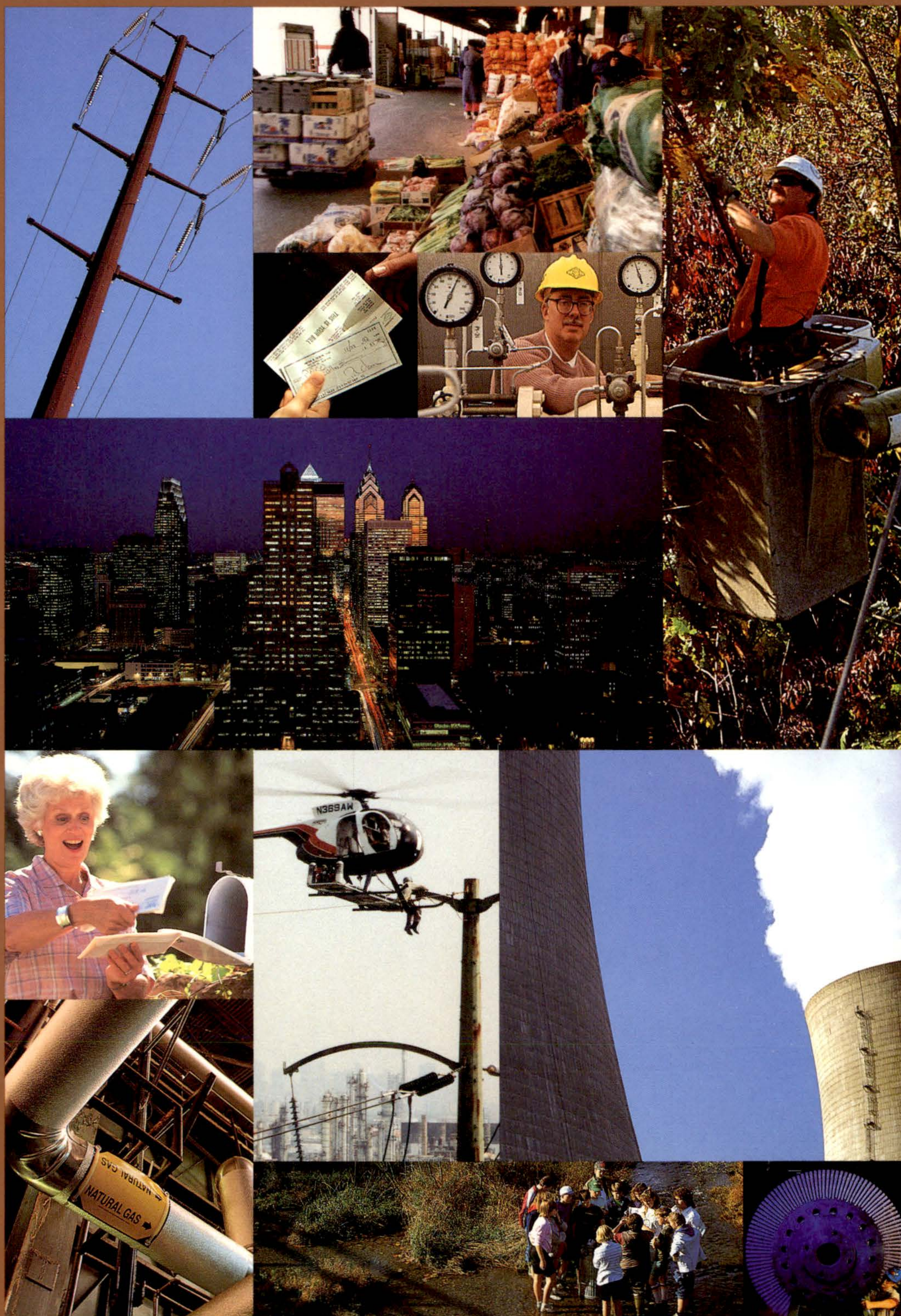
Annual Report

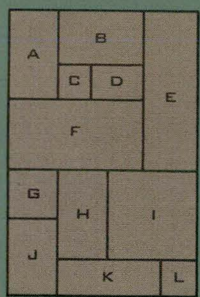
1992



Philadelphia Electric Company

COMPANY PROFILE

Cover Photography



A Transmission Tower Along the New Cecil-Colora Line in Maryland

B Philadelphia Food Distribution Center

C Improved Credit and Collection Procedures Instituted

D Natural Gas Added as a Fuel at Cromby Generating Station

E Tree Trimming for Reliable Service

F Philadelphia Skyline

G Stockholders Receive Higher Common Stock Dividends

H Wire Installed by Helicopter

I Limerick Generating Station Cooling Towers

J Natural Gas Installed at Simpson Paper Mill

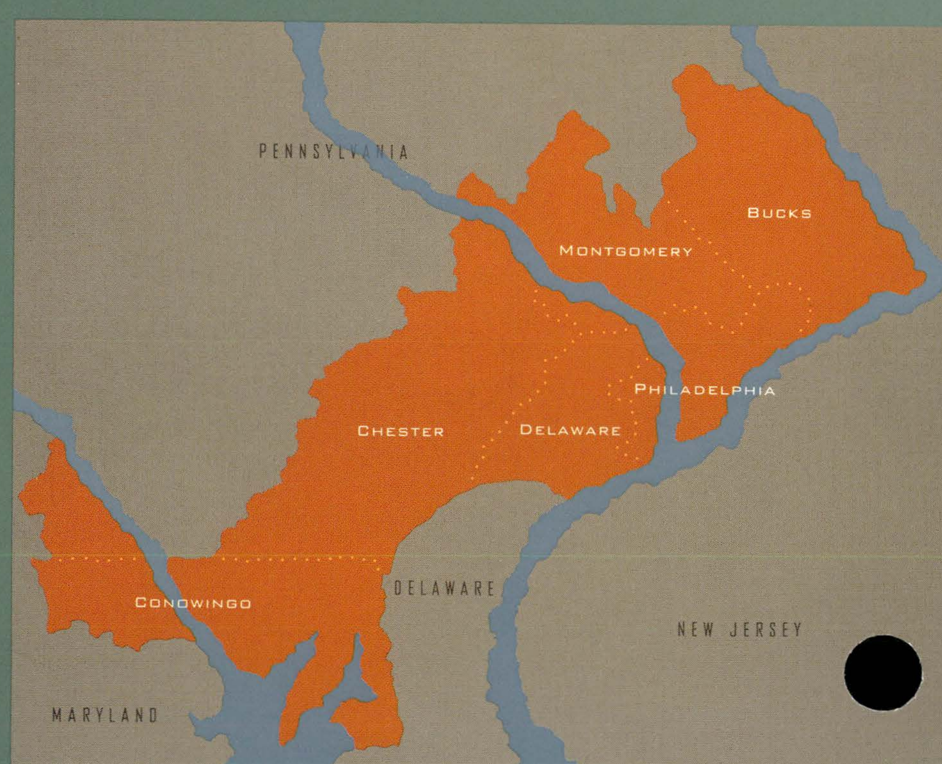
K School Program at Muddy Run Recreation Park

L Turbine Blade Inspection at Eddystone Generating Station

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

The total area served by the Company and subsidiaries covers 2,475 square miles. Electric service is supplied in an area of 2,340 square miles with a population of about 3,700,000, including 1,600,000 in the City of Philadelphia. Approximately 95 percent of the electric service area and 63 percent of kilowatthour sales are in the Philadelphia suburbs and in northeastern Maryland, and 5 percent of the service area and 37 percent of such sales are in the City of Philadelphia. Natural gas service is supplied to a population of about 1,900,000 in a 1,475-square-mile area of southeastern Pennsylvania adjacent to Philadelphia.

Company Service Territory
Operating Divisions



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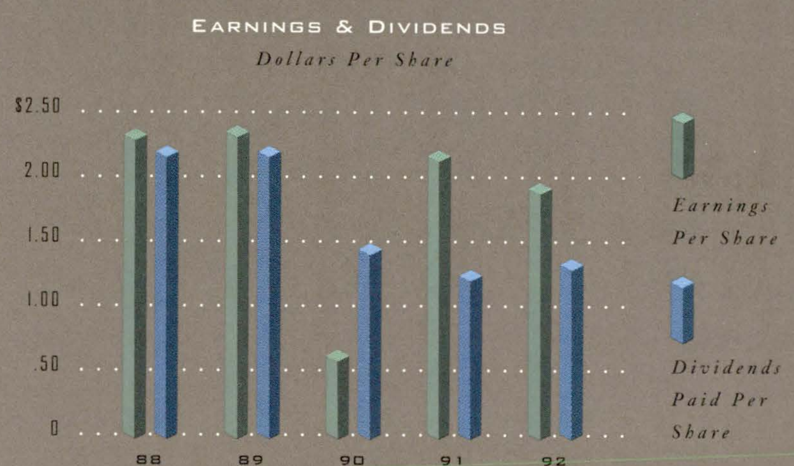
PHILADELPHIA ELECTRIC COMPANY

Contents

Financial Highlights	1992	1991	% Change
Operating Revenues	$3,962,469,000	$4,018,586,000	(1.4%)
Operating Expenses	$2,929,093,000	$2,937,396,000	(0.3%)
Taxes Charged to Operations	$546,351,000	$583,506,000	(6.4%)
Operating Income	$1,033,376,000	$1,081,190,000	(4.4%)
Earnings Applicable to Common Stock	$418,210,000	$468,576,000	(10.7%)
Earnings per Average Common Share	$1.90	$2.15	(11.6%)
Cash Dividends Paid per Common Share	$1.325	$1.225	8.2%
Average Shares of Common Stock Outstanding	220,245,000	218,234,000	0.9%
Construction Expenditures	$563,546,000	$491,470,000	14.7%
Total Assets	$12,578,227,000	$12,523,460,000	0.4%



TO OUR SHAREHOLDERS

During 1992, Philadelphia Electric Company continued its financial recovery from the adverse 1990 Limerick Unit No. 2 electric rate case decision and also made significant progress in preparing for the uncertain future facing the utility industry.

1992 Results

Due primarily to the effects of the settlement of the Peach Bottom co-owners' lawsuits as described below and to an unusually cool summer, earnings per share decreased to $1.90 per share from $2.15 per share recorded in 1991. Despite reduced earnings caused by these one-time events, the Company's overall financial condition improved in 1992 as evidenced by increased shareholder equity, lower debt outstanding, continued strong cash flow and higher security ratings. As a result, the Board of Directors increased the quarterly common stock dividend by 8% effective with the December 1992 payment. In addition, the stock market reacted to these positive trends as the market price of the Company's common stock continued to outperform the Dow-Jones Utility Average by closing at $26-1/8 per share on December 31, the highest year-end level since 1968.

The settlement of the Peach Bottom co-owners' litigation resulted in a one-time charge of $0.27 per share in the first quarter of 1992. The settlement removed a major financial uncertainty and enabled the Company to avoid the possibility of a significantly larger charge with a trial.

For 1992, electric retail sales decreased 2.5% due to the mild summer compared with the extremely hot summer of 1991. After adjusting for the effects of weather, electric usage increased approximately 1% over last year. Gas sales benefitted from the cooler weather in 1992 and registered a strong gain of 9.4%.

During 1992, our customers benefitted again from rate reductions. As of January 1, 1993, PECO electric bills are almost 8% lower than a year ago, while gas bills have been reduced by 10% since 1990. These rate reductions will not impact shareholder earnings.

Our base-load generating plants performed well in 1992. Our nuclear units generated 58% of our total electric production in 1992, with Limerick Unit No. 2 setting a world record for the longest continuous run of any commercial light-water reactor. This [illegible]ly strong nuclear performance has been noted by the Nuclear Regulatory Commission in its most recent Systematic Assessment of Licensee Performance (SALP) evaluations for both Limerick and Peach Bottom.

During 1992, progress was made on a number of initiatives which will enhance the value of our fossil and hydro generating units. Cromby Unit No. 2 was successfully converted to burn natural gas as well as oil to take advantage of competitive fuel markets. In August, work began on a $54 million modernization project at Eddystone Station Unit No. 2 which will enable the 32-year old, coal-fired unit, already equipped with flue-gas scrubbers, to operate for another 20 years. Finally, a $32 million life-extension program was begun at the Conowingo Hydroelectric Station which will increase its output by 5% to 10%. These projects will enable the Company to delay adding any new generating capacity for at least 10 years and to continue our excellent record of environmental protection for decades to come.

In December, an unusually fierce winter storm, the fifth worst ever, hit the Company's service territory, resulting in interruptions to almost 200,000 customers. Aided by contractor crews, our employees were able to restore service to most customers within 48 hours. The Company is in the middle of a major tree-trimming and vegetation-management program which should reduce the potential impact of such storms in the future.

Preparing for an Uncertain Future

As the utility industry approaches the mid-1990's, there are many uncertainties clouding its future—such as those related to implementation of the 1990 Clean Air Act and the 1992 National Energy Policy Act and the external pressure to relax regulation of the industry. In many ways, PECO is well prepared for the future, but much effort is still needed to meet the coming changes. Thus, a great deal of our corporate focus in 1992 and the immediate years ahead is to better position PECO for these challenges.

Because of the Company's significant investment in nuclear power and the early installation of flue-gas scrubbers on i[illegible]lly owned coal-fired facilities, its electric rates are relatively high within the utility industry. As a result, in order to improve our competitive position, we have placed significant emphasis on cost control with the goal of reducing costs through early retirement

Corbin A. McNeill, Jr.,
President and
Chief Operating Officer

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

incentives, implementation of Quality Management throughout the Company, modification of our salary structure, improved credit and collection procedures, restructuring of our Nuclear Group, reduction in contract labor and reduced financing costs through the refunding and refinancing of high-cost securities. Our 1991 division reorganization, which decentralized electric, gas and customer service operations, has yielded many positive results, such as improved customer focus and satisfaction, as well as cost accountability.

In 1992, further steps were taken to strengthen the Company's senior management by adding two highly skilled executives with considerable experience outside of the utility industry. In February, William L. Bardeen, 54, became Senior Vice President and Chief Financial Officer. Mr. Bardeen was formerly Vice President-Finance and Controller for Bell Atlantic Corporation and had spent 18 years in financial operations at General Electric Company. In September, Gwendolyn S. King, 52, was elected Senior Vice President, Corporate and Public Affairs. Mrs. King had been Commissioner of the U.S. Social Security Administration and was responsible for managing an organization with 65,000 employees and an operating budget of $4.5 billion. We are very fortunate to be able to attract individuals with such outstanding backgrounds to these important positions within the Company. Their skills will be extremely helpful in addressing the challenges ahead.

The new National Energy Policy Act (NEPA) enhances the ability of independent power producers to become sources of electric generation for utilities and requires utilities to provide them with access to their transmission systems under specified conditions. The full impact of NEPA remains to be seen; however, it opens the possibility for a significant restructuring of the utility industry and requires the rethinking of business approaches and the development of new strategies.

PECO has recognized the need to prepare for doing business in an evolving, less-regulated environment through the many initiatives discussed in this report. We have also sharpened the focus of our strategic planning efforts to perform comprehensive analyses of the various energy markets and develop improved marketing techniques which will be used to respond to increased competition.

In addition to these initiatives, much more must be done to meet the challenges ahead. Success in the '90s and beyond will require both innovation and effort, but I believe we have a distinct edge: the energy and imagination of PECO's more than 9,700 employees.

We are now being challenged as never before to react to the marketplace, improve our productivity and serve our customers. It has been proven time and again that the people who actually perform the work best understand their jobs and know how to make them more productive. I believe the electric and gas utility industry is no different. This is why our Quality Management process promotes employee teamwork, empowerment and individual initiative.

With the continued hard work and dedication of our skilled employee body, I am confident we will succeed in a less-regulated environment and will find new opportunities to excel and prosper as we achieve our goal of becoming a premier regional energy service company that achieves superior customer satisfaction and shareholder value.

Thank you for your continued support. We pledge our efforts to successfully meet the challenges of the future.

J F Paquette Jr

J. F. PAQUETTE, JR.
CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER
FEBRUARY 1, 1993

1ST QUARTER

HIGHLIGHTS

Modernization of the Food Distribution Center in South Philadelphia begins.

Major construction projects to support the new division reorganization begin.

PECO goes smoke free on March 1.

Gas conversion completed at Simpson Paper Mill in Miquon, PA.

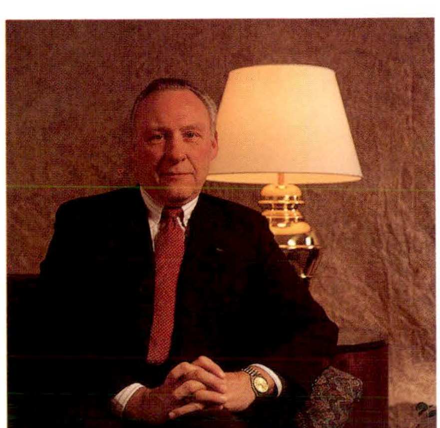
Excellence in operation at Limerick Generating Station is recognized by a Pennsylvania Senate Resolution and two industry awards.

Limerick Training Center is expanded.

Eddystone Station maintenance training facility begins operation.

The Company enrolls customers in a new "Touch Documents" service for the blind and visually impaired.

PHILADELPHIA'S FOOD DISTRIBUTION CENTER BEGAN A FIVE-YEAR, $17 MILLION RENOVATION PROJECT IN SOUTH PHILADELPHIA. THE CENTER GENERATES ANNUAL SALES OF $2 BILLION, EMPLOYS MORE THAN 6,000 PEOPLE AND PROVIDES OVER $2 MILLION IN ANNUAL ELECTRIC REVENUE FOR THE COMPANY.



William L. Bardeen, Senior Vice President, Finance and Chief Financial Officer, joined the Company in February 1992. He formerly was Vice President-Finance and Controller for Bell Atlantic Corporation and also spent 18 years in financial operations at General Electric Company.

