaries (excluding leveraged leases) are accounted for by the flow-through method.

Allowance for Funds Used During Construction and Capitalized Interest

Allowance for Funds Used During Construction (AFUDC) is included in the cost of utility plant and represents the cost of borrowed and equity funds used to finance construction of new utility facilities. Capitalized interest includes interest capitalized on qualifying nonregulated assets of the Company's subsidiaries and the allowance for borrowed funds portion of AFUDC. Capitalized interest on nonregulated assets is included in the cost of other property and investments. On the income statement, capitalized interest is recorded as a reduction of interest charges and allowance for equity funds used during construction is reflected as other income.

AFUDC was capitalized on utility plant construction at the rates of 9.8% in 1990, 10.0% in 1989, and 10.0% in 1988.

Unamortized Debt Discount, Premium and Expense

These items are amortized on a straight-line basis over the lives of the long-term debt issues to which they pertain. The amortization is included in other interest charges.

2. INCOME TAXES

Income tax expense for 1990, 1989 and 1988 was as follows:

(Dollars in Thousands)		1990	1989	1988
Operation:				
Federal:	Current	$30,764	$22,534	$40,693
	Deferred	11,720	18,746	2,857
State:	Current	6,992	4,762	9,043
	Deferred	2,875	4,314	800
Investment tax credit adjustments, net		(3,199)	(3,220)	(2,658)
Operation Income Taxes		49,152	47,136	50,735
Other income:				
Federal:	Current	(9,888)	(17,351)	(17,834)
	Deferred	(14,862)	14,352	16,689
State:	Current	15	51	(59)
	Deferred	139	(54)	15
Total income tax expense		$24,556	$44,134	$49,546

Investment tax credits utilized to reduce federal income taxes payable amounted to $879,000 in 1990, $3,808,000 in 1989 and $1,237,000 in 1988. The 1989 investment tax credits utilized include $3,429,000 for the completion of two nonregulated power plants which were considered transitional property under the Tax Reform Act of 1986. Investment tax credits of the Company's subsidiary operations, which are accounted for on the flow-through method, are reflected in the above table as a reduction of federal current income taxes, under other income.

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:

	1990		1989		1988	
(Dollars in Thousands)	Amount	Rate	Amount	Rate	Amount	Rate
Statutory federal income tax expense	$21,035	34%	$46,050	34%	$45,651	34%
Increase (decrease) in taxes resulting from:						
Exclusion of AFUDC for income tax purposes	(899)	(1)	(1,445)	(1)	(1,247)	(1)
Depreciation not normalized	509	1	1,358	1	2,495	2
ITC amortization/flow-through	(4,229)	(7)	(7,160)	(5)	(3,388)	(3)
State income taxes, net of federal tax benefit	6,614	11	5,989	4	6,509	5
Other, net	1,526	2	(658)	-	(474)	-
Income tax expense	$24,556	40%	$44,134	33%	$49,546	37%

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

(Dollars in Thousands)	1990	1989	1988
Depreciation	$24,909	$33,648	$28,612
Deferred energy costs	857	4,512	(4,711)
Capitalized overhead costs	(2,171)	(2,261)	(2,558)
Deferred recoverable plant costs	(448)	(448)	(433)
Pollution control amortization	(844)	(914)	(604)
ADR repair allowance	2,803	3,789	2,260
Unbilled revenues	(1,707)	(2,734)	(2,662)
Alternative minimum tax	(6,146)	-	2,600
Write-off of joint venture investments	(20,261)	(656)	-
Other, net	2,880	2,422	(2,143)
Total	$ (128)	$37,358	$20,361

2. INCOME TAXES (CONTINUED)

In December 1987, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 96, "Accounting for Income Taxes", which will replace the currently utilized deferred method of income tax accounting with the liability method. Under the liability method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and tax bases of existing assets and liabilities. Deferred tax assets and liabilities are adjusted currently for the effects of changes in enacted tax laws or rates. In December 1989, the FASB postponed the required adoption date of SFAS No. 96 until 1992.

SFAS No. 96 allows adoption retroactively or prospectively. The Company currently expects to adopt the standard on a prospective basis in 1992. Since the Company is primarily a regulated enterprise, adoption of SFAS No. 96 is not expected to have a material effect on the Company's results of operations. However, the total amount of assets and liabilities on the consolidated balance sheet is expected to increase. The expected increase is due to recognition of additional tax liabilities for tax benefits flowed through to customers partially offset by the reduction of existing accumulated deferred income taxes as a result of the reduction in the federal income tax rates, and for other temporary differences. Generally, the increased deferred tax liabilities and assets will be offset by corresponding regulatory assets and liabilities.

The Company has not provided deferred income taxes of approximately $93 million, based on current income tax rates, related to cumulative timing differences of $236 million arising before the adoption of full tax normalization for ratemaking purposes by regulatory authorities. The Company is collecting the unnormalized taxes in its rate jurisdictions either on a levelized basis over the life of the related plant facilities or when actually paid to taxing authorities.

3. CAPITALIZATION

Common Stock

In April 1988, the Company registered 3,000,000 of its common shares under a Dividend Reinvestment and Common Share Purchase Plan (the Plan). As of December 31, 1990, 2,168,308 shares had been issued and 831,692 shares of common stock were reserved for issuance under the Plan. In March 1990, the Company registered 750,000 shares of its common stock under several of the Company's compensation plans. As of December 31, 1990, 3,600 shares had been issued and 746,400 shares of common stock were reserved for issuance under these plans.

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. The amount available at December 31, 1990 was approximately $155,920,000.

Preferred Stock

The annual preferred dividend requirements on all outstanding preferred stock at December 31, 1990 are $8,689,000. 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 $100 to $106 at December 31, 1990).

1) In December 1989, the Company retired 17,200 shares of its $100 par value 7.88% Series Preferred Stock which was held in treasury at a cost of $1,694,000 as of December 31, 1988.

2) During 1989, the Company reacquired 119,150 shares of its $100 par value Adjustable Rate Preferred Stock for $9,294,000. These shares were retired in December 1989 and the excess of the par value over the acquisition cost was credited to paid-in capital.