FINANCIAL HIGHLIGHTS

FINANCIAL RESULTS

Common stock earnings for 1992 were $1.90 per share as compared to $2.15 in 1991. Earnings were lower than anticipated primarily due to the coolest summer since 1960 which was in sharp contrast to the summer of 1991—one of the warmest ever experienced. Unfavorable weather in 1992 reduced earnings by $0.35 per share compared with 1991 and by $0.25 per share compared with normal weather. Also contributing to the earnings decline was the one-time $0.27 per share charge against earnings due to the settlement of the lawsuits brought by the co-owners of the Peach Bottom Atomic Power Station. In addition, in December, the Company established a provision of $0.05 per share to provide for early retirement incentives and termination payments for up to 600 employees in its Nuclear Group. This action was taken in anticipation of a major restructuring of the Company's nuclear operations, which will occur over the next two years, in order to contain future operating and maintenance costs. The decline in 1992 earnings was partially offset by increased sales exclusive of weather and savings resulting from the Company's ongoing debt and preferred stock refinancing program and lower income taxes.

In light of the Company's continued financial improvement, the Board of Directors in October increased the quarterly common stock dividend by 8%, from $0.325 per share to $0.35 per share ($1.40 on an annualized basis), beginning with the December 1992 payment. This was the second consecutive year that the dividend was increased by 8%.

SALES RESULTS

Primarily because of the cool summer weather, electric retail sales decreased 3% for the year. Sales to other utilities increased 23%, helping to offset the decline in retail sales.

Total gas sales, including transported gas, increased 9%. Gas heating sales were up 13% due to colder weather during 1992 and the addition of more than 7,300 new customers. Gas transported for others increased 10% due to favorable rates and an increase in the number of gas transportation customers.

Nearly 8,000 new residential units were connected in 1992, an 8% increase from 1991. Electric space heating was installed in 40% of these units and gas heat in 53%, for a total market penetration of 93% of new residential units. Also, approximately 650 residential customers converted to electric heat, and more than 1,050 residential customers converted to gas heat. As a result, more than 9,100 additional customers now use the Company's clean and efficient energy for heating their homes.

PEACH BOTTOM CO-OWNERS' SETTLEMENT

In April, the Company and the other co-owners of Peach Bottom reached a settlement of the lawsuits related to the 1987 shutdown of Peach Bottom by the Nuclear Regulatory Commission.

Pursuant to the settlement, which was approved by the U.S. District Court, the Company paid the other three co-owners a total of $131 million. The settlement also resolved counterclaims made by the Company which sought compensation from Public Service Electric and Gas Company (PSE&G) for certain costs incurred by the Company as a result of events at the Salem Generating Station, which is co-owned by the same four companies and operated by PSE&G.

The settlement eliminated the uncertainty and financial risk that the Company faced with a trial. It also saved the Company millions of dollars in expert witness costs, attorneys' fees and hours of unproductive time of employees that would have been spent supporting the case. The lawsuits were settled through a process known as alternative dispute resolution in which attorneys and the chief executive officers of the four co-owning companies met with a mediator to reach a satisfactory resolution.

As part of the settlement, the four co-owners are engaging in good-faith negotiations to amend the Peach Bottom and Salem owners' agreements to, among other things, clarify the provisions relating to the liability of the plant operator to the other co-owners.

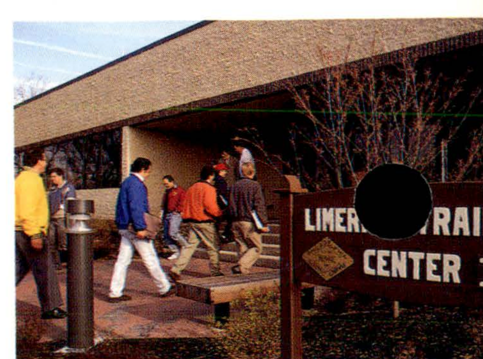
IMPROVED CREDIT AND COLLECTION PROCESS

In an effort to reduce accounts receivable delinquencies and resulting write-offs, in April, the Company instituted changes throughout its credit and collection process. The Company's new strategy focuses on earlier and more forceful collection activity for customers who can afford to pay their bills, but choose not to. The changes include a new credit application process, revised field procedures, improved customer communications and other collection enhancements.

While the Company is instituting more stringent collection practices, it is making every effort to assist those customers who cannot afford to pay. The Company operates an outreach

Simpson P[illegible] Mill in Montgo[illegible] County converted its boilers so that it could burn natural gas as well as oil.

The Limerick Training Center was expanded by 20,000 square feet to consolidate nuclear training at one location.



pr[illegible] to direct these customers to funding sources such as the federally funded Low Income Home Energy Assistance Program and the Company's Customer Assistance Program.

As a result of this aggressive new program, delinquent accounts receivable decreased by $41 million or 21% in 1992. The favorable turnaround in the second half of 1992 is expected to produce further improvements in 1993. While total uncollectible accounts expense increased $20 million during 1992, decreasing earnings by $0.05 per share, the increase was experienced early in 1992 before the new collection procedures were fully effective.

Financing

During 1992, to refinance high-cost debt and preferred stock, the Company sold more than $1.5 billion of new securities as summarized below:

Month	Security	Millions of Dollars
February	Mortgage Bonds due 1999 @ 7-1/2%	$250
April	Mortgage Bonds due 2002 @ 8%	200
	Mortgage Bonds due 2022 @ 8-3/4%	150
May	Medium-Term Notes due 1994 @ 5.73%	65
June	Tax-exempt Bonds due 2022 @ 6-5/8%	30
	Mortgage Bonds due 2022 @ 8-5/8%	125
July	Mortgage Bonds due 2002 @ 7-1/2%	100
September	Mortgage Bonds due 2022 @ 8-1/4%	250
	Mortgage Bonds due 2002 @ 7-1/8%	200
October	$7.96 Series Cumulative Preferred Stock: 5.6 million Depositary Shares, $25/share, $1.99 dividend rate	140
	Total	$1,510

These refinancings, together with the redemption of $169 million of securities with internally generated funds, result in annualized savings of approximately $50 million or $0.15 per share.

In addition, 2.6 million shares of common stock were purchased in the open market at an average price of $25.95 with the proceeds from reinvested dividends in the Company's Dividend Reinvestment and Stock Purchase Plan.

The settlement of the Peach Bottom co-owners' lawsuits removed a major uncertainty facing the Company and contributed in part to the upgrading of the Company's securities' ratings. Standard & Poor's Corporation, Duff and Phelps, Inc., Moody's Investors Service and Fitch Investors Service, Inc. upgraded the Company's ratings. See page 44 for a summary of the current ratings.

Rate Matters

On April 1, 1992, the Company implemented electric rate reductions through its Energy Cost Adjustment and its State Tax Adjustment, providing for an average decrease of 3% in customers' monthly electric bills. The rate reductions, combined with a base rate reduction of 5% which took effect on January 1, 1993, have resulted in an overall reduction in customers' electric bills of nearly 8%, helping to improve the Company's competitive position. These rate reductions have no impact on the Company's earnings. In part due to the excellent performance of the Company's nuclear units during 1992, the Company expects to pass on to customers fuel savings of approximately $80 million beginning April 1, 1993, which will further reduce electric rates by approximately 2%.

In September, the Company filed a request with the Pennsylvania Public Utility Commission (PUC) for a 1.5% electric base-rate increase designed to recover $50 million of costs associated with the implementation in 1993 of Statement of Financial Accounting Standards (SFAS) No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." SFAS No. 106 requires that corporations accrue the liability for expected non-pension postretirement benefits over an employee's work career, rather than on a pay-as-you-go basis. In October, the PUC suspended this request to May 10, 1993 in order to conduct an investigation.

The National Energy Policy Act of 1992 requires, among other things, state regulatory commissions to consider new regulatory standards that allow a utility's investments in energy conservation and energy efficiency resources to be at least as profitable (giving consideration to income lost from reduced sales due to investments in conservation and efficiency) as its investments in generation, transmission and distribution facilities. In February 1991, PECO proposed a set of demand-side management (DSM) programs with an annual budget of $19 million. The PUC held hearings in 1992 regarding the need for and form of a ratemaking mechanism to recover the costs of DSM programs. Approximately one-half of the states have adopted incentive ratemaking mechanisms for DSM. The PUC is expected to issue a final ruling on a DSM cost recovery and incentive mechanism in 1993.

2ND QUARTER

Highlights

A new bill-collection process is instituted to reduce customer payment delinquencies.

230,000-Volt Cecil-Colora transmission line is energized in Maryland.

The Company and the other Peach Bottom co-owners settle lawsuits.

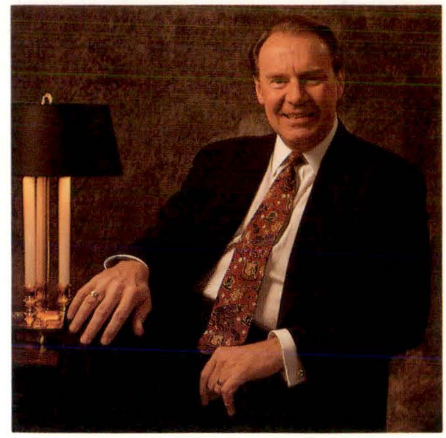
Architectural lighting enhances downtown Philadelphia buildings.

PECO lauded for American Shad restoration program at Conowingo Dam by Maryland governor.

Cromby Generating Station is converted, allowing it to burn natural gas as well as oil.

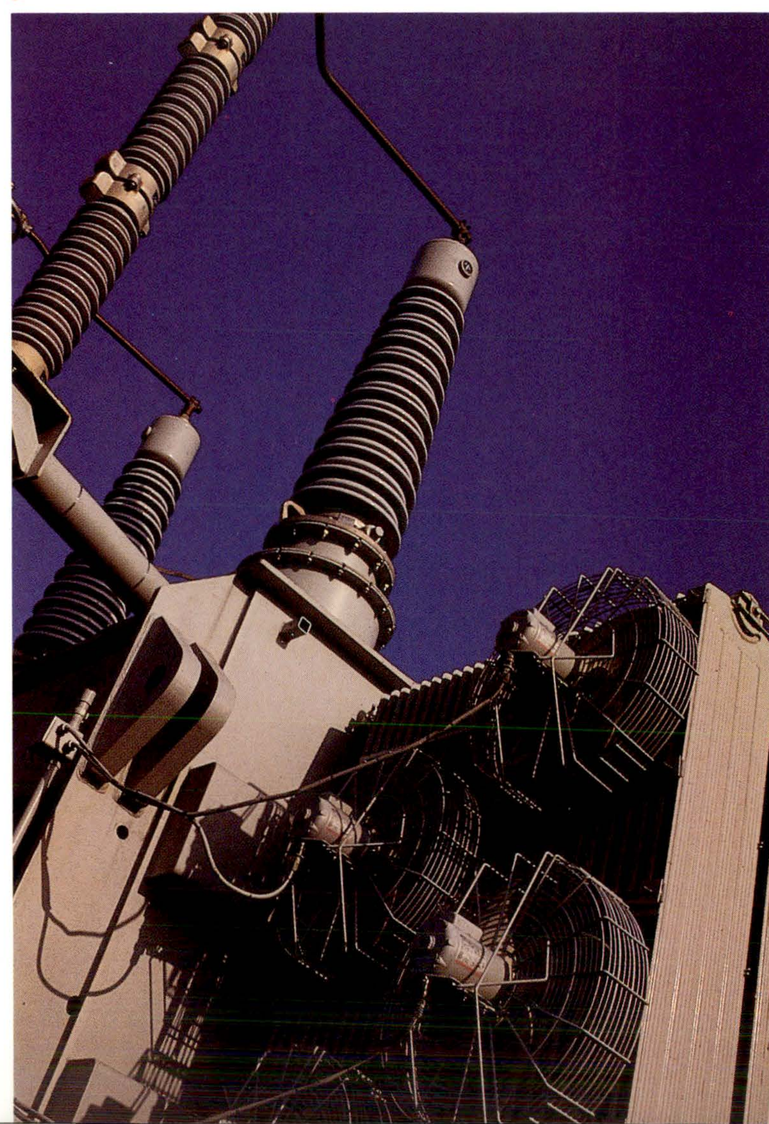
A new emergency response center to support Peach Bottom and Limerick is opened in Coatesville.

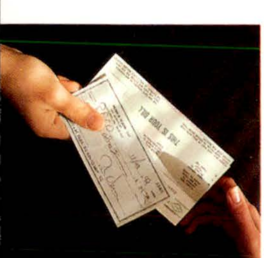
PECO's natural gas vehicle fleet and a refueling station are expanded.



James W. Durham, Senior Vice President and General Counsel, joined the Company in 198[illegible]. An attorney, Mr. D[illegible] was formerly Senior Vice President, General Counsel and Secretary of Portland General Electric Company and Portland General Corporation in Oregon.

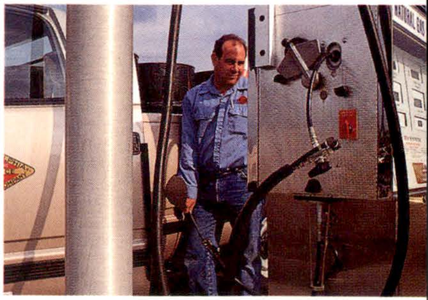
A NEW 16.5-MILE 230-KV TRANSMISSION LINE WAS ENERGIZED IN MAY, CONNECTING CECIL SUBSTATION IN ELKTON, MD TO COLORA SUBSTATION NEAR RISING SUN, MD.



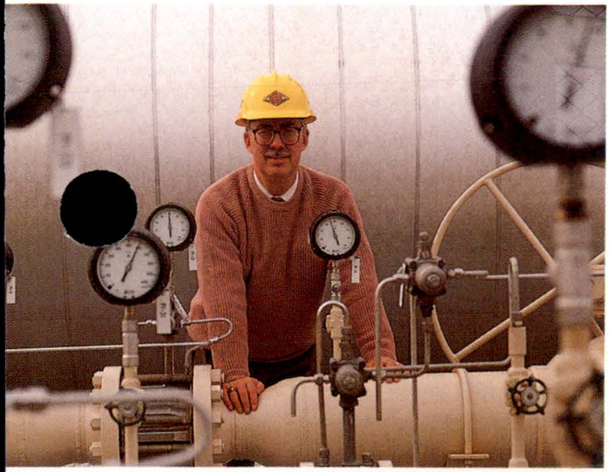


THE COMPANY INSTITUTED MANY CHANGES IN ITS CREDIT AND COLLECTION PROCESS IN 1992 TO REDUCE DELINQUENT CUSTOMER BILLS.

Many new Center City buildings incorporate architectural lighting.



The Company obtained several of the first vehicles produced commercially in the United States for exclusive use of natural gas. Carl P. Overturf, Transportation, refuels a new pick-up truck.



Cromby Generating Station Unit No. 2 was converted to burn natural gas as well as oil. Robert D. Murphy, Gas Operations, coordinated the gas supply portion of the $14 million project.

3RD QUARTER

Highlights

Ground wire and fiber-optic cable are installed from a helicopter.

230,000-Volt Woodbourne-Heaton transmission line in Bucks and Montgomery Counties is completed and tested.

Eddystone Generating Station launches $54 million project to extend the operation of Unit No. 2 into the next century.

A new emergency telephone service to handle up to 12,000 calls per hour is implemented.

A 1.5% single-issue electric rate increase request is filed to recover non-pension postretirement benefits costs.

A new Gas Operations Control Center is completed at West Conshohocken.

Gwendolyn S. King, Senior Vice President, Corporate and Public Affairs, joined the Company in October 1992. She was previously Commissioner of the U.S. Social Security Administration, an organization with 65,000 employees.

Muddy Run Recreation Park continued to offer interesting student programs, such as this aquatic lesson.

Ground wire is replaced to protect the wires beneath from lightning strikes. Replacement in mid-air saves both time and money.

Capital Expenditures

The Company's capital expenditures increased to $564 million in 1992, compared to $491 million in 1991. The Company's capital outlays for 1993 are budgeted to be $593 million, all of which are expected to be provided by internally generated funds. With sufficient generating capacity into the next decade, annual construction expenditures have declined about 50% since 1989, the last year of Limerick Unit No. 2 construction.

OPERATING HIGHLIGHTS

Power Sales and Savings

The Company has agreements with other utilities to sell 799 megawatts (mW) of energy of which 400 mW are also sold as installed generating capacity. Over $127 million of revenue net of fuel expense, equivalent to $0.33 per share of common stock earnings, were generated by these sales of energy and capacity to other utilities during 1992. Also, the Company realized approximately $45 million of savings through the normal purchase and sale of economical power through its membership in [illegible]nsylvania - New Jersey - Maryland Interconnection (PJ[illegible]d the continuation of its long-standing agreement to purchase lower-cost, coal-fired power from systems outside PJM. These latter savings are passed on to customers as lower fuel charges through the Energy Cost Adjustment.

Nuclear Operations

Limerick Generating Station Unit No. 2 set a new world record of 533 days for the longest continuous run of any commercial light-water nuclear reactor, eclipsing the former record of 502 days. Unit No. 2 operated continuously from June 5, 1991, when it returned from a 75-day refueling outage, until November 20, when it was removed briefly from service to repair an oil leak in a non-nuclear portion of the plant. During its record run, the unit operated at 97% of full capacity and generated more than 13 billion kilowatthours of clean, reliable, low-fuel-cost electricity for PECO customers. That is enough electricity to supply the entire city of Philadelphia for one year.

In June, the U.S. Nuclear Regulatory Commission (NRC) released a Systematic Assessment of Licensee Performance (SALP) report of the NRC's latest operations assessment of Lim[illegible]. The report stated that the Company's management was [illegible]itted to operating a safe and reliable nuclear power plant and that the Company's approach to the operation of the facility, the safety of the workers and the protection of the health and safety of the public was conservative and utilized a strong root-cause analysis program.

In December, the NRC released its latest SALP assessment of Peach Bottom and found "broad based performance improvements." The NRC evaluation found that "management continued to maintain a strong safety perspective through the assessment period (August, 1991 - October, 1992). Management fostered broad-based performance improvements that led to stronger programs in most functional areas. Many of the programmatic weaknesses identified during the previous assessment period have either been eliminated or performance has been improved." However, the SALP report also identified several weaknesses warranting continued management attention. Among the areas identified for improvement were plant performance monitoring and engineering and technical support.

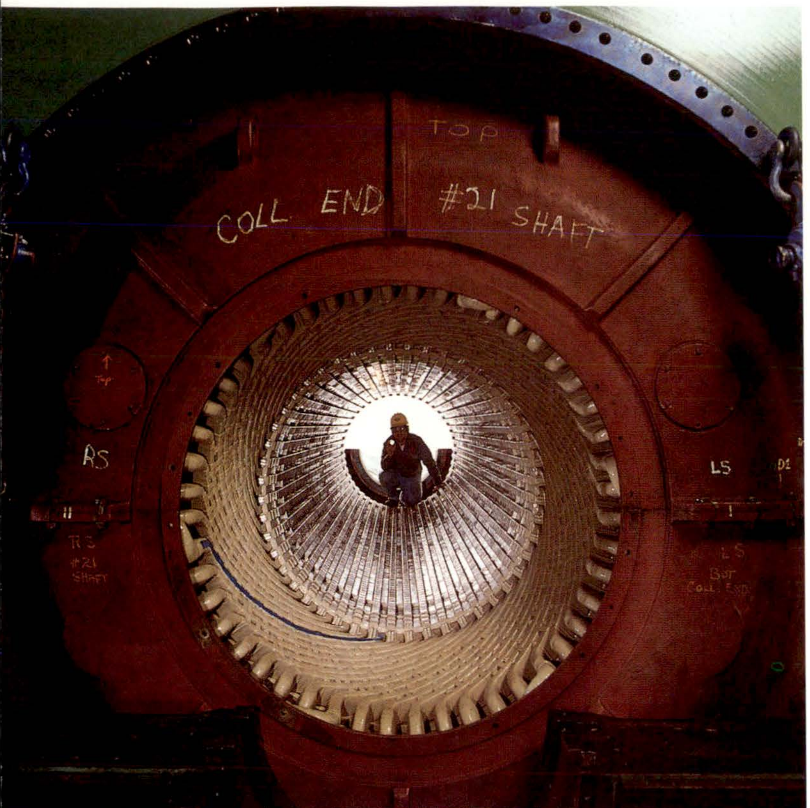
The Company has an ownership interest in six nuclear units — two units each at Limerick (100%), Peach Bottom (42.49%) and Salem (42.59%) — which produced 58% of the Company's total electric output in 1992, equivalent to burning 41 million barrels of oil and saving over $520 million in fuel costs for customers. The Company's overall nuclear capacity factor was 71% for 1992.

Major Storm Interrupts Customers

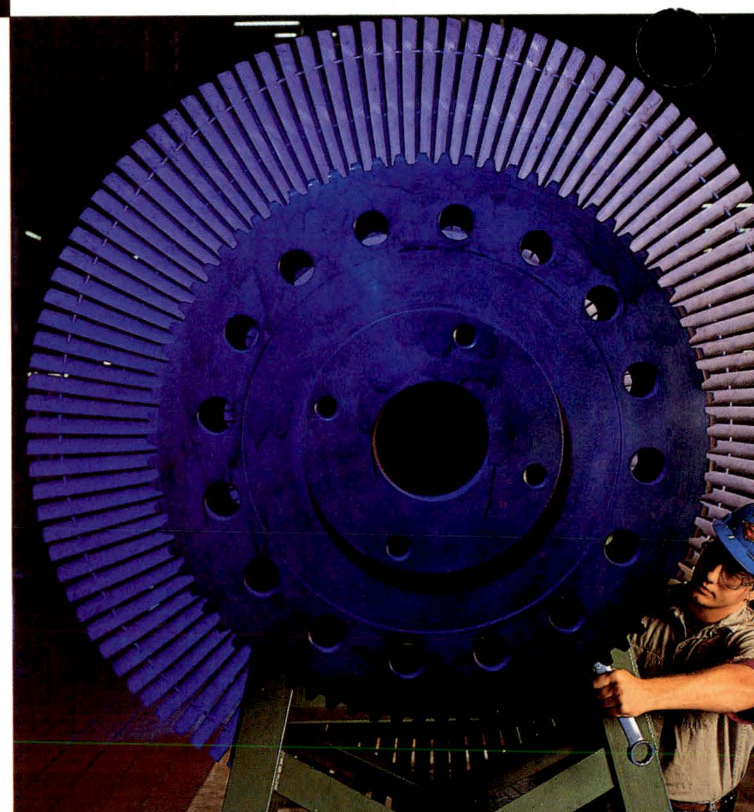
A severe December storm with heavy rains accompanied by high winds was the fifth-worst storm to hit the Company's service territory. Nearly 192,000 customers experienced power interruptions. Three hundred crews worked more than 25,000 manhours to speed the restoration effort.

Tree Trimming for Reliable Service

The Company has a comprehensive tree-trimming and vegetation-management program for the more than one million trees growing under or adjacent to aerial lines. In 1992, the Company increased its tree trimming budget by 22% to $19 million in a major effort to reduce the number and duration of tree-related power outages, and similar amounts are expected to be spent during the next two years. Improvements in service reliability to electric customers, especially during summer storms, are anticipated.



Eddystone Generating Station has begun a $54 million renovation program, the most extensive in its 32-year history, to extend service into the next century. Mario Salcedo, Turbine-Generator Group (left). Richard D. Clark, II, Turbine-Generator Group (below).



Expanded office facilities and a new gas system control room were completed at the West Conshohocken Gas Plant. Allan L. Chew, Gas Operations (standing). Angelo F. Micalizzi, Gas Operations (seated).

In order to contain tree-trimming costs, the Company has introduced the "Plant Right" program which provides assistance to property owners in the selection of the proper species of trees for planting under or near utility power lines. "Plant Right" is one of the most complete sources of tree information in Pennsylvania. It provides comprehensive data on more than 125 species of trees suited to various planting conditions found in Pennsylvania. In several easy steps, customers can obtain a list and description of trees suited to their particular sites.

Fossil Station Improvements

The largest and most comprehensive outage at one of the Company's non-nuclear generating facilities began in August at Eddystone Generating Station. The work on Unit No. 2, one of the two, 32-year-old, 350-mW coal-fired units, will cost $54 million, last eight months and involve 200 Company and more than 300 contract employees. This major project will extend the unit's operating life approximately 20 years.

Cromby Gas Conversion

In [illegible] the Company completed the conversion of Cromby Generating Station Unit No. 2 to natural gas, thereby allowing the unit to burn either oil or gas. The conversion, completed at a cost of $14 million, is expected to save electric customers approximately $2 million annually in fuel costs, reduce sulfur dioxide emissions by 2,000 tons per year and generate more than $1 million in additional gas revenue per year.

Natural Gas Vehicles

With the implementation of the 1990 Clean Air Act and the passage of the National Energy Policy Act of 1992, the outlook for the development of natural gas vehicles (NGVs) has never been more positive. PECO had 70 NGVs operating at the end of 1992 and plans to have 300 operating by the end of 1994. Last year marked the first time that major automobile manufacturers produced NGVs for sale to the general public. The Company is also promoting the use of NGVs by area fleet operators. The goal is to communicate the benefits of NGVs to fleet operators as they prepare to comply with the Clean Air and National Energy Policy Acts. In June, the Company sponsored a regional NGV symposium which attracted over 400 attendees and featured the national introduction of a line of natural gas pick-up trucks.

Economic Development

A stalled national economy, general corporate downsizings and tight credit limited regional business activity in 1992. Nevertheless, there are some positive economic developments in the region. The region's pharmaceutical, health care and biotechnology industries are expanding and adding employees to their workforces. *Business Week* magazine and other financial publications are trumpeting greater Philadelphia's "Medical Mile," its "biotech boomlet," and top-flight medical schools and research institutions.

To capitalize on the Philadelphia region's strengths, the Company launched a major campaign to attract health product businesses, as well as advanced technology companies in electronics, telecommunications, environmental science, chemicals, medical instruments and information technology.

Working closely with the Pennsylvania Department of Commerce and economic development agencies in suburban Philadelphia and northeastern Maryland, the Company provided locational assistance to more than 17 companies that established new facilities in our service territory. As a result, 2,800 jobs were created in 1992.

Union Organization Attempt

Since 1989, the International Brotherhood of Electrical Workers (IBEW) has been attempting to organize Company employees. In 1991, the IBEW petitioned the National Labor Relations Board (NLRB) to hold a certification election for approximately one-half of the Company's workforce to determine whether those employees want the IBEW to represent them. In February 1992, the Independent Group Association (IGA) also petitioned the NLRB to represent a slightly larger group of employees. The IGA is an employee association that has represented non-management employees for 50 years; however, it has never sought to negotiate a legally enforceable collective-bargaining agreement. It is likely that a vote will be scheduled by the NLRB in 1993. The Company believes that establishing a union is not in the best interest of either the Company or the employees and strongly opposes establishing any union. A union-free environment better enables the Company and its employees to move forward and deal with the challenges of less regulation and increased competition that lie ahead.

QUARTER 4TH

HIGHLIGHTS

World record of 533 days of continuous operation is established by Limerick Unit No. 2.

PECO, along with the Philadelphia Fire Department, distributes smoke detectors.

Common stock dividend is increased.

Early retirement program is offered to Nuclear Group employees.

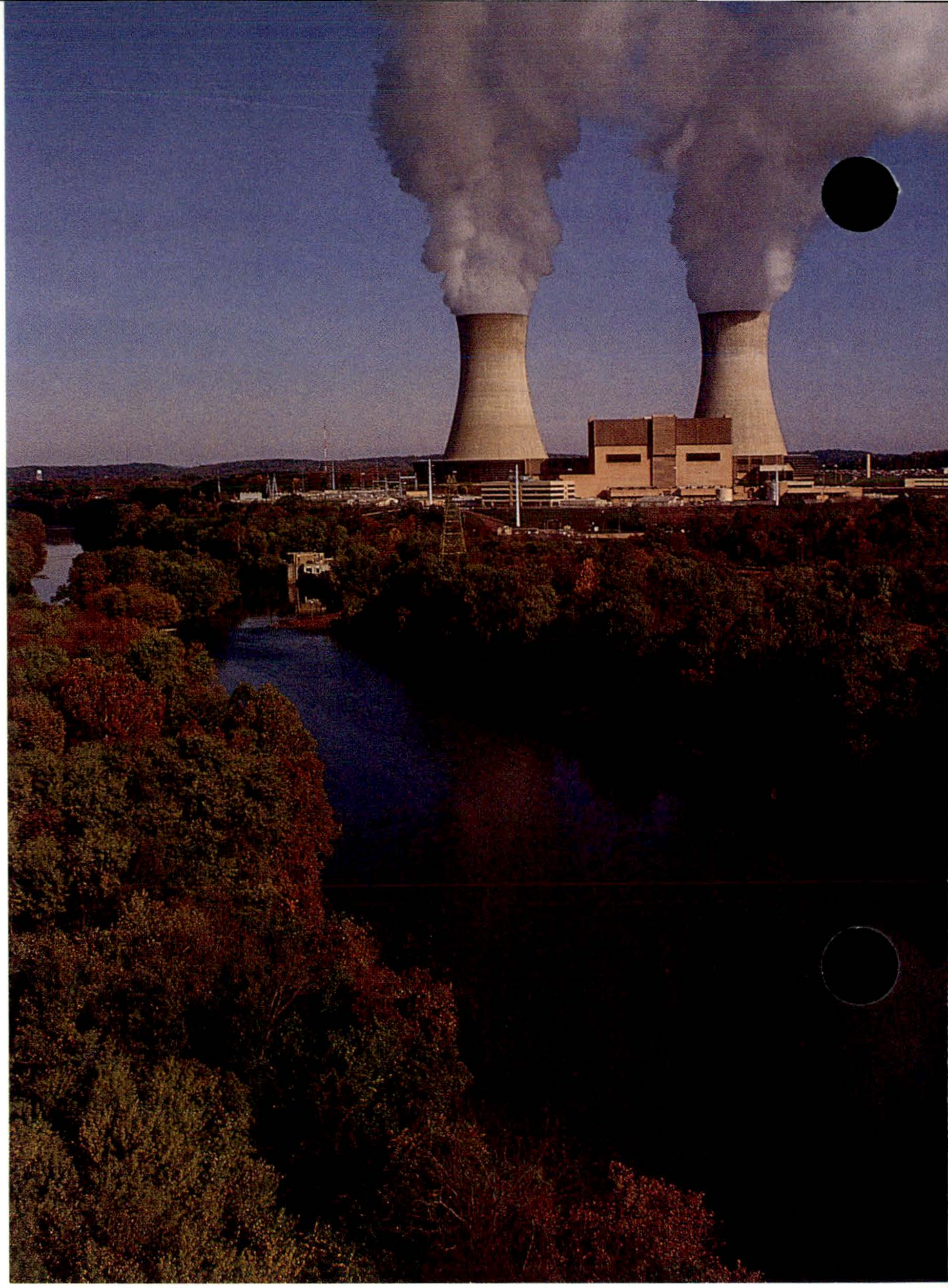
A 1% gas rate decrease, reflecting the lower cost of natural gas, is effective December 1.

Liquid propane tanks are installed at Chester gas plant to meet peak demands.

Fifth worst storm in history strikes PECO territory.

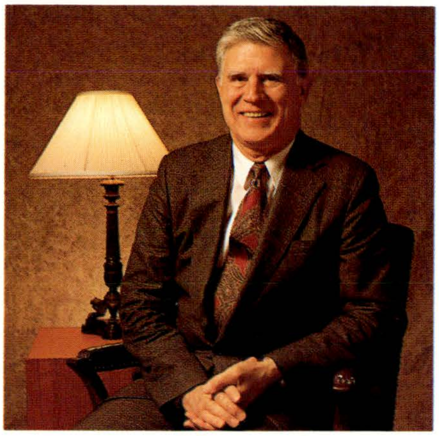
Major tree-trimming program to increase reliability commences.

Electric base rates decrease 4.6%, reflecting the end of the phase-in portion of the Limerick Unit No. 2 rate case settlement.



LIMERICK UNIT NO. 2 SET A WORLD RECORD OF 533 DAYS FOR THE LONGEST CONTINUOUS RUN OF ANY COMMERCIAL LIGHT-WATER NUCLEAR REACTOR.

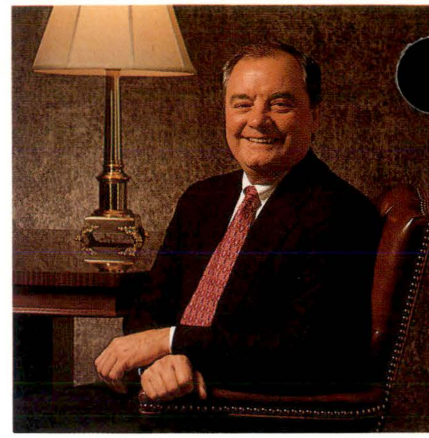
THE COMPANY ASSISTED THE PHILADELPHIA FIRE DEPARTMENT'S DISTRIBUTION OF SMOKE DETECTORS TO LOW-INCOME PHILADELPHIA RESIDENTS.



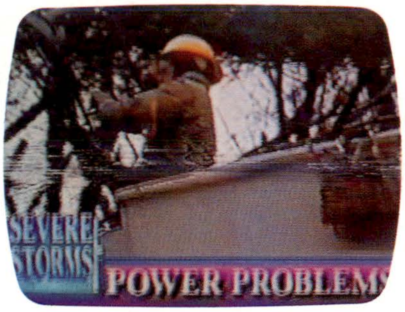
Dickinson M. Smith, Senior Vice President, Nuclear, joined the Company in 1987 as the plant manager of Peach Bottom. He formerly served as a Rear Admiral in the U.S. Navy and was Chief of Staff of the Allied Atlantic Command of NATO.

ELEVEN NEW 90,000-GALLON STORAGE TANKS WERE INSTALLED AT THE COMPANY'S TILGHMAN STREET GAS PLANT IN CHESTER, PA TO HOLD LIQUID PROPANE TO MEET PEAK HEATING DEMANDS.

THE COMMON STOCK DIVIDEND WAS INCREASED AGAIN IN 1992.



William J. Kaschub, Senior Vice President, Human Resources, joined the Company in June 1991. He was previously Vice President, Vice President, Human Resources for GTE North and had been with the GTE organization since 1973.



THE FIFTH-WORST STORM IN THE COMPANY'S HISTORY STRUCK ON DECEMBER 11, AFFECTING SERVICE TO 192,000 CUSTOMERS.

PECO IS WORKING TO REDUCE THE NUMBER AND DURATION OF TREE-RELATED POWER OUTAGES WITH TIMELY TREE-TRIMMING AND VEGETATION MANAGEMENT.

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

Earnings and Dividends

Earnings per common share in 1992 were $1.90 compared to $2.15 in 1991. The decline in earnings was primarily due to unfavorable 1992 weather which reduced earnings by $0.35 per share and to the $0.27 per share charge for the settlement of the co-owners' litigation concerning the 1987 shutdown of Peach Bottom Atomic Power Station (Peach Bottom). These decreases were partially offset by a $0.19 per share increase resulting from reduced financing costs associated with the refinancing of high-cost, long-term debt and preferred stock and the reduction in total debt, and a $0.17 per share increase resulting from increased sales, exclusive of weather effects, and other factors.

As a result of its improved financial condition, as evidenced by the upgrading of its securities' ratings, the Company increased its annual dividend per share by 8% to $1.40, effective with the dividend payable in December 1992.