3. CAPITALIZATION (CONTINUED)

3) On August 9, 1989, the Company issued 450,000 shares of $100 par value Auction Preferred Stock, Series A. The dividend is cumulative and payable every 49 days based on the rate determined by auction procedures prior to each 49 day dividend period. The weighted average dividend rate was 6.82% and 6.41% in 1989 and 1990, respectively.

With Mandatory Redemption

All shares of the 9% series had been redeemed as of December 31, 1990. The Company redeemed 8,000, 16,000, and 8,766 shares of the 9% series at $100 per share during 1988, 1989, and 1990, respectively.

Long-Term Debt

1) Sinking fund requirements for the First Mortgage Bonds may be reduced by an amount not exceeding sixty percent (60%) of the bondable value of property additions. For the years 1988-1990, property additions satisfied the sinking fund requirements. Substantially all utility plant of the Company now or hereafter owned is subject to the lien of the related Mortgage and Deed of Trust.

2) On April 4, 1990, the Company issued, in total, $50 million of First Mortgage Bonds to collateralize tax exempt revenue bonds issued by The Delaware Economic Development Authority. The issue consisted of $35 million of 7.6% Exempt Facilities Revenue Bonds which mature on March 1, 2020 and $15 million of 7.3% Pollution Control Refunding Revenue Bonds which mature on March 1, 2014. The proceeds from the $35 million bond issuance are being used to finance the cost of certain pollution control facilities and additions to the Company's gas system. On May 7, 1990, the proceeds from the $15 million bond issuance were used to refinance 10 ¼% Pollution Control Revenue Bonds, Collateralized Series 1980A.

3) In November 1990 and January 1991, the Company issued unsecured Medium Term Notes as shown in the table below:

Month Issued	Principal (In Thousands)	Interest Rates	Maturity Date
November 1990	$39,000	9.875% - 9.95%	December 1, 2020
November 1990	4,000	9.26% - 9.29%	December 1, 2002
January 1991	7,000	9.95%	December 1, 2020

The proceeds from the Medium Term Notes will be used to fund the Company's ongoing construction program and for other general purposes relating to the Company's utility business.

4) Maturities of long-term debt during the next five years are as follows: 1991-$717,000; 1992-$2,100,000; 1993-$2,151,000; 1994-$27,412,000; 1995-$2,434,000.

5) The annual interest requirements on long-term debt at December 31, 1990 are $63,868,000.

4. SHORT-TERM DEBT

As of December 31, 1990, the Company had unused bank lines of credit of $75 million. The Company 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.

5. VARIABLE RATE DEMAND BONDS

A total of $41.5 million of Variable Rate Demand Bonds were outstanding as of December 31, 1990 and 1989, respectively. Although Variable Rate Demand Bonds are classified as current liabilities, the Company intends to use the Variable Rate Demand Bonds as a source of long-term financing by setting the bonds' interest rates at market rates and, if advantageous, by utilizing one of the fixed rate/fixed term conversion options of the bonds. The bonds are due in the years 2014 to 2017.

The Variable Rate Demand Bonds bore interest at an average annual rate of 5.58%, 6.53%, and 6.09% in 1988, 1989, and 1990, respectively. The annual interest requirements on the Variable Rate Demand Bonds at December 31, 1990 are $2,921,000 based on the average rate in December 1990.

6. REGULATION

The Company is subject to regulation with respect to its retail utility sales by the Delaware and Maryland Public Service Commissions (DPSC and MPSC, respectively) and the Virginia State Corporation Commission (VSCC), 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. The percentage of operating revenues regulated by each Commission for the year ended December 31, 1990 was as follows: DPSC 62%; MPSC 21%; VSCC 3%; and FERC 11%. Nonregulated steam operating revenues were 3% of total revenues.

7. SUPPLEMENTAL CASH FLOW INFORMATION

(Dollars in Thousands)	1990	1989	1988
Cash paid during the year for:			
Interest, net of capitalized amount	$62,440	$55,839	$54,971
Income taxes, net of refunds	$21,635	$16,877	$21,8[illegible]

During 1990, the Company incurred a capital lease obligation of $47,489,000 as a result of financing Peach Bottom and Salem nuclear fuel through a nuclear fuel energy contract. Refer to Note 10 for additional information about the nuclear fuel energy contract.

8. WRITE-OFF OF SUBSIDIARY JOINT VENTURE INVESTMENTS

In 1987, the Company began investing in two wood-burning power plants and their associated sawmills (Redding Power and Burney Forest Products). The sawmills were intended to provide fuel for the power plants and to produce finished lumber. These joint venture projects, which are located in northern California, have generated substantial operating losses since beginning operations in 1989 and 1990 due to continued unfavorable conditions in the timber and lumber markets. Environmental efforts and regulatory actions to curtail logging in the region, continued foreign demand for timber and the demand for wood fuel by other projects in the region have resulted in high log and fuel costs. At the same time, finished lumber prices are low due to lower demand for lumber from the housing industry. Both projects are in default on their loans and the Redding Power lender has filed for foreclosure on the project. The Redding Power sawmill has been shut down, and actions are underway to shut down and secure the power plant. At Burney Forest Products, negotiations are underway to restructure the bank debt. The Company is considering shutting down the sawmill and purchasing all fuel requirements.

In 1987, the Company also began investing in a waste-to-energy project (Glendon Energy) planned to be located in Pennsylvania. An environmental permit issued by the Pennsylvania Department of Environmental Resources contains a condition which, based on legislation adopted well after the project was underway, restricts the siting of the facility. In 1990, the Company's appeal of the siting condition was denied. The project also needs to obtain acceptable financing in order to be feasible.

Due to the circumstances discussed above, management believes it is probable that the future cash flows of these projects will not be sufficient to recover the book value of the Company's investment. Accordingly, in December 1990's accounting, the Company recorded a $62,534,000 pre-tax charge to earnings ($42,497,000 after-tax or $.89 per share) to write off the investments in these joint venture projects.