Operating Revenues

(Millions of Dollars)	Electric Revenue (Decrease) Increase '92 vs '91	'91 vs '90
Sales	**$(103)**	$ 39
Rate Increases	**—**	80
Tax Adjustment Revenues	**48**	44
Fuel Adjustment Revenue	**(22)**	31
Energy and Capacity Sales	**12**	67
	$ (65)	$261

1992 vs 1991

Electric revenues decreased by approximately $65 million, or 1.8%, in 1992 compared to 1991 primarily as a result of lower sales to residential customers and to large commercial and industrial customers, which were partially offset by increased sales to house-heating customers and small commercial and industrial customers. The unusually cool summer of 1992 was the major reason for decreased residential sales. Total electric customers increased in 1992 by 0.6%.

Effective April 1, 1992, the Energy Cost Adjustment (ECA) was changed from a credit value of 1.867 mills per kilowatthour (kWh) to a credit value of 3.764 mills per kWh, which represents a decrease in annual revenue of approximately $59 million.

Gas revenues increased by approximately $9 million, or 2.6%, in 1992 compared to 1991 primarily as a result of higher sales to house-heating customers due to the cooler weather and an increase in house-heating customers.

1991 vs 1990

Electric revenues increased nearly $261 million, or 7.7%, in 1991 compared to 1990 primarily due to the full-year effect of the Limerick Unit No. 2 rate increase and higher kWh sales to other utilities, as well as to all classes of customers except large commercial and industrial. Revenue also increased due to higher sales associated with the hotter summer weather.

Effective April 20, 1991, the ECA was changed from a credit value of 3.744 mills per kWh to a credit value of 1.867 mills per kWh, which represents an increase in annual revenue of approximately $59 million.

Gas revenues decreased by approximately $29 million, or 7.5%, in 1991 compared to 1990 primarily due to lower sales compared to the prior year and the substantial curtailment of purchases by a major industrial customer during 1991.

Fuel and Energy Interchange Expense

1992 vs 1991

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

1991 vs 1990

Fuel and energy interchange costs decreased $15 million in 1991 compared to 1990 primarily due to lower fuel costs, partially offset by increased output.

Other Operating and Maintenance Expenses

1992 vs 1991

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

1991 vs 1990

Other operating and maintenance expenses decreased $273 million in 1991 compared to 1990, primarily due to the elimination of the costs associated with the Company's one-time Early Retirement Plan initiated in 1990 and the implementation of the cost-containment program in 1991.

Depreciation Expense

1992 vs 1991

Depreciation expense increased in 1992 compared to 1991 primarily due to additions to plant in service.

1991 vs 1990

Depreciation expense increased in 1991 compared to 1990 primarily due to Limerick Unit No. 2 being placed in rate base in April 1990.

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

CONTINUED

Allowance for Funds Used During Construction

1992 vs 1991

Allowance for Funds Used During Construction (AFUDC) decreased in 1992 compared to 1991 primarily due to a decrease in the 1992 AFUDC rate.

1991 vs 1990

AFUDC decreased in 1991 compared to 1990 primarily due to Limerick Unit No. 2 being placed into commercial operation on January 8, 1990. Capitalized Limerick Costs were not incurred after April 20, 1990 due to the inclusion of Limerick Unit No. 2 in rate base as of that date.

Income Taxes

As discussed further in note 11 of Notes to Consolidated Financial Statements, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes," which must be adopted by the first quarter of 1993. Adoption of SFAS No. 109 is not expected to have a material effect upon the Company's results of operations as the Company expects to receive recovery for taxes when paid.

1992 vs 1991

Income taxes charged to operations and to other income decreased in 1992 compared to 1991 primarily due to lower pre-tax income and the cost associated with the settlement of the Peach Bottom co-owners' litigation.

1991 vs 1990

Income taxes charged to operations and to other income increased in 1991 compared to 1990 due to higher operating income and reduced expenses, primarily the costs associated with the Early Retirement Plan and the disallowances resulting from the Limerick Unit No. 2 rate order in 1990.

Other Taxes

1992 vs 1991

Other taxes increased in 1992 compared to 1991 primarily due to the refunds in 1991 of prior years' real estate tax over-collections.

1991 vs 1990

Other taxes increased in 1991 compared to 1990 primarily due to increased Pennsylvania tax rates associated with capital stock and real estate taxes and an increase in gross receipts tax due to higher revenue.

Interest Charges

1992 vs 1991

Interest charges decreased in 1992 compared to 1991 primarily due to the Company's on-going program to refinance and refund high-interest long-term debt, lower levels of total debt outstanding and lower interest rates on bank borrowings.

1991 vs 1990

Interest charges decreased in 1991 compared to 1990 due to reductions in total debt outstanding and lower interest rates, partially offset by the increased service charges resulting from the sale of additional accounts receivable in January 1991.

Preferred Stock Dividends

1992 vs 1991

Preferred stock dividends decreased in 1992 compared to 1991 due to the reduced number of preferred shares outstanding and the refunding of high-cost preferred stock.

1991 vs 1990

Preferred stock dividends decreased in 1991 compared to 1990 due to the reduced number of preferred shares outstanding.

Liquidity and Capital Resources

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

The Company meets its short-term liquidity requirements primarily through bank lines of credit, which were $291 million at December 31, 1992, against which $110.5 million was outstanding, and through a $100 million commercial paper program. No amounts were outstanding at year end under the commercial paper program. The Company believes these sources of short-term liquidity are adequate.

The reduction in the Company's level of capital expenditures as a result of the completion of its nuclear construction program has improved the Company's financial condition. Also contributing to this improvement were the effects of the Company's cost-containment program, an aggressive bill collection program, revenues from sales of capacity and energy to other utilities and the 1990 reduction in the common stock dividend.

During 1992 and 1991, the Company met its capital requirements with cash generated through operations. Net cash provided by operating activities for 1992 was $1.2 billion, representing a 33.7% increase over the 1989 level, which was the year prior to the last electric base rate increase. For 1993 through 1996, the Company expects that substantially all of its capital needs will be provided through internally generated funds.

Construction program expenditures for 1992 were $564 million and are estimated to be $593 million in 1993 and $1.6 billion from 1994 to 1996. The estimated expenditures include the Company's share of the installation of flue-gas desulfurization equipment (scrubbers), but do not include any amounts for cooling towers at the Salem Generating Station (Salem) that may be required for environmental reasons. The Company does not presently anticipate that construction of the Salem cooling towers will be required; however, if mandated, the estimated cost to the Company is in the range of $230 million to $300 million and may require external sources of financing. Certain facilities under construction and to be constructed may require permits and licenses which the Company has no assurance will be granted.

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

CONTINUED

Influenced by the favorable financial market conditions, the Company has continued its aggressive refinancing program. During 1992, $1.5 billion of high-cost, long-term debt and preferred stock were replaced with debt and preferred stock carrying significantly reduced rates of interest and dividends. Also during 1992, the Company utilized internally generated cash to repay $149 million of debt and to redeem $20 million of preferred stock. These transactions resulted in a reduction of approximately $41 million in annualized interest and $9 million in annualized preferred stock dividends.

The Company's improved securities' ratings and coverage ratios have enhanced its ability to access the capital markets to take advantage of refinancing opportunities. The ratios under the Company's mortgage indenture and Articles of Incorporation at December 31, 1992 were 3.31 and 2.00 times, respectively, compared with minimum issuance requirements of 2.00 and 1.50.

As a result of its improved financial position, the Company satisfied all of its 1992 Dividend Reinvestment and Stock Purchase Plan (DRIP) requirements with the purchase of shares of common stock on the open market. Prior to 1992, the Company issued new shares of common stock to meet the DRIP requirements, thereby increasing the total number of common shares outstanding. Depending on the Company's specific requirements, the Company will decide whether to use new unissued shares or purchase shares on the open market in the future.

The Company's capital structure as of December 31, 1992 was common equity, 40.7%; preferred stock, 6.6%; and long-term debt, 52.7%; compared to its capital structure as of December 31, 1991 of common equity, 38.8%; preferred stock, 7.3%; and long-term debt, 53.9%. The Company anticipates that its improved financial condition will allow it to further strengthen its balance sheet.

Outlook

Continued improvement of the Company's financial condition and its future operating results are dependent on a number of factors affecting the Company and the utility industry generally. These factors include the regulation and operation of nuclear generating facilities, which represent 45% of the Company's generating capacity, the future effects of increased competition, regulatory and accounting changes and compliance with environmental regulations.

During 1992, the Company's nuclear plants operated at 71% capacity and produced 58% of the Company's generation. In addition to permitting the Company to meet the needs of its customers and commitments for off-system sales, continued successful operation of the nuclear plants is necessary to avoid penalties under the ECA.

The 1991 settlement of all appeals arising from the Limerick Unit No. 2 rate case affords the Company the opportunity, through sales to other utilities and the efficient operation of Limerick, to increase future earnings without increasing base rates. See note 2 of Notes to Consolidated Financial Statements for the description of the terms of the settlement.

The Company has agreements with neighboring utilities to sell up to 799 megawatts (mW) of installed generating capacity and/or energy. At December 31, 1992, the Company had agreements to sell 400 mW of capacity and 200 mW of energy with terms expiring through June 1994. In addition, the Company had weekly contracts to sell 599 mW of energy. In 1993, the Company expects to sell over $120 million of capacity and energy through these agreements.

As part of the settlement of the Limerick Unit No. 2 rate case, the Company agreed not to file an electric base rate increase prior to April 1994 except for single-issue rate filings to recover substantial increases in costs associated with legislative or regulatory changes. Pursuant to this exception, on September 11, 1992, the Company filed with the Pennsylvania Public Utility Commission (PUC) a request for a 1.5% electric base rate increase designed to recover $50.2 million of costs that would be charged to electric operations associated with the implementation of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (see note 2 of Notes to Consolidated Financial Statements). The adoption of SFAS No. 106 in the first quarter of 1993 will result in a transition liability of approximately $572 million (which the Company expects to amortize over an allowed 20-year period) and in recognition of an annual accrual of $89 million (including the amortization of the transition liability), which is $65 million more than the current annually recognized cost. Non-pension postretirement benefits costs traditionally have been allowed for ratemaking on a pay-as-you-go basis. Unless the PUC permits recovery of the additional non-pension postretirement benefits costs through the ratemaking process, the Company's earnings will be adversely affected by the adoption of SFAS No.106.

In November 1992, the FASB issued SFAS No. 112, "Employers' Accounting for Postemployment Benefits," which must be adopted by the first quarter of 1994. Adoption of SFAS No. 112 is not expected to have a material effect upon the Company's results of operations. The Company expects to adopt SFAS No. 112 in the first quarter of 1994 and is currently evaluating the method of adoption.

The Company has no present plans to file for a general increase in base rates in the foreseeable future. Growth in revenues from retail sales is therefore dependent on the rate of growth of the economy in the Company's service territory.

During 1992, the final segment of the combined Limerick Unit No. 1 and Unit No. 2 phase-in plans was completed. As a result, electric rates were reduced by 4.6% on January 1, 1993. Additionally, the Company's continued strong nuclear performance will contribute to an electric rate reduction of approximately 2% in April 1993 as energy cost rate adjustments reflect the fuel economy of nuclear plant operations. These rate reductions do not affect earnings but, in the case of the reduction related to the phase-in plans, will reduce internally generated cash.

Inflation impacts the Company through increased operating costs and increased replacement costs of utility plant. The Company expects that it would recover any increased operating costs, but in times of high inflation, the Company could be adversely impacted by

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

continued

the regulatory lag in reflecting these increased costs in rates. In addition, the replacement cost of the Company's utility plant is significantly higher than the historical cost reflected in the financial statements.

The National Energy Policy Act of 1992 (Energy Act) is designed, among other things, to promote competition among utility and non-utility generators by amending the Public Utility Holding Company Act of 1935 (1935 Act) to exempt a new class of independent power producers (exempt wholesale generators) which are not subject to regulation under the 1935 Act. The Energy Act also amends the Federal Power Act to allow the Federal Energy Regulatory Commission (FERC) to order wholesale wheeling to provide utilities and non-utility generators with access to utility transmission facilities; however, retail wheeling is prohibited. The provisions direct FERC to set prices for wheeling to allow utilities to recover all legitimate, verifiable and economic costs for providing wheeling services, including the cost of expanding their transmission facilities to accommodate required transmission access. The costs are to be recovered from the company whose electricity is being wheeled rather than from the utilities' native-load retail customers. In addition, the Energy Act restricts FERC's ability to order wheeling if it would impair the ability of a utility to provide reliable power to its existing customers.

The Energy Act also provides that utilities with nuclear reactors must pay for the decommissioning and decontamination of the U.S. Department of Energy's (DOE) nuclear fuel enrichment facilities. The total costs are estimated to be $150 million per year for 15 years, of which the Company's share is $6.38 million per year. The Energy Act provides that these costs are to be recoverable in the same manner as other fuel costs. The Company has recorded the liability and a related regulatory asset of $95.7 million for such costs at December 31, 1992. The Company will seek recovery of these costs through the ECA as mandated by the Energy Act, although such recovery is not assured. The Company cannot predict what other effect, if any, the Energy Act will have on the Company's operations.

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

The Company's budgeted capital expenditures through 1996 include its share of the costs of scrubbers being installed at the Conemaugh Generating Station. This is the only investment required by the Company to comply with the Phase I sulfur dioxide limitations of the Amendments to the Clean Air Act of 1990 (Clean Air Act). The Company's two service-area coal-fired plants, Eddystone and Cromby, are equipped with scrubbers. The Company will be required to comply with the nitrogen oxides (NOx) emission limitations of the Clean Air Act by May 31, 1995 at its service-area generating units, all of which are in an ozone nonattainment area. The Company estimates that installing low-NOx burners, which is one of the possible technologies and the lowest in cost, on all of its oil and gas sources would require a capital expenditure of $21 million. The cost of compliance could be less if the Company is not required to make modifications to all of its units or implements a system which permits credits or averaging among sources. If, however, further technological improvements are required, the cost of compliance could be substantially higher. As a result of its prior investments in scrubbers for Eddystone and Cromby and its investment in nuclear generating capacity, the Company believes that compliance with the Clean Air Act will have less impact on the Company's electric rates than on the rates of other Pennsylvania utilities which are more dependent on coal-fired generation.

An evaluation of all Company sites for potential environmental clean-up liability is currently in progress, including approximately 20 sites where manufactured gas plant activities may have resulted in site contamination. Past activities at several sites have resulted in actual site contamination. The Company is presently engaged in performing detailed evaluations of these sites to define the nature and extent of the contamination and to determine the necessity of remediation and to identify possible remediation alternatives. The Company has accrued the $11 million of remediation costs that currently can be reasonably estimated. The Company cannot currently predict whether it will incur other significant liabilities for any additional remediation costs at these or additional sites identified by environmental agencies or others.

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

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

Consolidated Statements of Income

(Thousands of Dollars)	*For the Years Ended December 31* 1992	1991	1990
Operating Revenues			
Electric	$3,597,141	$3,662,573	$3,401,644
Gas	365,328	356,013	385,029
Total Operating Revenues	3,962,469	4,018,586	3,786,673
Operating Expenses			
Fuel and Energy Interchange	709,115	778,674	793,432
Other Operating	906,346	842,375	858,913
Early Retirement Plan	—	—	249,252
Maintenance	353,502	332,269	339,650
Depreciation	413,779	400,572	357,540
Income Taxes	264,483	308,945	181,320
Other Taxes	281,868	274,561	238,852
Total Operating Expenses	2,929,093	2,937,396	3,018,959
Operating Income	1,033,376	1,081,190	767,714
Other Income and Deductions			
Allowance for Other Funds Used During Construction	10,461	10,619	27,184
Capitalized Limerick Costs	—	—	80,325
Adjustment to Limerick Plant Costs	—	—	(263,860)
Settlement of Peach Bottom Litigation	(103,078)	—	—
In[illegible]axes	40,160	(16,442)	86,869
Ot[illegible]et	3,392	28,696	(9,735)
Total Other Income and Deductions	(49,065)	22,873	(79,217)
Income Before Interest Charges	984,311	1,104,063	688,497
Interest Charges			
Long-Term Debt	484,153	545,488	579,837
Short-Term Debt	31,419	36,360	31,034
Total Interest Charges	515,572	581,848	610,871
Allowance for Borrowed Funds Used During Construction	(10,202)	(12,465)	(28,151)
Net Interest Charges	505,370	569,383	582,720
Income before cumulative effect of accounting change	478,941	534,680	105,777
Cumulative effect as of January 1, 1990 of accounting change for unbilled operating revenues (Note 4)	—	—	108,413
Net Income	478,941	534,680	214,190
Preferred Stock Dividends	60,731	66,104	90,319
Earnings Applicable to Common Stock	$ 418,210	$ 468,576	$ 123,871
Average Shares of Common Stock Outstanding (Thousands)	220,245	218,234	214,356
Earnings per average common share before cumulative effect of accounting change (Dollars)	$ 1.90	$ 2.15	$ 0.07
Cumulative effect as of January 1, 1990 of accounting change for unbilled operating [illegible]es (Dollars)	—	—	0.51
[illegible]Earnings Per Average Common Share (Dollars)	$ 1.90	$ 2.15	$ 0.58
Dividends Per Common Share (Dollars)	$ 1.325	$ 1.225	$ 1.45

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

ASSETS *(Thousands of Dollars)*	*December 31* 1992	 1991
UTILITY PLANT, AT ORIGINAL COST		
Electric	$12,797,389	$12,451,374
Gas	781,708	717,293
Common	162,061	158,835
	13,741,158	13,327,502
Less Accumulated Provision for Depreciation	3,587,317	3,267,188
	10,153,841	10,060,314
Nuclear Fuel, Net	188,609	189,566
Construction Work in Progress	348,792	348,533
Leased Property, Net	209,994	223,749
NET UTILITY PLANT	10,901,236	10,822,162
CURRENT ASSETS		
Cash and Temporary Cash Investments	50,369	97,061
Accounts Receivable, Net		
Customers	138,880	215,353
Other	62,571	68,249
Inventories, at Average Cost		
Fossil Fuel	63,688	[illegible]16
Materials and Supplies	156,706	160,973
Deferred Income Taxes	39,285	(34,918)
Unrecovered Phase-In Plan Revenue, Net	—	142,267
Other	38,466	73,361
TOTAL CURRENT ASSETS	549,965	783,162
DEFERRED DEBITS AND OTHER ASSETS		
Deferred Limerick Costs	455,161	476,932
Investments	202,422	169,653
Loss on Reacquired Debt	273,120	187,740
Other	196,323	83,811
TOTAL DEFERRED DEBITS AND OTHER ASSETS	1,127,026	918,136
TOTAL	$12,578,227	$12,523,460