9. PENSION PLAN AND POST-RETIREMENT BENEFITS

The Company has a defined benefit pension plan covering all regular employees. The benefits are based on years of service and the employee's compensation. The Company's funding policy is to contribute each year the net periodic pension cost for that year. However, the contribution for any year will not be less than the minimum required contribution nor greater than the maximum tax deductible contribution. There were no pension contributions in 1990, 1989 or 1988.

The following table reconciles the plan assets and liabilities to the funded status of the plan as of December 31, 1990 and 1989. Pension plan assets consist primarily of equity securities and public bond securities.

(Millions of Dollars) ACTUARIAL PRESENT VALUE OF BENEFIT OBLIGATIONS	1990	1989
Accumulated benefit obligation		
Vested	$170.7	$167.5
Nonvested	19.8	19.0
	190.5	186.5
Effect of estimated future compensation increases	88.8	94.4
Projected benefit obligation	279.3	280.9
Plan assets at fair value	363.3	380.3
Excess of plan assets over projected benefit obligation	84.0	99.4
Unrecognized prior service cost	6.0	6.5
Unrecognized net gain	(40.6)	(55.3)
Unrecognized net transition asset	(46.4)	(49.7)
Prepaid pension cost	$ 3.0	$ 0.9

(Millions of Dollars) COMPONENTS OF NET PENSION COST	1990	1989	1988
Service cost—benefits earned during period	$ 10.9	$ 9.5	$ 8.5
Interest cost on projected benefit obligation	20.9	19.1	17.5
Actual return on plan assets	7.2	(57.6)	(46.9)
Net amortization and deferral	(41.1)	28.4	20.7
Net pension cost	$ (2.1)	$ (0.6)	$(0.2)

ASSUMPTIONS	1990	1989	1988
Discount rates used to determine projected benefit obligation as of Dec. 31	7.75%	7.25%	7.50%
Rates of increase in compensation levels	6.50%	6.50%	6.50%
Expected long-term rates of return on assets	8.00%	8.00%	8.00%

The Company provides 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 these benefits by expensing the insurance claims as they are paid. These costs totalled $3,386,000, $3,177,000 and $2,387,000 for 1990, 1989 and 1988, respectively. In December 1990, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 106, "Employers Accounting for Postretirement Benefits Other Than Pensions" (SFAS No. 106). SFAS No. 106 requires employers, if obligated or committed to provide postretirement benefits other than pensions, to recognize their obligation on an accrual basis. SFAS No. 106, which becomes effective in 1993, allows employers to recognize the net accumulated postretirement benefit obligation immediately (as a cumulative effect of a change in accounting) or amortize the transition obligation over the average remaining service period of active plan participants or 20 years, if longer. SFAS No. 106 is not expected to have a material effect on the Company's results of operations since the increase in postretirement benefits should either be recovered in rates or deferred as a regulatory asset for recovery as benefits are paid. The Company has not yet determined the magnitude of the impact that SFAS No. 106 will have on its financial statements or which method of recognizing the accumulated postretirement benefit obligation will be selected.

10. COMMITMENTS

The Company estimates that approximately $190,100,000, excluding AFUDC, will be expended for construction purposes in 1991. The Company also has certain commitments under long-term fuel supply contracts.

On March 30, 1990, the Company entered into a nuclear fuel energy contract with Bayshore Fuel Company in order to finance the Company's share of nuclear fuel for the Peach Bottom Atomic Power Station (Peach Bottom) as of May 1, 1990. The contract is accounted for as a capital lease. The book value of the nuclear fuel financed as of May 1, 1990 was $28,783,000. Prior to May 1, 1990, Philadelphia Electric Company, the Peach Bottom operator, provided financing for the Company's share of the Peach Bottom nuclear fuel and the Company did not have an ownership interest in the Peach Bottom nuclear fuel. On October 1, 1990, the Company amended its nuclear fuel energy contract with Bayshore Fuel Company to include the financing of the Company's share of nuclear fuel at the Salem Nuclear Generating Station (Salem). As a result of the financing, the Company received $18,706,000 and the Company's capital lease obligations increased by $18,706,000 on October 1, 1990. Future payments under the nuclear fuel energy contract will be based on the quantity of nuclear fuel burned by Peach Bottom and Salem. The Company's obligation under the contract is generally the net book value of the nuclear fuel financed.

Nuclear fuel on the consolidated balance sheets (leased as of December 31, 1990 and owned as of December 31, 1989) is comprised of the following items:

	December 31, 1990	December 31, 1989
	(Dollars in Thousands)	
Peach Bottom nuclear fuel	$25,390	$ -
Salem nuclear fuel	17,384	17,876
Nuclear fuel, at amortized cost	$42,774	$17,876

In addition to the Company's nuclear fuel energy contract, the Company also leases certain distribution facilities, transportation equipment and various other facilities and equipment under long-term lease agreements. Rentals charged to operating expenses were as follows:

	1990	1989	1988
		(Dollars in Thousands)	
Interest on nuclear fuel capital leases	$ 1,550	$ -	$ -
Interest on other capital leases	405	457	525
Amortization of nuclear fuel capital leases	7,832	-	-
Amortization of other capital leases	663	864	1,099
Operating leases	10,575	8,829	7,243
Total rental expense	$21,025	$10,150	$8,867

Minimum commitments as of December 31, 1990 under all non-cancellable lease agreements (excluding payments under the nuclear fuel energy contract which cannot be reasonably estimated) and an agreement providing for the availability of fuel oil storage and oil pipeline facilities are as follows: 1991 - $8,902,000; 1992 - $6,713,000; 1993 - $6,108,000; 1994 - $5,827,000; 1995 - $5,698,000; after 1995 - $167,091,000; total - $200,339,000. Approximately 89% of the minimum commitments shown above are payments due under the Company's lease of an 11.9% interest in the Merrill Creek Reservoir, located in northern New Jersey.

On June 16, 1988, the Company sold its ownership interest in the Merrill Creek Reservoir for $39.1 million and began leasing it back over a 44 ½ year term ending in December 2032. The lease is being accounted for as an operating lease and payments over the entire lease term aggregate to $179 million.

11. DELAWARE CITY PLANT

The Company owns and operates an electric generating plant which supplies electricity and steam to an adjacent refinery at Delaware City, Delaware. The refinery is owned by Star Enterprise, a partnership between Texaco Refining and Marketing, Inc. and Saudi Refining, Inc. On January 19, 1989, Star Enterprise notified the Company of its intent to exercise a long-standing contractual option which entitles Star Enterprise to purchase the plant on December 31, 1991 at net book value. Pursuant to a contract between the Company and Star Enterprise, the Company will purchase 48 megawatts of the plant's capacity over a 26 year period beginning after Star Enterprise's purchase of the plant. Under the terms of the contract, the Company will incur a capacity charge based on the unit's availability and an energy charge based on kWh delivered. If the unit is not available, there is no minimum capacity charge. The maximum capacity charge for a twelve month period is $3.4 million, if the unit's availability exceeds 85 percent. Also, the Company may terminate the contract or assume operational responsibility for the facility if the unit's availability is less than 40 percent on a rolling twelve month basis for nine consecutive months. The plant contributed 2.5¢ to earnings per share in 1990 and its net book value was $2.4 million at December 31, 1990. After the plant is sold to Star Enterprise, the Company expects to operate the plant for a fee.

12. JOINTLY-OWNED PLANT

The Company's balance sheet includes its proportionate share of assets and liabilities related to jointly-owned plant. Information with respect to the Company's share of jointly-owned plant as of December 31, 1990 is as follows:

(Dollars in Thousands)	Ownership Share	Megawatt Capability Owned	Plant in Service	Accumulated Depreciation	Construction Work in Progress
Nuclear:					
Peach Bottom	7.51%	157 MW	$112,466	$ 43,731	$ 4,772
Salem	7.41%	164 MW	180,702	64,908	4,875
Coal-Fired:					
Keystone	3.70%	63 MW	14,087	5,778	376
Conemaugh	3.72%	63 MW	14,535	6,443	370
Transmission Facilities	Various		4,464	1,636	-
Total			$326,254	$122,496	$10,393

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. The Company is responsible for providing its share of financing for the above jointly-owned facilities.

13. PEACH BOTTOM ATOMIC POWER STATION

On March 31, 1987, the Nuclear Regulatory Commission (NRC) ordered the shutdown of the Peach Bottom Atomic Power Station (Peach Bottom) for a variety of problems including operator inattention. The Company has a 7.51% ownership interest in Peach Bottom which is operated by Philadelphia Electric Company (PE). Peach Bottom has two generating units, Unit 2 and Unit 3. Subsequent to the shutdown order, PE sought to develop and implement plans for Peach Bottom to operate safely and comply with NRC regulations. On April 26, 1989, the NRC authorized the restart of Unit 2 which after a gradual power ascension program achieved full power on August 4, 1989. On October 5, 1989, the NRC released PE from the terms and conditions of the shutdown order, which allows both Unit 2 and Unit 3 to operate at full power under normal NRC regulations and review. On November 19, 1989, PE restarted Unit 3 which achieved full power on January 5, 1990. The Company did not recover replacement power costs attributed to the shutdown from its customers. Accordingly, the Company's results of operations reflect replacement power costs of $13.9 million (18.5¢ per share) in 1989 and $10.0 million (13.5¢ per share) in 1988.

On July 27, 1988, the Company and Atlantic Electric Company, as co-owners, filed a lawsuit against PE in the U.S. District Court of New Jersey to recover losses incurred since Peach Bottom was shut down by the NRC. The lawsuit charges PE with breach of contract and negligence for failing to manage and operate the nuclear plant in a safe and efficient manner. The amount of relief the Company is seeking in the lawsuit is unspecified and the actual amount of damages to the co-owners is still being determined. Public Service Electric and Gas (also a co-owner of Peach Bottom) also filed a similar lawsuit against PE. These suits continue to be in the discovery phase as of December 31, 1990. The suits are not expected to reach the trial stage before the fall of 1991. The Company cannot predict the outcome of these lawsuits.

14. CONTINGENCIES

1) Deferred Recoverable Plant Costs

In 1982, the Company delayed construction of a planned coal-fired generating unit near Vienna, Maryland. Due to environmental legislation enacted in Maryland during 1989, the Company no longer plans to construct a generating unit at the site. The Company expects to recover the costs incurred on the cancelled generating unit through the ratemaking process. Accordingly, $11.9 million is deferred as recoverable plant costs.

2) Nuclear Insurance

The insurance coverages applicable to the nuclear power units are as follows:

(Millions of Dollars) Type and Source of Coverage	Aggregate Maximum Coverage	Retrospective Assessment for a Single Incident (2)
Public Liability		
Private	$ 200	
Price Anderson Assessment (1)	7,607	$19.7 (3)
	$7,807 (4)	
Nuclear Worker Liability (5)	$ 200	$ 1.2
Property Damage: (6)		
Peach Bottom (7)	$1,060	-
Salem (8)	$1,060	$[illegible]
All units (9)	$1,125	$[illegible]
Replacement Power:		
Nuclear Electric Insurance Limited (NEIL) (10)	$ 3.5 (11)	$ 1.2