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

CAPITALIZATION AND LIABILITIES *(Thousands of Dollars)*	*December 31* 1992	1991
CAPITALIZATION		
Common Shareholders' Equity		
Common Stock	$ 3,459,131	$ 3,446,666
Other Paid-In Capital	1,214	1,214
Retained Earnings	561,824	444,399
	4,022,169	3,892,279
Preferred and Preference Stock		
Without Mandatory Redemption	422,472	422,472
With Mandatory Redemption	231,130	315,592
Long-Term Debt	5,203,961	5,415,584
TOTAL CAPITALIZATION	9,879,732	10,045,927
CURRENT LIABILITIES		
Notes Payable, Bank	110,500	—
Long-Term Debt Due Within One Year	98,998	22,712
Capital Lease Obligations Due Within One Year	58,998	56,114
Accounts Payable	241,462	288,865
Taxes Accrued	24,334	163,193
Deferred Energy Costs	72,999	20,040
Interest Accrued	115,923	126,457
Dividends Payable	19,459	36,066
Other	87,887	110,016
TOTAL CURRENT LIABILITIES	830,560	823,463
DEFERRED CREDITS AND OTHER LIABILITIES		
Capital Lease Obligations	150,996	167,635
Deferred Income Taxes	1,001,939	844,084
Unamortized Investment Tax Credits	302,508	302,832
Pension Obligation for Early Retirement Plan	141,675	145,092
Other	270,817	194,427
TOTAL DEFERRED CREDITS AND OTHER LIABILITIES	1,867,935	1,654,070
COMMITMENTS AND CONTINGENCIES (Notes 2 and 3)		
TOTAL	$12,578,227	$12,523,460

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(Thousands of Dollars)	*For the Years Ended December 31* 1992	1991	1990
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	$ 478,941	$ 534,680	$ 214,190
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Early Retirement Plan	—	—	211,380
Adjustment to Limerick Plant Costs	—	—	263,860
Cumulative Effect of Accounting Change	—	—	(108,413)
Depreciation and Amortization	512,957	521,291	451,997
Deferred Income Taxes	81,943	77,836	(57,713)
Capitalized Limerick Costs	—	—	(80,325)
Unrecovered Phase-In Plan Revenue	142,267	96,705	42,020
Deferred Energy Costs	52,959	16,593	42,690
Sale of Accounts Receivable	—	125,000	—
Amortization of Leased Property	54,600	59,400	70,100
Changes in Working Capital:			
Accounts Receivable	82,151	(70,907)	32,166
Inventories	1,395	(26,926)	(5,084)
Accounts Payable	(47,403)	36,326	(13,659)
Other Current Assets and Liabilities	(136,627)	54,633	1,368
Other Items Affecting Operations	(27,693)	21,102	69,124
Net Cash Flows Provided by Operating Activities	1,195,490	1,445,733	1[illegible]701
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in Plant	(594,476)	(496,093)	(514,006)
Increase in Investments	(32,769)	(43,827)	(17,574)
Net Cash Flows Used by Investing Activities	(627,245)	(539,920)	(531,580)
CASH FLOWS FROM FINANCING ACTIVITIES			
Change in Short-Term Debt	110,500	(68,500)	(43,500)
Issuance of Common Stock	12,465	66,453	84,828
Issuance of Preferred Stock	140,000	—	—
Retirement of Preferred Stock	(224,462)	(15,330)	(224,219)
Issuance of Long-Term Debt	1,369,540	278,000	205,000
Retirement of Long-Term Debt	(1,504,877)	(692,867)	(131,678)
Loss on Reacquired Debt	(85,380)	(58,419)	7,950
Dividends on Preferred and Common Stock	(349,856)	(333,319)	(398,192)
Change in Dividends Payable	(16,607)	8,575	(13,598)
Expenses of Issuing Long-Term Debt and Preferred Stock	(11,660)	(68)	(16,941)
Capital Lease Payments	(54,600)	(59,400)	(70,100)
Net Cash Flows from Financing Activities	(614,937)	(874,875)	(600,450)
(Decrease) Increase in Cash and Cash Equivalents	(46,692)	30,938	1,671
Cash and Cash Equivalents at beginning of period	97,061	66,123	64,452
Cash and Cash Equivalents at end of period	$ 50,369	$ 97,061	$ 66,123

See Notes to Consolidated Financial Statements.

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

(All Amounts in Thousands)	Common Stock Shares	Common Stock Amount	Other Paid-In Capital	Retained Earnings	Preferred Stock Shares	Preferred Stock Amount
Balance, January 1, 1990	211,976	$3,295,385	$5,311	$444,049	9,735	$973,516
Net Income				214,190		
Cash Dividends Declared						
Preferred Stock (at specified annual rates)				(87,920)		
Common Stock ($1.45 per share)				(310,272)		
Expenses of Capital Stock Issues				(16,941)		
Issuance of Stock						
Dividend Reinvestment and Stock Purchase Plan	4,977	84,828				
Redemptions			(4,097)		(2,201)	(220,122)
Balance, December 31, 1990	216,953	3,380,213	1,214	243,106	7,534	753,394
Net Income				534,680		
Cash Dividends Declared						
Preferred Stock (at specified annual rates)				(65,966)		
Common Stock ($1.225 per share)				(267,353)		
Expenses of Capital Stock Issues				(68)		
Issuance of Stock						
Dividend Reinvestment and Stock Purchase Plan	2,925	63,207				
Long-Term Incentive Plan	152	3,246				
Redemptions					(153)	(15,330)
Balance, December 31, 1991	220,030	3,446,666	1,214	444,399	7,381	738,064
Net Income				478,941		
Cash Dividends Declared						
Preferred Stock (at specified annual rates)				(58,021)		
Common Stock ($1.325 per share)				(291,835)		
Expenses of Capital Stock Issues				(11,660)		
Issuance of Stock						
Long-Term Incentive Plan	504	12,465				
Issuances					1,400	140,000
Redemptions					(2,245)	(224,462)
Balance, December 31, 1992	220,534	$3,459,131	$1,214	$561,824	6,536	$653,602

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Significant Accounting Policies

General

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

Revenues

In 1991, the FERC issued Accounting Release 14 (AR-14) which requires the Company to classify interchange sales as electric operating revenues. Previously, interchange sales were credited to fuel and energy interchange expense. The Company adopted the provisions of AR-14, effective January 1, 1992, and has reclassified the prior years to conform to the new requirements. Electric revenues and fuel and energy interchange expenses increased by $43 million and $82 million for 1991 and 1990, respectively, as a result of adoption of AR-14.

The Company records revenues for services provided but not yet billed (see note 4).

On June 27, 1989, the final phase of the electric rate increase approved by the PUC in its June 27, 1986 order became effective. This final phase was designed to recover, over approximately a three-year period, the unrecovered revenue under the Company's 1986 phase-in plan. Pursuant to a phase-in plan approved by the PUC in its electric rate order dated April 19, 1990, the Company recorded revenue equal to the full amount of the rate increase approved, based on kilowatthours rendered to customers. On April 5, 1991, that plan was amended by the PUC as part of the settlement of all appeals arising from the Limerick Unit No. 2 rate proceeding to permit recovery of the remaining unrecovered revenue by December 31, 1992 (see note 2). As of December 31, 1992, the Company had no Unrecovered Phase-In Plan Revenue.

Fuel and Energy Cost Adjustment Clauses

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

The Company recovers, through a separate PUC clause, 90% of take-or-pay costs billed to the Company by its interstate pipeline suppliers.

Nuclear Fuel

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

Depreciation and Decommissioning

For financial reporting purposes, depreciation is provided over the estimated service lives of plant on the straight-line method and, for tax purposes, generally over shorter lives on accelerated methods. Annual depreciation provisions for financial reporting purposes, expressed as a percent of average depreciable utility plant in service, were approximately 2.75% in 1992, 2.74% in 1991 a[illegible]79% in 1990.

The Company's ownership portion of the estimated costs for decommissioning nuclear generating stations, based on site-specific studies, as approved for ratemaking purposes by the PUC, is $643 million expressed in 1990 dollars. The associated annual expense currently is being charged to operations consistent with amounts approved for ratemaking purposes. The amounts recovered from customers are deposited in escrow and trust accounts and invested for funding of future costs (see note 3).

Income Taxes

Deferred income tax provisions are made for differences between book and taxable income to the extent approved for ratemaking purposes. In addition, the effects of the Alternative Minimum Tax (AMT) are normalized. Investment Tax Credit (ITC) is deferred and amortized to income over the estimated useful lives of the related utility plant. ITC related to plant in service, not included in rate base, is accounted for on the flow-through method.

Allowance for Funds Used During Construction (AFUDC)

AFUDC is the cost, during the period of construction, of debt and equity funds used to finance construction projects. AFUDC is recorded as a charge to Construction Work in Progress, and the credits are to Interest Charges for the pre-tax cost of borrowed funds and to Other Income and Deductions for the remai[illegible] the allowance for other funds. The rates used for capitalizing AFUDC, which averaged 10.61% in 1992, 10.88% in 1991 and 9.01% in 1990, are computed under a method prescribed by the regulatory authorities. The 1992 and 1991 rates are pre-tax and the 1990 rate is net after-tax. AFUDC is not included in regular taxable income and the depreciation of capitalized AFUDC is not tax deductible.

NUCLEAR OUTAGE COSTS

Incremental nuclear maintenance and refueling outage costs are accrued over the unit operating cycle of approximately 18 months. For each unit, an accrual for incremental nuclear maintenance and refueling outage expense is estimated based upon the latest planned outage schedule and estimated costs for the outage. Differences between the accrued and actual expense for the outage are recorded when such differences are known (see note 4).

CAPITALIZED SOFTWARE COSTS

Software projects which exceed $5 million are capitalized. At December 31, 1992 and 1991, capitalized software costs totalled $40 million (net of $1 million accumulated amortization) and $19 million, respectively. Such capitalized amounts are amortized ratably over the expected life of the projects when they become operational, not to exceed 10 years.

GAINS AND LOSSES ON REACQUIRED DEBT

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

RECLASSIFICATIONS

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

2. Rate Matters

LIMERICK UNIT NO. 2 ELECTRIC RATE ORDER

By its order dated April 19, 1990, the PUC approved a $242 million annual electric increase to be phased in over approximately three years principally to recover costs associated with Limerick Unit No. 2 and associated common facilities. New tariffs implementing the PUC order became effective on April 20, 1990. The Company was denied recovery of certain plant costs and a return on deferred Limerick costs, resulting in a pre-tax charge of $264 million. Also, as part of the rate order, the Company was denied recovery of other costs deferred pending regulatory approval, resulting in an additional pre-tax loss of $32 million.

The PUC order also reduced the Company's requested increase by $106 million resulting from a disallowance of a return on common equity for 399 megawatts (mW) of Limerick Unit No. 2 and associated common facilities, finding that the Company had 399 mW of near-term excess capacity.

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

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

As a part of the settlement, the Company agreed not to file an electric base rate increase before April 1994, except as allowed by the PUC or under terms of the agreement. This does not preclude emergency or single-issue rate filings (e.g., a substantial change in costs associated with new legislation or regulations). The Company also agreed to consolidate previously authorized Limerick Unit No. 1 and Unit No. 2 phase-in plans and levelize the associated rate increases between May 1, 1991 and December 31, 1992.

SINGLE-ISSUE ELECTRIC BASE RATE INCREASE FILED

On September 11, 1992, the Company filed with the PUC a request for a 1.5% electric base rate increase designed to recover $50.2 million of costs associated with the implementation of Statement of Financial Accounting Standards (SFAS) No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," which requires that the expected costs of the benefits be charged to expense during the years employees render service, but not later than the date eligible for retirement. This is a significant change from the Company's current policy of recognizing the costs of these benefits as they are paid. The filing was made on the basis of the single-issue rate filing exception to the base rate increase moratorium agreed to in the Limerick settlement agreement. Under the Company's proposal, the additional revenue received from the requested rate increase would be segregated in trust funds and reserved solely for payment of non-pension postretirement benefits. On October 22, 1992, the PUC suspended the Company's electric base rate increase request to May 10, 1993 in order to conduct an investigation. Non-pension postretirement benefits costs traditionally have been allowed for ratemaking on a pay-as-you-go basis. Unless the PUC permits recovery of the additional non-pension postretirement benefits costs through the ratemaking process, the Company's earnings will be adversely affected by the adoption of SFAS No. 106.

LIMERICK UNIT NO. 2 DECLARATORY ORDER

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

ENERGY COST ADJUSTMENT

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

For the year ended December 31, 1992, the Company's nuclear capacity factor was 71%. This resulted in the Company earning a bonus of approximately $1 million, which is reflected in 1992 income. For the year ended December 31, 1991, the Company's nuclear capacity factor was 75%. This entitled the Company to a bonus of approximately $5 million, which is reflected in 1991 income. For the year ended December 31, 1990, the Company neither earned a bonus nor incurred a penalty.

3. Commitments and Contingencies

CONSTRUCTION EXPENDITURES

Construction expenditures are estimated to be $593 million for 1993 and $1.6 billion for 1994-1996. For 1993-1996, the Company expects that substantially all of its capital needs will be provided through internally generated funds. These construction expenditure estimates are reviewed and revised periodically to reflect changes in economic conditions, revised load forecasts and other appropriate factors. Certain facilities under construction and to be constructed may require permits and licenses which the Company has no assurance will be granted.

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

PEACH BOTTOM LITIGATION

On April 2, 1992, the United States District Court for the District of New Jersey approved a settlement of the lawsuits filed against the Company by the other co-owners of Peach Bottom concerning the 1987 shutdown of Peach Bottom ordered by the Nuclear Regulatory Commission (NRC). As part of the settlement, the Company paid $131 million to the other co-owners on October 1, 1992 and the Company recognized a charge against income ($76 million, net of taxes) in the first quarter of 1992.

The settlement also resolved counterclaims asserted by the Company which sought compensation from Public Service Electric and Gas Company (PSE&G) for costs incurred by the Company as a result of certain events at Salem, which is operated by PSE&G and 42.59% owned by the Company. As part of the settlement, the co-owners are engaging in good-faith negotiations to amend the Peach Bottom and Salem owners agreements to, among other things, clarify the provisions relating to liability of the plant operator to the other co-owners.

In 1990, the Company received net proceeds of $28 million ($16 million, net of taxes) in settlement of a shareholders' derivative suit in connection with the 1987 Peach Bottom shutdown. Recognition of the $28 million had been deferred pending the resolution of the co-owners' litigation. As a result of the settlement of the co-owners' litigation, the $28 million was recognized as other income in the first quarter of 1992 and reported as an offset against the amount of the above-mentioned charge relating to the settlement of the co-owners' litigation. The Company had sought an additional $9 million from one of the Company's officer liability insurance carriers related to an insurance coverage issue; but, after arbitration did not receive any additional monies.

NUCLEAR INSURANCE

The Price-Anderson Act, as amended (Price-Anderson Act), sets the limit of liability of approximately $7.8 billion for claims that could arise from an incident involving any licensed nuclear facility in the nation. The limit is subject to increase to reflect the effects of inflation and changes in the number of licensed reactors. All utilities with nuclear generating units, including the Company, have obtained coverage for these potential claims through a combination of private insurances of $200 million and mandatory participation in a financial protection pool. Under the Price-Anderson Act, all nuclear reactor licensees can be assessed up to $63 million per reactor per incident, payable at $10 million per reactor per incident per year. This assessment is subject to inflation and an additional surcharge of 5% if the total amount of claims and legal costs exceeds the basic assessment.

If the damages from an incident at a licensed nuclear facility exceed $7.8 billion, the President of the United States is to submit to Congress a plan for providing additional compensation to the injured parties. Congress could impose further revenue-raising measures on the nuclear industry to pay claims. The Price-Anderson Act and the extensive regulation of nuclear safety by the NRC do not preempt claims under state law for personal, property or punitive damages related to radiation hazards.

The Company maintains property insurance, including decontamination expense coverage and premature decommissioning coverage, for loss or damage to its nuclear facilities. Although it is not possible to determine the total amount of the loss that may result from an occurrence at these facilities, the Company maintains its proportionate share of $2.625 billion of insurance for each station. Under the terms of the various insurance agreements, the Company could be assessed up to $35 million for losses incurred at any plant insured by the insurance companies. The Company is self-insured to the extent that any losses may exceed the amount of insurance maintained. Any such losses, if not recovered through the ratemaking process, could have a material adverse effect on the Company's financial condition.

The Company is a member of an industry mutual insurance company which provides replacement power cost insurance in the event of a major outage at a nuclear station. The premium for this coverage is subject to an assessment for adverse loss experience. The Company's maximum share of any assessment is $17 million per year.

NUCLEAR DECOMMISSIONING AND SPENT FUEL STORAGE

In conjunction with the Company's April 19, 1990 electric rate order, the PUC recognized a revised decommissioning cost estimate based upon total cost. The Company's share of this revised cost is $643 million expressed in 1990 dollars.

Under a contract with the U.S. Department of Energy (DOE), the DOE is obligated ultimately to take possession of all spent nuclear fuel generated by the Company's nuclear units for long-term storage by no later than 1998. The contract currently requires that a spent fuel disposal fee of one mill ($.001) per net kilowatthour generated be paid to the DOE. The fee may be adjusted prospectively in order to ensure full cost recovery. The DOE has stated that it will not be able to open a permanent, high-level nuclear waste storage facility until 2010, at the earliest. The DOE stated that the delay was a result of its seeking new data about the suitability of the proposed storage facility site at Yucca Mountain, Nevada, opposition to this location for the repository and the DOE's revision of its civilian nuclear waste program. The DOE stated that it would seek legislation from Congress for the construction of a temporary storage facility which would accept spent nuclear fuel from utilities in 1998 or soon thereafter. Although progress is being made at Yucca Mountain and several communities have expressed interest in providing a temporary storage site, the Company cannot predict when the temporary and permanent federal storage facilities will become available.

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

The National Energy Policy Act of 1992 (Energy Act) states, among other things, that utilities with nuclear reactors must pay for the decommissioning and decontamination of the DOE nuclear fuel enrichment facilities. The total costs are estimated to be $150 million per year for 15 years, of which the Company's share is $6.38 million per year. The Energy Act provides that these costs are to be recoverable in the same manner as other fuel costs. The Company has recorded the liability and a related regulatory asset of $95.7 million for such costs at December 31, 1992. The Company will seek recovery of those costs through the ECA.

The Company believes that the ultimate costs of decommissioning, spent fuel disposal and the assessment under the Energy Act will be recoverable through rates, although such recovery is not assured.

ENVIRONMENTAL CONCERNS

Under federal and state environmental laws, the Company is generally liable for the costs of remediating environmental contamination of property now or formerly owned by the Company, or of property contaminated by hazardous waste generated by the Company. The Company owns or leases a substantial number of real estate parcels, including parcels on which its operations or the operations of others may have resulted in contamination of these areas by substances which are considered hazardous under the environmental laws. The Company is currently involved in a number of proceedings relating to sites where hazardous waste has been deposited and may be subject to such additional proceedings in the future. An evaluation of all Company sites for potential environmental clean-up liability is in progress, including approximately 20 sites where manufactured gas plant activities may have resulted in site contamination. Past activities at several sites have resulted in actual site contamination. The Company is presently engaged in performing detailed evaluations of these sites to define the nature and extent of the contamination and to determine the necessity of remediation and to identify possible remediation alternatives. The Company has accrued the $11 million of remediation costs that currently can be reasonably estimated. The Company cannot currently predict whether it will incur other significant liabilities for additional remediation costs at these or additional sites identified by environmental agencies or others or whether any such costs will be recoverable through rates or from third parties.

Other Litigation

On April 11, 1991, 33 former employees of the Company filed an amended class action suit against the Company in the United States District Court for the Eastern District of Pennsylvania (Eastern District Court) on behalf of approximately 141 persons who retired from the Company between January and April 1990. The lawsuit, filed under the Employee Retirement Income Security Act (ERISA), alleges that the Company fraudulently and/or negligently misrepresented or concealed facts concerning the Company's one-time Early Retirement Plan initiated in 1990 and thus induced the plaintiffs to retire or not to defer retirement immediately before the initiation of the Early Retirement Plan, thereby depriving the plaintiffs of substantial pension and salary benefits. On June 6, 1991, the plaintiffs filed amended complaints adding additional plaintiffs. The lawsuit names the Company, the Company's Service Annuity Plan (SAP) and two Company officers as defendants. The plaintiffs seek approximately $20 million in damages representing, among other things, increased pension benefits and nine-months salary pursuant to the terms of the Early Retirement Plan, as well as punitive damages. On July 29, 1992, the Eastern District Court granted the Company's motion for summary judgment and entered judgment in favor of the Company. On August 13, 1992, the plaintiffs filed an appeal with the United States Court of Appeals for the Third Circuit (Appeals Court). The ultimate outcome of this matter is not expected to have a material adverse effect on the Company's financial condition.

On May 2, 1991, 37 former employees of the Company filed an amended class action suit against the Company, the SAP and three former Company officers in the Eastern District Court on behalf of 147 former employees who retired from the Company from January through June 1987. The lawsuit was filed under ERISA and concerns the August 1, 1987 amendment to the SAP. The plaintiffs claim that the Company concealed or misrepresented the fact that the amendment to the SAP was planned to increase retirement benefits and, as a consequence, they retired prior to the amendment to the SAP and were deprived of significant retirement benefits. The complaint does not specify any dollar amount of damages. On July 29, 1992, the Eastern District Court granted the Company's motion for summary judgment and entered judgment in favor of the Company. On August 13, 1992, the plaintiffs filed an appeal with the Appeals Court. The ultimate outcome of this matter is not expected to have a material adverse effect on the Company's financial condition.

On August 4, 1992, attorneys on behalf of two shareholders filed a shareholder derivative action against several of the Company's present and former officers alleging mismanagement, waste of corporate assets and breach of fiduciary duty in connection with the Company's credit and collections practices. The basis of the complaint is the findings and conclusions contained in the Credit and Collections section of the May 1991 PUC Management Audit Report prepared by Ernst & Young. The plaintiffs seek, among other things, an unspecified amount of damages and the awarding to the plaintiffs of the costs and disbursements of the action, including attorneys' fees. On December 4, 1992, the Company filed preliminary objections asking that the action be dismissed because of the plaintiffs' failure to first serve a demand on the Company's Board of Directors. Any monetary damages which may be recovered, net of expenses, would be paid to the Company because the lawsuit is brought derivatively by shareholders on behalf of the Company.

The Company is involved in various other litigation matters, the ultimate outcomes of which, while uncertain, are not expected to have a material adverse effect on the Company's financial condition.

4. Changes in Accounting

In 1990, the Company began recording operating revenues for services provided but not yet billed to more closely match revenues with expenses. Previously, the Company recognized operating revenues when services were billed. The cumulative effect of the change on the periods prior to January 1, 1990, was $108 million, net of income tax effects of $2 million, or $0.51 per share. The eff[illegible]he change upon net income for 1990 was not material. The r[illegible]er of the income tax expense applicable to the aforementioned unbilled operating revenues was recorded in the years reported for tax purposes in accordance with the ratemaking treatment.

Also in 1990, the Company adopted an accounting policy to accrue for incremental nuclear maintenance and refueling outage costs for nuclear plants over the period of the unit operating cycle, which is approximately 18 months. Previously, the Company recognized such costs as incurred during the outage period. The after-tax effect of this accounting change decreased 1990 net income by $17 million, or $0.08 per share, which includes the cumulative effect on periods prior to January 1, 1990.

5. Retirement Benefits

The Company and its subsidiaries have non-contributory trusteed retirement plans applicable to all regular employees. The benefits are based primarily upon employees' years of service and average earnings prior to retirement. The Company's funding policy is to contribute, at a minimum, amounts sufficient to meet ERISA requirements. Approximately 78%, 79% and 86% of pension costs were charged to operations in 1992, 1991 and 1990, respectively, and the remainder, associated with construction labor, to the cost of new utility plant.

Pension costs were $26,042,000 in 1992, $22,340,00[illegible]991 and $12,206,000 in 1990. Pension costs for 1992, 1991[illegible]90 included the following components:

(Thousands of Dollars)	1992	1991	1990
Service cost - benefits earned during the period	$ 30,191	$ 23,692	$ 30,365
Interest cost on projected benefit obligations	129,000	121,826	99,554
Actual return on plan assets	(122,869)	(345,677)	(24,735)
Amortization of transition asset	(4,539)	(4,539)	(4,539)
Amortization and deferral	(5,741)	227,038	(88,439)
Net pension cost	$ 26,042	$ 22,340	$ 12,206

CHANGE IN NET PERIODIC PENSION COST

The change in net periodic pension cost in 1992, 1991 and 1990 was accounted for as follows:

(Thousands of Dollars)	1992	1991	1990
Change in number, characteristics and salary levels of participants net actuarial gain	$ (840)	$ 3,402	$ (3,996)
Change in plan provisions	—	1,978	799
Change in actuarial assumptions	4,542	4,754	7,871
Net change	$ 3,702	$10,134	$ 4,674

Plan assets consist principally of common stock, U.S. government obligations and other fixed-income instruments. In determining pension costs, the assumed long-term rate of return on assets was 9.5% for 1992, 1991 and 1990.

The weighted-average discount rate used in determining the actuarial present value of the projected benefit obligation was 7.75% at December 31, 1992 and 1991, and 8.25% at December 31, 1990. The average rate of increase in future compensation levels ranged from 4.5% to 6.5% at December 31, 1992, 1991 and 1990.

Prior service cost is amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits under the plan. The funded status of the plan at December 31, 1992 and 1991 is summarized as follows:

(Thousands of Dollars)	1992	1991
Actuarial present value of accumulated plan benefit obligations:		
Vested benefit obligations	$(1,315,292)	$(1,302,564)
Accumulated benefit obligation	$(1,410,777)	$(1,388,328)
Projected benefit obligation for services rendered to date	$(1,740,013)	$(1,655,806)
Plan assets at fair value	1,709,802	1,649,700
Funded status	(30,211)	(6,106)
Unrecognized transition asset	(58,402)	(62,941)
Unrecognized prior service costs	101,955	108,193
Unrecognized net gain	(183,820)	(221,072)
Pension liability	$ (170,478)	$ (181,926)

On May 25, 1990, the Company's Board of Directors approved a one-time Early Retirement Plan for employees who were fifty years of age or older and had five or more years of credited service as of December 31, 1990. The estimated costs associated with the program of $249 million ($150 million, net of taxes) were recognized in the third quarter of 1990.

In December 1992, the Company's Board of Directors approved a Voluntary Early Retirement Program and Voluntary Separation Package for Nuclear Group employees who are fifty years of age or older and have five or more years of credited service with the Company as of March 31, 1993. The estimated costs associated with the program of $18.5 million ($10.8 million, net of taxes) were recognized in the fourth quarter of 1992.

In addition to providing pension benefits, the Company provides certain health care and life insurance benefits for retired employees. Substantially all of the Company's employees will become eligible for these benefits if they reach retirement age while still working for the Company. These benefits and similar benefits for active employees are provided by an insurance company whose premiums are based upon the benefits paid during the year. The Company recognizes the cost of providing these benefits by charging the annual insurance premiums to expense. The cost of providing these benefits for approximately 6,000 retirees during the years 1992 and 1991, and 5,200 retirees during 1990, and for approximately 9,800, 9,700 and 10,500 active employees for the same periods, respectively, amounted to $56 million for 1992 and 1991 and $54 million for 1990.

In December 1990, the Financial Accounting Standards Board (FASB) issued SFAS No. 106. The Company will adopt the provisions of SFAS No. 106 in the first quarter of 1993 and expects to amortize the transition liability over an allowed 20-year period. SFAS No. 106 will significantly increase non-pension postretirement benefits expense recognition. The Company's liability under SFAS No. 106 is $572 million as of January 1, 1993. The annual accrual for non-pension postretirement benefits costs (including amortization of the transition liability) is approximately $89 million. The Company's comparable pay-as-you-go costs for these benefits, which are currently being recovered in base rates, were approximately $24 million in 1992 (see note 2).

6. Accounts Receivable

Accounts receivable at December 31, 1992 and 1991 included unbilled operating revenues of $111.2 million and $120.5 million, respectively. Accounts receivable at December 31, 1992 and 1991 were net of an allowance for uncollectible accounts of $18 million and $30 million, respectively.

The Company is party to an agreement with a financial institution whereby it can sell on a daily basis and with limited recourse an undivided interest in up to $325 million of designated accounts receivable for a five-year period ending January 24, 1996. At December 31, 1992 and 1991, the Company had sold a $325 million interest in accounts receivable under this agreement. The Company retains the servicing responsibility for these receivables. The service charges for accounts receivable sold under this agreement were included as interest charges and were approximately $15 million, $22 million and $18 million in 1992, 1991 and 1990, respectively.

By terms of this agreement, under certain circumstances, up to $35 million of deferred Limerick costs could be included in the pool of eligible receivables. At December 31, 1992, $30 million of such costs were included in the pool of eligible receivables.

7. Common Stock

At December 31, 1992 and 1991, common stock without par value consisted of 500,000,000 shares authorized and 220,534,048 and 220,030,400 shares outstanding, respectively. At December 31, 1992, there were 5,800,841 shares reserved for issuance under stock purchase plans.

The Company maintains a Long-Term Incentive Plan (LTIP) for certain full-time salaried employees of the Company. The types of long-term incentive awards which may be granted under the LTIP are non-qualified options to purchase shares of the Company's common stock, dividend equivalents and shares of restricted common stock. Pursuant to the LTIP, 2,445,833 shares of common stock were reserved for issuance.

The following table summarizes option activity during 1992, 1991 and 1990:

	1992	1991	1990
Balance at January 1	1,656,244	1,126,675	938,000
Options granted	1,380,000	1,018,500	274,177
Options exercised	504,411	151,996	—
Options cancelled	86,000	336,935	[illegible]502
Balance at December 31	2,445,833	1,656,244	[illegible]75
Exercisable at December 31	1,162,833	800,744	884,000

The options were exercised at an average option price of $24.73 per share and $21.35 per share in 1992 and 1991, respectively. The average exercise price of shares under option are $23.18 per share, $20.34 per share and $21.18 per share at December 31, 1992, 1991 and 1990, respectively.

8. Preferred and Preference Stock

At December 31, 1992 and 1991, Series Preference Stock consisted of 100,000,000 shares authorized, of which no shares were outstanding. At December 31, 1992 and 1991, cumulative Preferred Stock, no par value, consisted of 15,000,000 shares authorized.

	Current Redemption Price **(a)**	Shares Outstanding 1992	Shares Outstanding 1991	Amount (Thousands of Dollars) 1992	Amount (Thousands of Dollars) 1991
Series (without mandatory redemption)					
$10.75**(b)**	**(b)**	500,000	500,000	$ 50,000	$ 50,000
$9.50	—	—	750,000	—	75,000
$8.75	—	—	650,000	—	65,000
$7.85	$101.00	500,000	500,000	50,000	50,000
$7.80	101.00	750,000	750,000	75,000	75,000
$7.75	101.00	200,000	200,000	20,000	20,000
$4.68	104.00	150,000	150,000	15,000	15,000
$4.40	112.50	274,720	274,720	27,472	27,472
$4.30	102.00	150,000	150,000	15,000	15,000
$3.80	106.00	300,000	300,000	30,000	30,000
$7.96**(c)**	**(d)**	1,400,000	—	140,000	—
		4,224,720	4,224,720	422,472	422,472
Series (with mandatory redemption)**(e)**					
$[illegible]	—	—	200,000	—	20,000
$1[illegible]	—	—	500,000	—	50,000
$9.875	105.00	650,000	650,000	65,000	65,000
$9.52	101.00	200,000	236,321	20,000	23,632
$9.50 1986 Series	106.33	675,000	720,000	67,500	72,000
$8.75 1978 Series	101.54	200,300	233,600	20,030	23,360
$7.325	101.75	330,000	360,000	33,000	36,000
$7.00	101.00	256,000	256,000	25,600	25,600
		2,311,300	3,155,921	231,130	315,592
Total Preferred Stock		6,536,020	7,380,641	$653,602	$738,064

(a) Redeemable, at the option of the Company, at the indicated dollar amounts per share, plus accrued dividends.

(b) The dividend rate through April 30, 1993 is $10.75 per annum, and the rate for each subsequent dividend period, either a long-term period (1-10 years) or a short-term period (49 days), will be established by an auction held on the business day next preceding the beginning of each such period. The issue is redeemable during any long-term period only on the last day of the period or following an unsuccessful auction, in an aggregate number which constitutes one or more units (1,000 shares), at a price of $100 per share, plus accrued and unpaid dividends to the redemption date on the shares redeemed. On any dividend payment date with respect to a short-term period, units are redeemable, in whole or in part, at the option of the Company at a price of $100,000 per unit, plus an amount equal to accrued and unpaid dividends to the redemption date.

(c) Ownership of this series of preferred stock is evidenced by depositary receipts, each representing one-fourth of a share of preferred stock.

(d) None of the shares of this series are subject to redemption prior to October 1, 1997.

(e) Sinking fund requirements ($100 per share) in the period 1993-1997 are $25,880,000 annually.

Notes to Consolidated Financial Statements

CONTINUED

9. Long-Term Debt

(Thousands of Dollars)	Series	Due	*At December 31* 1992	1991
First and Refunding Mortgage Bonds **(a)**	14%	1992	—	$ 11,000
	6½% - 14%	1993	$ 60,000	71,000
	4½% - 14%	1994	170,000	181,000
	9% - 10⅞%	1995	51,200	202,800
	8¼%	1996	80,000	80,000
	6⅛% - 11%	1997	75,000	275,000
	7½% - 11%	1998-2002	1,430,200	714,499
	6% - 10¼%	2003-2007	359,437	463,500
	9⅛%	2008-2012	100,000	100,000
	8⅞% - 12⅛%	2013-2017	379,900	784,440
	6⅝% - 11%	2018-2022	1,307,130	827,590
Total First and Refunding Mortgage Bonds			4,012,867	3,710,829
Notes Payable - Banks	**(b)**	1993-1996	372,000	422,000
Revolving Credit and Term Loan Agreements	**(c)**	1995-1997	525,000	525,000
Pollution Control Notes	5½% - 13%	1997-2012	173,700	173,700
Debentures	9.85% - 11%	1993-2011	87,000	537,000
Medium-Term Notes	**(d)**	1994-2005	150,000	85,000
Sinking Fund Debentures - Philadelphia Electric Power Company, a Subsidiary	4½%	1995	11,350	[illegible]50
Unamortized Debt Discount and Premium, Net			(28,958)	[illegible]3)
Total Long-Term Debt			5,302,959	5,438,296
Due Within One Year **(e)**			98,998	22,712
Long-Term Debt included in Capitalization **(f)**			$5,203,961	$5,415,584

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

(b) The Company has entered into interest rate swap agreements to reduce the impact of changes in interest rates on certain of these notes. At December 31, 1992 and 1991, the Company had outstanding three interest rate swap agreements with commercial banks, for a total notional principal amount of $242 million. These agreements are subject to performance by the commercial banks, which are counterparties to the interest rate swap. However, the Company does not anticipate nonperformance by the counterparties. The annual interest rate for these notes, giving effect to the interest rate swaps, was 10.28% at December 31, 1992.