1) Retrospective premium program under the Price-Anderson liability provisions of the Atomic Energy Act of 1954 as amended by the Price-Anderson Amendments Act of 1988. Subject to retrospective assessment with respect to loss from an incident at any licensed nuclear reactor in the United States.
2) The Company's share of the maximum retrospective assessment for a single incident based on the Company's ownership share of the nuclear power units.
3) The maximum retrospective assessment of $66.15 million per nuclear reactor is subject to periodic inflation indexing. The Company owns a joint and undivided interest in the Peach Bottom and Salem nuclear power facilities. In the event that all other co-owners are unable to fund their share of the retrospective assessment, the Company's maximum retrospective assessment would be $264.6 million.
4) Limit of liability under the Price-Anderson Act for each nuclear incident. If claims from a nuclear incident exceed the $7.8 billion limit, Congress could impose a revenue raising measure on the nuclear industry to pay claims.
5) American Nuclear Insurers provide coverage against the potential liability from workers claiming exposure to the hazard of nuclear radiation.
6) The Company is a self insurer, to the extent of its ownership interest, for any property loss in excess of the stated amounts.
7) For property damage to the Peach Bottom nuclear power facilities, the Company and its co-owners have private insurance up to $1.06 billion.
8) For property damage to the Salem nuclear power facilities, the Company and its co-owners have $500 million of insurance with Nuclear Mutual Limited (NML), a utility-owned insurance company, and $560 million with private insurers. NML has a maximum retrospective assessment of ten times the annual premium.
9) All units are insured by Nuclear Electric Insurance Limited (NEIL II) for losses in excess of $500 million. Maximum retrospective assessment is seven and a half times the annual premiums.
10) A utility-owned mutual insurance company provides coverage against extra expense incurred in obtaining replacement power during prolonged accidental outages of nuclear power units.
11) Maximum weekly indemnity for 52 weeks which commences after the first 21 weeks of an outage. Also provides $2.4 million weekly for a second 52 week period and $1.2 million weekly for a third 52 week period. Maximum retrospective assessment is five times the annual premiums.

3) Other

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

15. SEGMENT INFORMATION

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

(Dollars in Thousands)	1990	1989	1988
Operating Revenues:			
Electric	$ 708,476	$ 678,396	$ 667,553
Gas	79,836	86,742	78,615
Steam	22,926	24,569	22,154
Total	$ 811,238	$ 789,707	$ 768,322
Operating Income:			
Electric	$ 137,210	$ 129,260	$ 120,195
Gas	7,263	8,390	7,456
Steam	1,901	1,771	1,843
Total	$ 146,374	$ 139,421	$ 129,494
Net Utility Plant:(1 & 2)			
Electric	$1,621,655	$1,500,822	$1,408,717
Gas	98,992	86,728	91,495
Steam	308	428	1,663
	1,720,955	1,587,978	1,501,875
Other Identifiable Assets:			
Electric	178,395	139,393	109,408
Gas	15,947	19,547	21,758
Steam	3,432	4,592	6,189
	197,774	163,532	137,355
Assets Not Allocated(3)	215,591	277,151	268,560
Total Assets	$2,134,320	$2,028,661	$1,907,790
Depreciation Expense:			
Electric	$ 77,395	$ 71,171	$ 66,041
Gas	4,758	4,220	4,360
Steam	286	936	932
Total	$ 82,439	$ 76,327	$ 71,333
Construction Expenditures: (4)			
Electric	$ 171,581	$ 161,708	$ 150,239
Gas	16,176	14,135	20,237
Steam	66	-	626
Total	$ 187,823	$ 175,843	$ 171,102

(1) Includes construction work in progress and allocation of common utility property.
(2) Stated net of the respective accumulated provisions for depreciation.
(3) Includes assets of the Company's subsidiaries. See Note 16.
(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.

16. CONSOLIDATED CONDENSED FINANCIAL STATEMENTS OF SUBSIDIARIES

The following presents consolidated condensed financial information of the Company's nonregulated wholly-owned subsidiaries, Delmarva Energy Company, Delmarva Industries, Inc. and Delmarva Capital Investments, Inc. Delmarva Services, a subsidiary which leases real estate to the Company's utility business, is excluded from these statements since its income is derived from intercompany transactions which are eliminated in consolidation.

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Dollars In Thousands)	1990	1989	1988
Revenues:			
Revenues and investment income	**$17,089**	$14,066	$12,455
Equity in earnings (losses) of joint ventures	(12,772)	(2,667)	47
Gain on sale of investment	-	5,605	-
	4,317	17,004	12,502
Costs and Expenses:			
Operating expenses	**17,917**	13,502	6,109
Write-off of joint venture investments	**62,534**	1,929	-
Interest expense	**1,720**	2,280	2,967
Capitalized interest	**(373)**	(2,019)	-
	81,798	15,692	9,076
Income (loss) before income taxes	(77,481)	1,312	3,426
Income tax (benefit)	(25,195)	(3,702)	(1,354)
Net income (loss)	**$(52,286)**	$ 5,014	$ 4,7[illegible]
Earnings (loss) per share of common stock attributed to subsidiaries	**$(1.10)**	$0.11	$0.10

CONSOLIDATED CONDENSED BALANCE SHEETS

(Dollars In Thousands) Assets	At December 31, 1990	1989	Liabilities and Stockholder's Equity	At December 31, 1990	1989
Current assets:			Current liabilities:		
Cash and cash equivalents	$ **8,610**	$ 9,392	Debt due within one year	$ **7,441**	$ 14,504
Marketable securities	-	16,215	Other	**13,789**	9,699
Deferred taxes	**3,589**	-		**21,230**	24,203
Other	**1,319**	5,188			
	13,518	30,795			
			Noncurrent liabilities:		
Noncurrent assets:			Long-term debt	**1,469**	241
Investment in:			Deferred income taxes	**69,256**	80,871
Leveraged leases	**83,852**	81,804	Other	**6,141**	6,092
Joint ventures	**6,296**	54,060		**76,866**	87,204
Other property, net	**30,495**	32,864			
Other	**2,148**	719			
	122,791	169,447	Stockholder's Equity	**38,213**	88,835
Total	**$136,309**	$200,242	Total	**$136,309**	$200[illegible]

17. 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 seasonally with temperature variations, differences between summer and winter rates, the timing of rate orders and the scheduled downtime and maintenance of electric generating units.

Quarter Ended	Operating Revenue	Operating Income	Net Income (Loss)	Earnings (Loss) Applicable to Common Stock	Average Shares Outstanding	Earnings (Loss) per Average Share
		(Dollars in Thousands)			(In Thousands)	
1990						
March 31	$219,341	$ 40,281	$24,677	$22,497	47,195	$0.48
June 30	184,730	28,263	12,186	9,969	47,421	0.21
September 30	227,933	51,820	35,104	32,919	47,646	0.69
December 31	179,234	26,010	(34,656)	(36,858)	47,875	(0.78)
	$811,238	$146,374	$37,311	$28,527	47,534	$0.60
1989						
March 31	$209,377	$ 36,383	$23,840	$22,191	46,379	$0.48
June 30	177,887	25,964	14,257	12,698	46,595	0.27
September 30	216,167	50,054	36,244	34,314	46,788	0.74
December 31	186,276	27,020	16,967	14,678	46,985	0.31
	$789,707	$139,421	$91,308	$83,881	46,687	$1.80

As discussed in Note 8, in the fourth quarter of 1990, net income was decreased by $42,497,000 (89¢ per share) due to the write-off of the Company's investment in certain joint venture subsidiary projects.