(c) The Company has a $525 million revolving credit and term loan agreement with a group of banks. The revolving credit arrangement converts into a term loan in November 1994. The borrowings are due in six semi-annual installments with the first payment due six months after the conversion into the term loan. Interest on outstanding borrowings is based on specific formulas selected by the Company involving yields on several types of debt instruments. There is an annual commitment fee of 0.15% on the unused amount. At December 31, 1992 and 1991, $525 million was outstanding under this agreement. The annual interest rate for this revolving credit agreement was 3.84% at December 31, 1992. The Company also has a $150 million revolving credit and term loan agreement with a group of banks. The revolving credit agreement converts into a term loan in July 1994 and the commitment terminates in 1996. There is an annual commitment fee of 0.2% on the unused amount. At December 31, 1992 and 1991, no amount was outstanding under this agreement.

(d) The Company has a program for the issuance of up to $200 million medium-term notes collateralized by mortgage bonds. The notes are offered from time-to-time at varying maturities and interest rates set at the time of sale. As of December 31, 1992 and 1991, respectively, the Company had outstanding $150 million and $85 million under this program at an average coupon rate of 7.61% and 9.05%.

(e) Long-term debt maturities, including mandatory sinking fund requirements, in the period 1994-1997 are as follows: 1994-$261,398,000; 1995-$256,748,000; 1996-$480,998,000; 1997-$281,498,000.

(f) The annualized interest on long-term debt at December 31, 1992, was $426.7 million, of which $352.4 million was associa[illegible]ith mortgage bonds and $74.3 million was associated with o[illegible]g-term debt.

Notes to Consolidated Financial Statements

CONTINUED

10. Short-Term Debt

(Thousands of Dollars)	1992	1991	1990
Average Borrowings	$ 50,161	$13,493	$ 60,344
Average Interest Rates, Computed on Daily Basis	3.72%	6.17%	8.85%
Maximum Borrowings Outstanding	$255,500	$81,000	$187,000
Average Interest Rates at December 31	3.72%	—	8.98%

At December 31, 1992, the Company had formal and informal lines of credit with banks aggregating approximately $291 million against which $110.5 million of short-term debt was outstanding. The Company does not have formal compensating balance arrangements with these banks. The Company has a $100 million commercial paper program and at December 31, 1992, there was no commercial paper outstanding.

11. Income Taxes

(Thousands of Dollars)	1992	1991	1990
Included in Operating Income:			
Federal			
Current	$131,054	$120,646	$137,554
Deferred	66,281	67,914	15,884
Investment Tax Credit, Net	(3,495)	58,078	15,638
State			
Current	78,546	71,516	44,347
Deferred	(7,903)	(9,209)	(32,102)
Included in Other Income and Deductions:			
Federal			
Current	(45,295)	(1,957)	(23,150)
Deferred	20,237	16,483	(42,096)
Investment Tax Credit, Net	—	—	(10,146)
State			
Current	(18,430)	(732)	(12,078)
Deferred	3,328	2,648	601
Income Tax Effect of Cumulative Effect of Accounting Change for Unbilled Operating Revenues	—	—	(1,888)
Total	$224,323	$325,387	$ 92,564

Investment tax and other general business credits reduced federal income taxes currently payable by $41 million, $71 million and $31 million in 1992, 1991 and 1990, respectively. Under the Tax Reform Act of 1986, ITC was repealed effective January 1, 1986 with the exception of transition property. The Company believes that Limerick Unit No. 2 qualifies as transition property eligible for ITC.

Approximately $94 million of additional business credits generated from 1986 through 1991 have not been utilized due to limitations based on taxable income. These credits, which expire between 2001 and 2006, may be used to reduce federal income taxes in future years.

The Internal Revenue Service (IRS) has completed its examinations of the Company's federal income tax returns through 1986. In 1992, the Company recognized as income $24.5 million, or $0.11 per share, as a result of the favorable settlement of the Company's 1984-1986 federal income tax returns.

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

The Company uses accelerated depreciation for income tax purposes and straight-line depreciation for financial reporting purposes. Deferred taxes are recorded only on those timing differences normalized for ratemaking. The cumulative net amount of such timing differences for which deferred taxes were not recorded was approximately $877 million at December 31, 1992. Since the Company expects to charge customers for taxes when the timing differences reverse, the tax effect of such timing differences is not recorded currently.

In February 1992, the FASB issued SFAS No. 109, "Accounting for Income Taxes," which requires an asset and liability approach for

Notes to Consolidated Financial Statements

CONTINUED

financial accounting and reporting for income taxes. The provisions of SFAS No. 109 may be applied cumulatively in the year of adoption or may be applied retroactively by restating previously issued financial statements. Adoption of SFAS No. 109 is required by the first quarter of 1993 and is not expected to have a material effect upon the Company's results of operations as the Company expects to receive recovery for taxes when paid. The Company expects to adopt SFAS No. 109 in 1993 using the cumulative adoption provisions of the statement. The Company expects that the adoption of SFAS No. 109 will increase total assets and liabilities by approximately $1.9 billion.

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

(Thousands of Dollars)	1992	1991	1990
Depreciation and Amortization	$ 93,469	$ 89,760	$119,943
Deferred Energy Costs	(18,033)	(19,916)	(13,761)
Precommercial Operation of Limerick Unit No. 2	—	—	(1,221)
Deferred Limerick Unit No. 2 Costs	—	—	8,547
Early Retirement Plan	1,865	16,024	(83,588)
Incremental Nuclear Maintenance and Refueling Outage Costs	(1,627)	(5,629)	(11,574)
Uncollectible Accounts	(2,629)	(7,750)	(15,813)
Reacquired Debt	39,123	18,688	(4,526)
Unrecovered Revenue	(56,050)	(43,983)	(24,939)
Alternative Minimum Tax	—	6,331	(20,478)
Limerick Plant Disallowances and Phase-In Plan	15,118	16,634	(7,283)
Other	10,707	7,677	(3,020)
TOTAL	$ 81,943	$ 77,836	$(57,713)

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

(Thousands of Dollars)	1992	1991	1990
Net Income	$478,941	$534,680	$214,190
Total Income Tax Provisions	224,323	325,387	92,564
Income Before Income Taxes	703,264	860,067	306,754
Deduct: Allowance for Funds Used During Construction	20,663	23,084	55,335
Limerick Carrying Charges	—	—	80,325
ADJUSTED INCOME BEFORE INCOME TAXES	$682,601	$836,983	$171,094
Income Taxes on Adjusted Income at Federal Statutory Rate of 34%	$232,084	$284,574	$ 58,172
Increase (Decrease) due to:			
Depreciation Timing Differences Not Normalized	10,427	15,258	20,647
Limerick Plant Disallowances and Phase-In Plan	2,159	3,490	69,284
Cumulative Effect of Accounting Change for Unbilled Operating Revenues	—	—	(37,910)
Unbilled Revenues Not Normalized	(5,766)	5,620	8,769
State Income Taxes, Net of Federal Income Tax Benefits	36,657	42,387	507
Amortization of Investment Tax Credits	(24,624)	(17,030)	(20,320)
Prior Period Income Tax Settlements	(20,655)	(13,227)	(9,124)
Other, Net	(5,959)	4,315	2,539
TOTAL INCOME TAX PROVISIONS	$224,323	$325,387	$[illegible]2,564
Provisions for Income Taxes as a Percent of:			
Income Before Income Taxes	31.9%	37.8%	[illegible]0.2%
Adjusted Income Before Income Taxes	32.9%	38.9%	54.1%

12. Taxes, Other Than Income—Operating

(Thousands of Dollars)	1992	1991	1990
Gross Receipts	**$158,314**	$158,719	$148,274
Capital Stock	**28,013**	34,924	21,817
Real Estate	**63,593**	43,023	33,632
Payroll	**29,410**	31,439	30,854
Other	**2,538**	6,456	4,275
TOTAL	**$281,868**	$274,561	$238,852

13. Leases

Leased property included in Utility Plant at December 31

(Thousands of Dollars)	1992	1991
Nuclear Fuel	**$471,276**	$479,771
Electric Plant	**2,234**	2,271
Gross Leased Property	**473,510**	482,042
Accumulated Amortization	**(263,516)**	(258,293)
Net Leased Property	**$209,994**	$223,749

The nuclear fuel obligation is amortized as the fuel is consumed. Amortization of leased property totaled $54.6 million, $59.4 million and $70.1 million for the years ended December 31, 1992, 1991 and 1990, respectively. Other operating expenses included interest on capital lease obligations of $7.1 million, $9.9 million and $15.7 million in 1992, 1991 and 1990, respectively. Minimum future lease payments as of December 31, 1992 were as follows:

Year Ending December 31

(Thousands of Dollars)	Capital Leases	Operating Leases	Total
1993	$ 68,053	$ 93,885	$ 161,938
1994	65,852	92,934	158,786
1995	60,322	91,832	152,154
1996	40,835	55,569	96,404
1997	92	54,661	54,753
Remaining Years	1,272	629,589	630,861
Total Minimum Future Lease Payments	236,426	$1,018,470	$1,254,896
Imputed Interest (rates ranging from 6.5% to 17.0%)	(26,432)		
Present Value of Net Minimum Future Lease Payments	$209,994		

Rental expense under operating leases totaled $93.8 million, $88.6 million and $87.5 million in 1992, 1991 and 1990, respectively.

14. Jointly Owned Electric Utility Plant

The Company's ownership interests in jointly owned electric utility plant at December 31, 1992 were as follows:

	Production Plants				Transmission and Other Plant
	Peach Bottom	Salem	Keystone	Conemaugh	
Operator	Philadelphia Electric Company	Public Service Electric and Gas Company	Pennsylvania Electric Company	Pennsylvania Electric Company	Various Companies
Participating Interest	42.49%	42.59%	20.99%	20.72%	21% to 43%
Company's share of			*(Thousands of Dollars)*		
Utility Plant	$694,653	$1,100,546	$84,793	$85,382	$87,135
Accumulated Depreciation	233,409	331,320	39,937	40,297	25,029
Construction Work In Progress	16,959	49,476	5,396	25,757	1,068

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

15. Segment Information

(Thousands of Dollars)	1992	1991	1990
ELECTRIC OPERATIONS			
Operating Revenues	$ 3,597,141	$ 3,662,573	$ 3,401,644
Operating Expenses, excluding Depreciation	2,236,907	2,253,159	2,325,255
Depreciation	390,846	379,607	337,715
Operating Income	$ 969,388	$ 1,029,807	$ 738,674
Utility Plant Additions	$ 461,407	$ 422,780	$ 430,179
GAS OPERATIONS			
Operating Revenues	$ 365,328	$ 356,013	$ 385,029
Operating Expenses, excluding Depreciation	278,407	283,665	336,164
Depreciation	22,933	20,965	19,825
Operating Income	$ 63,988	$ 51,383	$ 29,040
Utility Plant Additions	$ 74,858	$ 55,098	$ 51,073
Identifiable Assets*			
Electric	$10,393,449	$10,213,296	$10,510,639
Gas	658,825	590,151	542,917
Nonallocable Assets	1,525,953	1,720,013	1,512,395
TOTAL ASSETS	$12,578,227	$12,523,460	$12,565,951

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

16. Cash and Cash Equivalents

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

(Thousands of Dollars)	1992	1991	1990
Cash Paid During the Year:			
Interest (net of amount capitalized)	$515,696	$551,944	$597,603
Income taxes (net of refunds)	224,352	193,340	97,621
Noncash Investing and Financing:			
Capital Lease Obligations Incurred	40,757	41,905	30,845

17. Investments

	December 31	
(Thousands of Dollars)	1992	1991
Trusts and Escrow Accounts for Decommissioning Nuclear Plants	$125,703	$ 98,693
Real Estate Developments and Other Ventures	48,273	41,076
Non-Utility Property	23,141	23,763
Gas Exploration and Development Joint Ventures	5,026	5,842
Other Deposits	279	279
TOTAL	$202,422	$169,653

18. Financial Instruments

In December 1991, the FASB issued SFAS No. 107, "Disclosure About Fair Value of Financial Instruments," effective for the Company for the year ended December 31, 1992. SFAS No. 107 requires additional disclosure about the fair value of financial instruments, including liabilities, for which it is practicable to estimate fair value.

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

(Thousands of Dollars)	Carrying Amount	Fair Value
Cash and temporary cash investments	$ 50,369	$ 50,369
Long-term debt (including amounts due within one year)	5,302,959	5,546,896
Trusts and Escrow Accounts for Decommissioning Nuclear Plants	125,703	131,138

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

19. Quarterly Data (Unaudited)

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

	Operating Revenues		Operating Income		Net Income	
Quarter Ended	1992	1991	1992	1991	1992	1991
			(Thousands of Dollars)			
March 31	**$1,079,890**	$1,008,325	**$274,580**	$286,871	**$ 88,401**	$143,846
June 30	**903,245**	964,137	**222,426**	262,893	**94,325**	125,038
September 30	**996,138**	1,077,526	**268,699**	312,162	**142,338**	173,402
December 31	**983,196**	968,598	**267,671**	219,264	**153,877**	92,394

	Earnings Applicable to Common Stock		Average Shares Outstanding		Earnings Per Average Share	
Quarter Ended	1992	1991	1992	1991	1992	1991
	(Thousands of Dollars)		*(Thousands)*		*(Dollars)*	
March 31	**$ 72,013**	$127,044	**220,068**	217,014	**$0.33**	$0.58
June 30	**78,207**	108,512	**220,170**	217,812	**0.35**	0.50
September 30	**128,754**	157,014	**220,327**	218,611	**0.59**	0.72
December 31	**139,236**	76,006	**220,411**	219,467	**0.63**	0.35

1991 operating revenues have been reclassified to reflect the adoption of AR-14 (see note 1).

1992 first quarter results included a net charge of approximately $103 million ($60 million, net of taxes), or $0.27 per share, as a result of the settlement of the litigation concerning the 1987 shutdown of Peach Bottom (see note 3).

1992 fourth quarter results included a net benefit of $24[illegible]on, or $0.11 per share, as a result of the settlement of the C[illegible]y's 1984-1986 federal income tax returns.

Report of Independent Accountants

To the Shareholders and Board of Directors
Philadelphia Electric Company:

We have audited the accompanying consolidated balance sheets of Philadelphia Electric Company and Subsidiary Companies as of December 31, 1992 and 1991, and the related consolidated statements of income, cash flows, and changes in common shareholders' equity and preferred stock for each of the three years in the period ended December 31, 1992. These financial statements are the responsibility of the Companies' management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Philadelphia Electric Company and Subsidiary Companies as of December 31, 1992 and 1991, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1992, in conformity with generally accepted accounting principles.

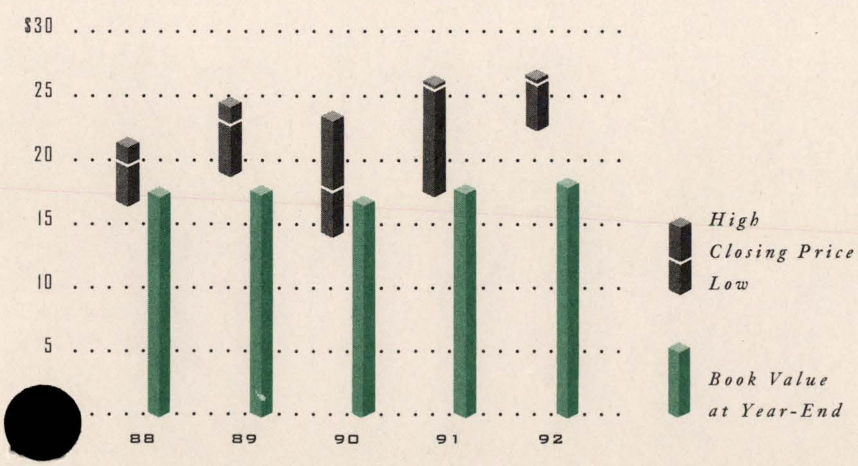
As discussed in Note 4 to the consolidated financial statements, the Company changed its methods of accounting for unbilled operating revenues and for incremental nuclear maintenance and refueling outage costs in 1990.