In the second quarter of 1989, net income was increased by $2,178,000 (4.7¢ per share) due to credit adjustments received from jointly-owned generating plants for previously expensed spare parts. In the fourth quarter of 1989, net income was increased by a $4.8 million gain (10.2¢ per share) on the sale of a partial interest in a joint venture and was decreased by a $1.3 million (2.7¢ per share) accrual of a loss provision on a nonregulated investment in a municipal waste water treatment venture.

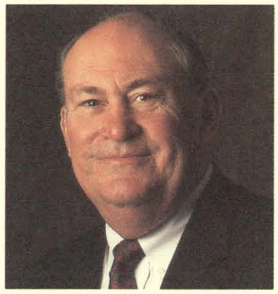
Net income in 1989 was decreased due to Peach Bottom replacement power costs as follows: first quarter - $2,248,000 (4.8¢ per share); second quarter - $3,280,000 (7.0¢ per share); third quarter - $2,273,000 (4.9¢ per share); fourth quarter - $847,000 (1.8¢ per share): or a total of $8,648,000 (18.5¢ per share).

10 YEARS OF REVIEW		1990	1989	1988	1987
Electric Revenues	Residential	**$259,113**	$251,490	$247,950	$231,439
(thousands)	Commercial	**209,174**	197,362	191,104	176,355
	Industrial	**140,288**	133,451	130,094	119,109
	Other utilities, etc.	**93,179**	90,206	90,220	79,180
	Miscellaneous revenues	**6,722**	5,887	8,185	6,284
	Total electric revenues	**$708,476**	$678,396	$667,553	$612,367
Electric Sales	Residential	**3,081,943**	3,049,882	2,944,477	2,732,018
(1,000 kilowatt-hours)	Commercial	**2,979,738**	2,875,681	2,734,069	2,536,399
	Industrial	**3,142,439**	3,025,653	2,729,409	2,611,218
	Other utilities, etc.	**1,877,091**	1,877,623	1,817,088	1,685,641
	Total electric sales	**11,081,211**	10,828,839	10,225,043	9,565,276
Electric Customers	Residential	**326,175**	319,696	311,577	303,158
(end of period)	Commercial	**40,766**	40,104	38,629	36,783
	Industrial	**774**	798	825	842
	Other utilities, etc.	**562**	562	547	525
	Total electric customers	**368,277**	361,160	351,578	341,308
Gas Revenues	Residential	**$ 38,487**	$ 42,908	$ 40,303	$ 39,[illegible]
(thousands)	Commercial	**16,939**	18,816	16,404	15,491
	Industrial	**16,498**	17,546	12,208	10,941
	Interruptible	**6,714**	6,714	8,309	11,136
	Other utilities, etc.	**105**	92	66	160
	Gas transported	**602**	174	2	-
	Miscellaneous revenues	**491**	492	1,323	891
	Total gas revenues	**$ 79,836**	$ 86,742	$ 78,615	$ 78,233
Gas Sales	Residential	**6,484**	6,795	6,797	6,364
(million cubic feet)	Commercial	**3,452**	3,562	3,333	2,992
	Industrial	**4,418**	4,245	3,229	2,693
	Interruptible	**1,678**	2,010	2,774	3,320
	Other utilities, etc.	**37**	33	21	42
	Total sales	**16,069**	16,645	16,154	15,411
	Gas transported	**2,194**	677	2	-
	Total gas sales and gas transported	**18,263**	17,322	16,156	15,411
Gas Customers	Residential	**78,893**	77,021	74,762	73,803
(end of period)	Commercial	**5,983**	5,689	5,322	5,027
	Industrial	**154**	159	162	156
	Interruptible	**13**	13	16	15
	Other utilities, etc.	**1**	1	1	1
	Total gas customers	**85,044**	82,883	80,263	79,00[illegible]
Steam Service	Electricity delivered (1,000 kilowatt-hours)	**317,315**	343,698	292,688	354,842
	Steam delivered (1,000 pounds)	**6,996,248**	7,443,971	6,928,792	6,134,946

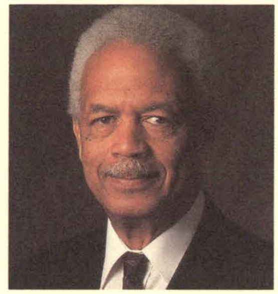
1986	1985	1984	1983	1982	1981	1980	Ten Year Average Annual Compound % Rate of Growth
$217,393	$212,254	$205,910	$193,021	$183,258	$164,919	$144,637	6.00 %
169,157	168,957	156,507	140,809	137,434	123,099	112,166	6.43 %
127,900	135,141	128,833	126,703	127,441	129,601	116,401	1.88 %
80,291	79,399	79,235	68,991	73,469	73,602	63,698	3.88 %
7,499	9,830	13,678	12,728	13,168	12,898	7,025	(0.44)%
$602,240	$605,581	$584,163	$542,252	$534,770	$504,119	$443,927	4.79 %
2,496,099	2,256,922	2,249,270	2,136,265	2,026,398	1,996,647	2,046,546	4.18 %
2,370,775	2,165,685	2,073,457	1,844,324	1,729,863	1,660,147	1,648,776	6.10 %
2,753,902	2,606,466	2,569,572	2,600,492	2,255,673	2,454,685	2,429,842	2.61 %
1,585,019	1,501,447	1,415,934	1,297,395	1,237,508	1,283,845	1,335,216	3.46 %
9,205,795	8,530,520	8,308,233	7,878,476	7,249,442	7,395,324	7,460,380	4.04 %
293,452	283,911	275,175	267,357	260,371	255,646	246,887	2.82 %
35,089	33,189	31,548	30,525	29,966	29,450	28,162	3.77 %
853	893	929	949	741	788	821	(0.59)%
517	492	502	434	434	434	440	2.48 %
329,911	318,485	308,154	299,265	291,512	286,318	276,310	2.91 %
$ 43,145	$ 39,224	$ 40,933	$ 36,694	$ 36,505	$ 34,123	$ 26,525	3.79 %
18,523	17,901	18,663	16,527	15,792	14,344	10,342	5.06 %
16,995	19,762	22,940	23,232	20,112	22,259	12,404	2.89 %
11,464	17,419	18,098	17,026	11,733	11,711	9,293	(3.20)%
142	130	160	115	53	61	46	8.60 %
-	-	-	-	-	-	-	- %
1,533	820	784	764	552	572	430	1.34 %
$ 91,802	$ 95,256	$ 101,578	$ 94,358	$ 84,747	$ 83,070	$ 59,040	3.06 %
6,201	5,622	6,213	5,640	6,062	6,193	6,321	0.25 %
2,906	2,742	2,971	2,677	2,768	2,704	2,683	2.55 %
3,338	3,579	4,245	4,378	4,108	4,809	3,937	1.16 %
3,471	3,734	3,769	3,723	2,656	2,802	2,738	(4.78)%
36	31	41	31	10	12	14	10.21 %
15,952	15,708	17,239	16,449	15,604	16,520	15,693	0.24 %
-	-	-	-	-	-	-	- %
15,952	15,708	17,239	16,449	15,604	16,520	15,693	1.53 %
72,685	70,804	70,183	69,608	69,092	68,608	67,784	1.53 %
4,693	4,417	4,233	4,075	4,057	3,967	3,846	4.52 %
158	160	165	160	166	167	155	(0.06)%
14	15	19	19	18	16	16	(2.05)%
1	1	1	1	1	1	1	0.00 %
77,551	75,397	74,601	73,863	73,334	72,759	71,802	1.71 %
370,802	335,308	298,203	309,043	322,804	343,063	328,420	(0.34)%
6,627,130	6,794,105	6,922,416	6,965,904	7,778,929	7,673,420	7,570,944	(0.79)%

AUDIT COMMITTEE	John R. Cooper, Chairperson James T. McKinstry James O. Pippin, Jr. Lida W. Wells
COMPENSATION COMMITTEE	Elwood P. Blanchard, Jr., Chairperson David D. Wakefield, Vice Chairperson Donald W. Mabe
EXECUTIVE COMMITTEE	Nevius M. Curtis, Chairperson David D. Wakefield, Vice Chairperson Howard E. Cosgrove Sally V. Hawkins James T. McKinstry
INVESTMENT COMMITTEE	David D. Wakefield, Chairperson Nevius M. Curtis Donald W. Mabe James O. Pippin, Jr.
NOMINATING COMMITTEE	Sally V. Hawkins, Chairperson Nevius M. Curtis James O. Pippin, Jr.
NUCLEAR OVERSIGHT COMMITTEE	James T. McKinstry, Chairperson John R. Cooper Nevius M. Curtis
OFFICERS AS OF JANUARY 1, 1991	Nevius M. Curtis, Chairman of the Board, President and Chief Executive Officer Howard E. Cosgrove, Executive Vice President H. Ray Landon, Executive Vice President Roger D. Campbell, Senior Vice President and President, Delmarva Capital Investments, Inc. Paul S. Gerritsen, Vice President and Chief Financial Officer Donald E. Cain, Vice President, Administration Kenneth K. Jones, Vice President, Planning Ralph E. Klesius, Vice President, Engineering Wayne A. Lyons, Vice President, Division Operations Frank J. Perry, Jr., Vice President, Production Thomas S. Shaw, Jr.,Vice President, Gas Division Dale G. Stoodley, Vice President and General Counsel Donald P. Connelly, Secretary Richard H. Evans, Vice President, Corporate Communications Barbara Graham, Treasurer James P. Lavin, Comptroller-Corporate Accounting and Chief Accounting Officer Dennis R. McDowell, Comptroller-Operating Accounting Duane C. Taylor, Vice President, Information Systems D. Wayne Yerkes, Vice President, Northern Division
BOARD RETIREMENT	**Sally V. Hawkins retired as a director after 12 years of service on the Board. Her experience and knowledge as a businesswoman have benefitted the Company greatly. She will be missed.**

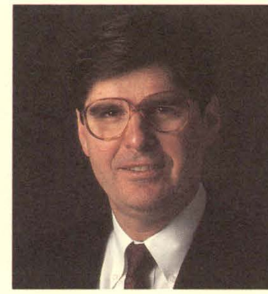
DIRECTORS AS OF JANUARY 1, 1991



Elwood P. Blanchard, Jr.



John R. Cooper



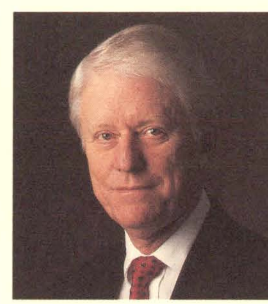
Howard E. Cosgrove

Nevius M. Curtis

ELWOOD P. BLANCHARD, JR. Vice Chairman of the Board of Directors and member of the Office of the Chairman of E.I. du Pont de Nemours & Company (a diversified chemical, energy, and specialty products company), Wilmington, Delaware, *Term expires in 1991.* JOHN R. COOPER Director of Environmental Affairs of E.I. du Pont de Nemours & Company (a diversified chemical, energy, and specialty products company), Wilmington, Delaware, *Term expires in 1993.* HOWARD E. COSGROVE Executive Vice President of the Company, *Term expires in 1992.* NEVIUS M. CURTIS Chairman of the Board, President and Chief Executive Officer of the Company, *Term expires in 1993.*