24[illegible]ven Penn Center
Philadelphia, Pennsylvania
February 1, 1993

Coopers & Lybrand

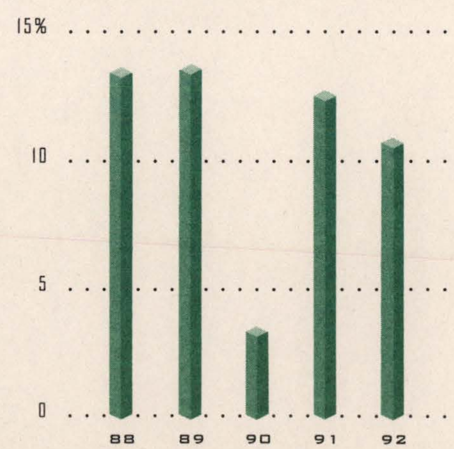
Common Stock Price vs. Book Value

Dollars Per Share



Return on Average Common Stock Equity

Percent



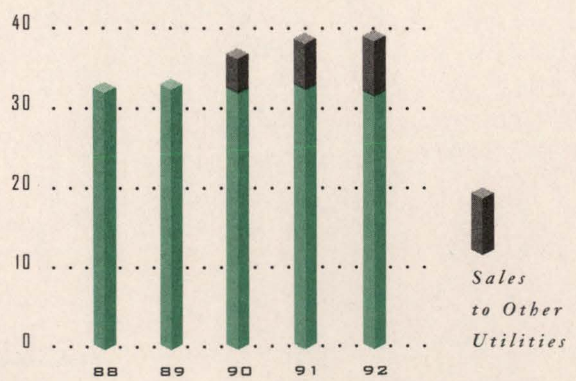
FINANCIAL STATISTICS

SUMMARY OF EARNINGS AND FINANCIAL CONDITION *(Millions of Dollars)*

For the Year Ended	1992	1991	1990	1989	1988	1987
Operating Revenues	$ 3,962.5	$ 4,018.6	$ 3,786.7	$ 3,473.8	$ 3,246.3	$ 3,213.0
Operating Income	1,033.4	1,081.2	767.7	809.3	742.6	717.1
Income from Continuing Operations	478.9	534.7	105.8	590.5	566.0	540.6
Net Income	478.9	534.7	214.2	590.5	566.0	542.4
Earnings Applicable to Common Stock	418.2	468.6	123.9	493.9	468.8	448.2
Earnings Per Average Common Share From Continuing Operations (Dollars)	1.90	2.15	0.07	2.36	2.33	2.33
Earnings Per Average Common Share (Dollars)	1.90	2.15	0.58	2.36	2.33	2.33
Dividends Per Common Share (Dollars)	1.325	1.225	1.45	2.20	2.20	2.20
Common Stock Equity (Per Share)	18.24	17.69	16.71	17.67	17.39	17.20
Average Shares of Common Stock Outstanding (Millions)	220.2	218.2	214.4	208.9	201.5	192.5
At December 31						
Net Utility Plant, at Original Cost	$10,691.2	$10,598.4	$10,591.3	$10,720.8	$10,048.5	$ 9,471.8
Leased Property, Net	210.0	223.8	241.3	273.5	287.5	287.2
Total Current Assets	550.0	783.2	745.0	655.0	502.5	650.3
Total Deferred Debits and Other Assets	1,127.0	918.1	938.6	972.8	953.9	791.5
Total Assets	$12,578.2	$12,523.5	$12,516.2	$12,622.1	$11,792.4	$11,200.8
Common Shareholders' Equity	$ 4,022.2	$ 3,892.3	$ 3,624.5	$ 3,744.8	$ 3,592.6	$[illegible]6.9
Preferred and Preference Stock						
Without Mandatory Redemption	422.5	422.5	422.5	622.4	622.4	[illegible]72.5
With Mandatory Redemption	231.1	315.6	330.9	351.1	368.1	389.1
Long-Term Debt	5,203.9	5,415.6	5,830.8	5,762.7	5,219.5	4,870.7
Total Capitalization	9,879.7	10,046.0	10,208.7	10,481.0	9,802.6	9,219.2
Total Current Liabilities	830.6	823.4	783.8	790.5	662.4	751.8
Total Deferred Credits and Other Liabilities	1,867.9	1,654.1	1,523.7	1,350.6	1,327.4	1,229.8
Total Capitalization and Liabilities	$12,578.2	$12,523.5	$12,516.2	$12,622.1	$11,792.4	$11,200.8

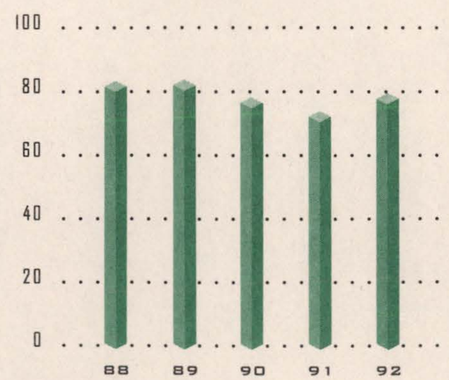
ELECTRIC SALES

Billion Kilowatthours



GAS SALES & TRANSPORTED GAS

Billions of Cubic Feet



Operating Statistics

Electric Operations

	1992	1991	1990	1989	1988	1987
Output *(Millions of Kilowatthours)*						
Fossil	**8,082**	7,376	7,913	10,470	10,225	9,835
Nuclear	**24,428**	25,735	23,715	12,890	12,328	11,853
Hydro	**1,803**	1,388	2,266	1,743	1,307	1,590
Pumped Storage Output	**1,597**	1,653	1,437	1,354	1,515	1,251
Pumped Storage Input	**(2,217)**	(2,355)	(2,059)	(1,937)	(2,163)	(1,787)
Purchase and Interchange	**8,675**	8,603	5,787	11,192	11,802	10,428
Internal Combustion	**29**	79	152	348	285	232
Other	**—**	—	180	1,063	—	—
Total Electric Output	**42,397**	42,479	39,391	37,123	35,299	33,402
Sales *(Millions of Kilowatthours)*						
Residential	**9,894**	10,311	9,815	9,974	10,058	9,441
Small Commercial and Industrial	**5,367**	5,284	5,066	4,921	4,666	4,341
Large Commercial and Industrial	**15,770**	16,177	16,554	16,749	16,516	15,789
Other	**962**	1,029	1,010	1,031	999	974
Service Territory	**31,993**	32,801	32,445	32,675	32,239	30,545
Interchange Sales	**1,231**	1,612	2,751	2,027	435	622
Sales to Other Utilities	**6,699**	5,445	1,865	—	—	—
Total Electric Sales	**39,923**	39,858	37,061	34,702	32,674	31,167
Number of Customers, December 31						
Residential	**1,333,926**	1,324,795	1,320,126	1,309,717	1,296,784	1,280,297
Small Commercial and Industrial	**141,253**	140,901	140,305	138,244	135,274	131,279
Large Commercial and Industrial	**3,972**	4,162	4,344	4,449	4,520	4,589
Other	**857**	840	817	775	779	771
Total Electric Customers	**1,480,008**	1,470,698	1,465,592	1,453,185	1,437,357	1,416,936
Operating Revenues *(Millions of Dollars)*						
Residential	**$ 1,304.5**	$ 1,342.3	$ 1,229.8	$ 1,157.0	$ 1,127.8	$ 1,092.6
Small Commercial and Industrial	**669.8**	641.0	595.2	537.1	489.4	471.7
Large Commercial and Industrial	**1,223.2**	1,278.9	1,247.1	1,182.0	1,089.3	1,103.3
Other	**168.0**	170.4	166.9	143.9	143.8	142.1
Service Territory	**3,365.5**	3,432.6	3,239.0	3,020.0	2,850.3	2,809.7
Interchange Sales	**32.1**	42.8	81.5	68.2	17.6	31.5
Sales to Other Utilities	**199.5**	187.2	81.1	—	—	—
Total Electric Revenues	**$ 3,597.1**	$ 3,662.6	$ 3,401.6	$ 3,088.2	$ 2,867.9	$ 2,841.2
Operating Expenses *(Millions of Dollars)*						
Operating Expenses, excluding Depreciation	**$ 2,236.9**	$ 2,253.2	$ 2,325.2	$ 2,077.4	$ 1,931.3	$ 1,926.6
Depreciation	**390.8**	379.6	337.7	257.4	245.5	234.9
Total Operating Expenses	**$ 2,627.7**	$ 2,632.8	$ 2,662.9	$ 2,334.8	$ 2,176.8	$ 2,161.5
Electric Operating Income *(Millions of Dollars)*	**$ 969.4**	$ 1,029.8	$ 738.7	$ 753.4	$ 691.1	$ 679.7
Average Use per Residential Customer *(kilowatthours)*						
Without Electric Heating	**6,259**	6,707	6,376	6,488	6,667	6,431
With Electric Heating	**16,288**	16,201	16,038	17,250	17,738	16,824
Total	**7,443**	7,801	7,464	7,655	7,807	7,427
Electric Peak Load, Demand *(thousands of kilowatts)*	**6,617**	7,096	6,755	6,467	6,826	6,547
Net Electric Generating Capacity - Year-End Summer Rating *(thousands of kilowatts)*	**8,766**	8,766	8,766	7,759	7,762	7,762
Cost of Fuel per Million Btu	**$0.82**	$0.92	$1.13	$1.37	$1.19	$1.35
Btu per Net Kilowatthour Generated	**10,657**	10,849	10,844	10,894	10,881	10,879

Operating Statistics

Gas Operations

	1992	1991	1990	1989	1988	1987
Sales *(Millions of Cubic Feet)*						
Residential	**1,819**	1,746	1,778	1,951	1,933	1,854
House Heating	**29,750**	26,423	25,303	28,301	28,112	26,010
Commercial and Industrial	**21,497**	20,492	23,228	30,038	39,073	38,170
Other	**618**	534	1,567	2,344	2,228	1,541
Total Gas Sales	**53,684**	49,195	51,876	62,634	71,346	67,575
Gas Transported for Customers	**23,588**	21,414	24,413	18,033	9,272	7,374
Total Gas Sales & Transported	**77,272**	70,609	76,289	80,667	80,618	74,949
Number of Customers, December 31						
Residential	**59,859**	62,444	63,267	65,544	66,599	67,688
House Heating	**269,577**	260,473	254,564	246,273	239,022	231,618
Commercial and Industrial	**30,956**	30,204	29,456	28,369	27,119	26,021
Total Gas Customers	**360,392**	353,121	347,287	340,186	332,740	325,327
Operating Revenues *(Millions of Dollars)*						
Residential	**$ 16.4**	$ 17.0	$ 18.1	$ 18.0	$ 17.0	$ 16.7
House Heating	**201.9**	192.4	200.8	195.8	180.6	175.7
Commercial and Industrial	**121.1**	123.6	144.7	152.5	165.1	167.5
Other	**2.0**	2.2	5.6	7.3	6.6	4.4
Subtotal	**$341.4**	$335.2	$369.2	$373.6	$369.3	$364.3
Other Revenues (including Transported for Customers)	**23.9**	20.8	15.8	12.1	9.1	[illegible].5
Total Gas Revenues	**$365.3**	$356.0	$385.0	$385.7	$378.4	[illegible].8
Operating Expenses *(Millions of Dollars)*						
Operating Expenses, excluding Depreciation	**$278.4**	$283.7	$336.2	$310.2	$308.3	$317.4
Depreciation	**22.9**	21.0	19.8	19.6	18.6	17.0
Total Operating Expenses	**$301.3**	$304.7	$356.0	$329.8	$326.9	$334.4
Gas Operating Income *(Millions of Dollars)*	**$ 64.0**	$ 51.3	$ 29.0	$ 55.9	$ 51.5	$ 37.4

Securities Statistics

Ratings on Philadelphia Electric Company's Securities

	Mortgage Bonds		Debentures		Preferred Stock	
Agency	Rating	Date Established	Rating	Date Established	Rating	Date Established
Duff and Phelps, Inc.	BBB+	4/92	BBB	4/92	BBB-	8/91
Fitch Investors Service, Inc.	A-	9/92	BBB+	9/92	BBB+	9/92
Moody's Investors Service	Baa1	4/92	Baa2	4/92	baa2	4/92
Standard & Poor's Corporation	BBB+	4/92	BBB	4/92	BBB	4/92

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

	1992				1991			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
High Price	**$26-3/4**	**$26-3/4**	**$26-5/8**	**$26**	$26	$22-7/8	$21	[illegible]7/8
Low Price	**$25**	**$25**	**$23-5/8**	**$22-5/8**	$22-1/8	$19-7/8	$19-1/2	[illegible]/2
Close	**$26-1/8**	**$26-3/8**	**$26-3/8**	**$24-5/8**	$25-7/8	$22-5/8	$20-1/8	$19-3/4
Earnings	**63¢**	**59¢**	**35¢**	**33¢**	35¢	72¢	50¢	58¢
Dividends	**35¢**	**32.5¢**	**32.5¢**	**32.5¢**	32.5¢	30¢	30¢	30¢

Officers

JOSEPH F. PAQUETTE, JR. (58)
Chairman and Chief Executive Officer

CORBIN A. MCNEILL, JR. (53)
President and Chief Operating Officer

WILLIAM L. BARDEEN (54)
Senior Vice President, Finance and Chief Financial Officer

JAMES W. DURHAM (55)
Senior Vice President and General Counsel

WILLIAM J. KASCHUB (50)
Senior Vice President, Human Resources

GWENDOLYN S. KING (52)
Senior Vice President, Corporate and Public Affairs

DICKINSON M. SMITH (59)
Senior Vice President, Nuclear

DAVID R. HELWIG (41)
Vice President, Limerick Generating Station

THOMAS P. HILL, JR. (44)
Vice President and Controller

KENNETH G. LAWRENCE (45)
Vice President, Gas Operations

JOHN M. MADARA, JR. (49)
Vice President, Production

ALBERT G. MIKALAUSKAS (56)
Vice President, Customer and Marketing Services

DONALD B. MILLER, JR. (51)
Vice President, Peach Bottom Atomic Power Station

GERALD R. RAINEY (43)
Vice President, Nuclear Services

MORTON W. RIMERMAN (63)
Vice President, Finance and Treasurer

WILLIAM H. SMITH, III (44)
Vice President, Planning and Performance

ALBERT J. SOLECKI (52)
Vice President, Information Systems and General Services

ALVIN J. WEIGAND (54)
Vice President, Transmission and Distribution Services

LUCY S. BINDER (55)
Secretary

J. BARRY MITCHELL (45)
Assistant Treasurer and Director of Financial Operations

JAMES F. HOHENSTEIN (49)
Assistant Treasurer

M. DOROTHY LYONS (51)
Assistant Secretary

TODD D. CUTLER (32)
Assistant Secretary

Management Changes

William L. Bardeen was elected Senior Vice President, Finance and Chief Financial Officer, effective February 18, 1992.

Raymond F. Holman retired as Senior Vice President, Planning and Performance, effective May 1, 1992.

William H. Smith, III, was elected Vice President, Planning and Performance, effective May 1, 1992.

Nicholas DeBenedictis resigned as Senior Vice President, Corporate and Public Affairs, effective June 30, 1992.

David R. Helwig was elected Vice President, Limerick Generating Station, effective July 20, 1992.

Gerald R. Rainey was elected Vice President, Nuclear Services, effective July 20, 1992.

Todd D. Cutler was elected Assistant Secretary, effective July 27, 1992.

Graham M. Leitch retired as Vice President, Limerick Generating Station, effective August 1, 1992.

Gwendolyn S. King was elected Senior Vice President, Corporate and Public Affairs, effective October 1, 1992.

Board of Directors

Susan W. Catherwood (49)
Chairman, Trustee Board, The University of Pennsylvania Medical Center

M. Walter D'Alessio (59)
President and Chief Executive Officer, Latimer & Buck, Inc. (Mortgage banking and real estate development)

Richard G. Gilmore* (65)
Former Senior Vice President, Finance and Chief Financial Officer of the Company

Richard H. Glanton, Esquire (46)
Partner of the law firm Reed Smith Shaw & McClay

James A. Hagen* (60)
Chairman, President and Chief Executive Officer, Consolidated Rail Corporation

Nelson G. Harris (66)
Chairman of the Executive Committee, Tasty Baking Company

Robert D. Harrison (69)
Management and marketing consultant

Joseph C. Ladd (66)
Former Chairman, The Fidelity Mutual Life Insurance Company

Edithe J. Levit, M.D.* (66)
President Emeritus and Life Member of the Board, National Board of Medical Examiners

Admiral Kinnaird R. McKee* (63)
Director Emeritus, U.S. Navy Nuclear Propulsion

Joseph J. McLaughlin* (64)
President and Chief Executive Officer, Beneficial Mutual Savings Bank

Corbin A. McNeill, Jr. (53)
President and Chief Operating Officer of the Company

John M. Palms, PhD. (57)
President, University of South Carolina

Joseph F. Paquette, Jr.* (58
Chairman and Chief Executive Officer of the Company

Ronald Rubin (61)
General Partner, Richard I. Rubin & Co. (Real estate development and management)

* *Member of Executive Committee*

Shareholder Information

Stock Exchange Listings

Most Company securities are listed on the New York Stock Exchange and the Philadelphia Stock Exchange. Philadelphia Electric Power Company Debentures are listed on the Philadelphia Stock Exchange.

Dividends

The Company has paid dividends on its common stock continually since 1902. The Board of Directors normally considers common stock dividends for payment in March, June, September and December. The Company estimates that the $1.325 per share dividend paid to common shareholders in 1992 is fully taxable as dividend income for federal income tax purposes.

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

In 1992, over 48% of the Company's common shareholders were participants in the Plan. Information concerning the Plan may be obtained from: First Chicago Trust Company of New York, P.O. Box 3506, Church Street Station, New York, NY 10008-3506.

Comments Welcomed

The Company is always pleased to answer questions and provide information. Please address your comments to Mrs. L. S. Binder, Secretary, Philadelphia Electric Company, 2301 Market Street, P.O. Box 8699, Philadelphia, PA 19101.

Inquiries relating to shareholder accounting records, stock transfer and change of address should be directed to: First Chicago Trust Company of New York, P.O. Box 3981, Church Street Station, New York, NY 10008-3981.

Toll-Free Telephone Line

Toll-free telephone lines are available to the Company's shareholders for inquiries concerning their stock ownership. Calls should be made to 1-800-626-8729.

Annual Meeting

The Annual Meeting of Shareholders of the Company will be held on April 14, 1993. The record date for voting at the shareholders' meeting is February 24, 1993. Notice of the meeting, proxy statement and proxy will be mailed under separate cover. Prompt return of the proxies will be appreciated.

Form 10-K

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

Shareholders

The Company had 230,748 common stock shareholders of record as of December 31, 1992.

Transfer Agents and Registrars

PHILADELPHIA ELECTRIC COMPANY—
Preferred and Common Stocks
Registrar & Transfer Agent:
First Chicago Trust Company of New York
30 W. Broadway, NY, NY 10007

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

PHILADELPHIA ELECTRIC COMPANY—Debentures
PHILADELPHIA ELECTRIC POWER COMPANY
(A Subsidiary)—Debentures
Trustee:
CoreStates Bank, N.A.
Corporate Trust Department
P.O. Box 7907
Philadelphia, PA 19101-7907
New York Agent:
Marine Midland Bank
Corporate Trust Department
140 Broadway
Operations Level A
NY, NY 10015

General Office

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

Annual Report Survey

In July 1992, the Company surveyed a random sample of 2,500 common stock shareholders to evaluate the Company's Annual Report. They gave their opinions on all aspects of the report, including their clear preference for a standard report with photography instead of a plain report without photography. They expressed a desire to use more recycled paper, which we have done with this report (100% recycled). The length of the report was judged to be satisfactory. Over 77% of the respondents viewed the 1991 report as "above average" or "outstanding." We wish to extend our appreciation to all of the shareholders who participated in the survey.

PHILADELPHIA ELECTRIC COMPANY
2301 Market Street
PO Box 8699
Philadelphia, PA 19101