Sarah I. Gore

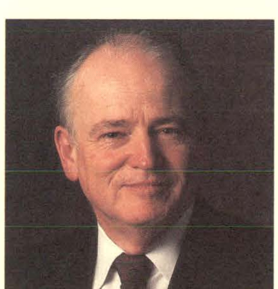
Sally V. Hawkins



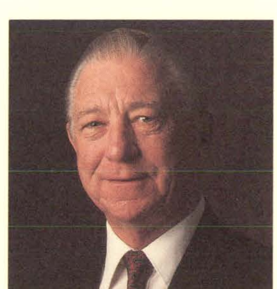
H. Ray Landon

Donald W. Mabe

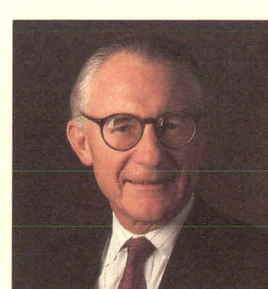
SARAH I. GORE Human Resources Associate, W. L. Gore & Associates Inc., (a high technology manufacturing company), Newark, Delaware, *Term Expires in 1991.* SALLY V. HAWKINS Director, President, and Chief Executive Officer of Delaware Broadcasting Company and President and General Manager of Station WILM (radio broadcasting), Wilmington, Delaware, *Term expires in 1991.* H. RAY LANDON Executive Vice President of the Company, *Term expires in 1991.* DONALD W. MABE President and Chief Executive Officer of Perdue Farms Incorporated (an integrated poultry company), Salisbury, Maryland, *Term expires in 1993.*



James T. McKinstry



James O. Pippin, Jr.



David D. Wakefield

Lida W. Wells

JAMES T. McKINSTRY Director and Partner, Richards, Layton & Finger (a law firm), Wilmington, Delaware, *Term expires in 1992.* JAMES O. PIPPIN, JR. Director, President, and Chief Executive Officer of the Centreville National Bank of Maryland, Centreville, Maryland, *Term expries in 1992.* DAVID D. WAKEFIELD Chairman and President of Morgan Bank (Delaware), Wilmington, Delaware, *Term expires in 1993.* LIDA W. WELLS Director and President of Wells Agency, Inc. (a general real estate and development agency), Milford, Delaware, *Term expires in 1992.*

QUARTERLY COMMON STOCK DIVIDENDS AND PRICE RANGES

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 53,590 holders of common stock as of December 31, 1990.

1990	Dividend Declared	Price High	Price Low
First Quarter	**$.38 ½**	**$21 ⅜**	**$19 ⅛**
Second Quarter	**.38 ½**	**20**	**18 ⅛**
Third Quarter	**.38 ½**	**19 ⅜**	**17**
Fourth Quarter	**.38 ½**	**19 ⅛**	**17 ⅛**

1989	Dividend Declared	Price High	Price Low
First Quarter	$.37 ½	$17 ⅞	$17
Second Quarter	.37 ½	19 ⅜	17 ⅛
Third Quarter	.37 ½	20	18 ⅝
Fourth Quarter	.38 ½	21 ¼	18

SHAREHOLDER SERVICES

Carol C. Conrad, Assistant Secretary
Delmarva Power & Light Company
800 King Street, P.O. Box 231
Wilmington, Delaware 19899
Telephone (302) 429-3355 or toll free
(800) 365-6495

STOCK SYMBOL

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

ANNUAL MEETING

The Annual Meeting will be held on April 30, 1991 at 11:00 a.m. in the Clayton Hall, University of Delaware, Newark, Delaware.

REGULATORY COMMISSIONS

Federal Energy Regulatory Commission
Martin L. Allday - Chairperson
825 North Capitol Street, N.E.
Washington, D.C. 20246.

Delaware Public Service Commission
Nancy M. Norling - Chairperson
1560 S. duPont Highway
Dover, Delaware 19901.

Maryland Public Service Commission
Frank O. Heintz - Chairperson
American Building
231 East Baltimore Street
Baltimore, Maryland 21201.

Virginia State Corporation Commission
Theodore V. Morrison, Jr. - Chairperson
P.O. Box 1197
Richmond, Virginia 23209.

TRANSFER AGENTS AND REGISTRARS

First Mortgage Bond Trustee
Chemical Bank
55 Water Street, Suite 1820
New York, New York 10041.

Preferred Stock
Wilmington Trust Company
Corporate Trust Division
Rodney Square North
Wilmington, Delaware 19890.

Common Stock
Wilmington Trust Company
Corporate Trust Division
Rodney Square North
Wilmington, Delaware 19890.

Manufacturers Hanover Trust Company
Stock Transfer Department
P.O. Box 24935
Church Street Station
New York, New York 10249.

ADDITIONAL REPORTS

To supplement information in this Annual Report, a Financial and Statistical Review (1980–1990) and the Form 10-K are available upon request. Please write to: Shareholder Services, Delmarva Power, 800 King Street, P.O. Box 231, Wilmington, Delaware 19899.

DUPLICATE MAILINGS

You may be receiving more than one copy of the Annual Report because of multiple accounts within your household. The Company is required to mail an Annual Report to each name on the shareholder list unless the shareholder requests that duplicate mailings be eliminated. To eliminate duplicate mailings, please send a written request to Shareholder Services, and enclose the mailing labels from the extra copies.

Delmarva Power
800 King Street
P.O. Box 231
Wilmington, DE 19899

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DE

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Permit No. 68

DIVIDEND REINVESTMENT AND COMMON STOCK PURCHASE PLAN
More than 30 percent of the Company's common shareholders of record are now participating in the Dividend Reinvestment and Common Stock Purchase Plan. If you are not participating, you may want to consider the benefits of joining this plan. Under the plan, you can invest your cash dividends and also invest additional cash, up to $25,000 per calendar year, to purchase additional shares of common stock without a service fee.

Shares of common stock to be purchased under the plan may be either newly issued shares or shares purchased in the open market, depending on the financing needs of the Company.

You may obtain a prospectus with the plan description and an enrollment authorization card by writing to Delmarva Power & Light Company, Shareholder Services, P.O. Box 231, Wilmington, DE 19899.

ART DIRECTION & DESIGN: Susan Murphy McGuane
ILLUSTRATION: Rosanne Percivalle **PHOTOGRAPHY:** Carlos Alejandro