

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**  
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### FILER

#### ATLANTIC CITY ELECTRIC CO

CIK: **8192** | IRS No.: **210398280** | State of Incorpor.: **NJ** | Fiscal Year End: **1231**  
Type: **10-K405** | Act: **34** | File No.: **001-03559** | Film No.: **99574395**  
SIC: **4911** Electric services

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the fiscal year ended December 31, 1998

OR

[\_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934

Commission file number 1-3559

-----  
ATLANTIC CITY ELECTRIC COMPANY  
(Exact name of registrant as specified in its charter)

<TABLE>  
<CAPTION>  
New Jersey 21-0398280  
<S> <C>  
(State of Incorporation) (I.R.S. Employer Identification No.)  
</TABLE>

800 King Street, P.O. Box 231  
Wilmington, Delaware 19899  
(Address of principal executive offices)

Registrant's telephone number (302) 429-3114

-----  
Securities registered pursuant to Section 12(b) of the Act:

<TABLE>  
<CAPTION>  
Title of each class Name of each exchange on which registered  
-----  
<S> <C>  
8.25% Cumulative Quarterly Income New York Stock Exchange  
Preferred  
Securities, liquidation  
preference \$25 per preferred  
security issued by Atlantic  
Capital I  
7 3/8% Cumulative Trust Preferred New York Stock Exchange  
Capital Securities, liquidation  
preference \$25 per preferred  
security issued by Atlantic  
Capital II  
</TABLE>

Securities registered pursuant to Section 12(g) of the Act: None

-----  
Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of

1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

All 18,320,937 issued and outstanding shares of Atlantic City Electric Company common stock, \$3 per share par value, are owned by Conectiv.

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GLOSSARY

The following glossary lists the abbreviations used in this report.

Term -----	Definition -----
<C>	<S>
7 3/8% Debentures.....	7 3/8% Junior Subordinated Debentures
8.25% Debentures.....	8.25% Junior Subordinated Deferrable Interest Debentures
1992 Energy Act.....	National Energy Policy Act of 1992
ACE.....	Atlantic City Electric Company
the Act.....	The Electric Discount and Energy Competition Act
AFUDC.....	Allowance For Funds Used During Construction
Atlantic.....	Atlantic Energy, Inc.
ALJ.....	Administrative Law Judge
BGS.....	Basic Generation Service
Clean Water Act.....	Federal Water Pollution Control Act
CRP.....	Conectiv Resource Partners, Inc.
D&D Fund.....	Decontamination & Decommissioning Fund
DOE.....	United States Department of Energy
DPL.....	Delmarva Power & Light Company
DSM.....	Demand Side Management Plan
FASB.....	Financial Accounting Standards Board
FERC.....	Federal Energy Regulatory Commission
GAAP.....	Generally Accepted Accounting Principles
Hope Creek.....	Hope Creek Nuclear Generating Station
IPP.....	Independent Power Producer
kWh.....	Kilowatt-hour
LEC.....	Levelized Energy Clause
Litigation Reform Act.....	The Private Securities Litigation Reform Act of 1995
LLRW.....	Low Level Radioactive Waste
LMP.....	Locational Marginal Pricing
MD&A.....	Management's Discussion and Analysis of Financial Condition and Results of Operations
Merger.....	A series of merger transactions by which DPL and ACE became subsidiaries of Conectiv
Mortgage.....	Mortgage and Deed of Trust
MW.....	Megawatt
NERC.....	North American Electric Reliability Council
NJBPU.....	New Jersey Board of Public Utilities
NJDEP.....	New Jersey Department of Environmental Protection
NJPDES.....	New Jersey Pollution Discharge Elimination System
NOTR.....	Northeast Ozone Transport Region
NOx.....	Oxides of Nitrogen
NPDES.....	National Pollution Discharge Elimination System
NRC.....	Nuclear Regulatory Commission
NWPA.....	Nuclear Waste Policy Act of 1982
Peach Bottom.....	Peach Bottom Atomic Power Station
PECO.....	PECO Energy Company
PJM Interconnection.....	Pennsylvania-New Jersey-Maryland Interconnection Association Public Service Electric and Gas

PSE&G..... Company  
PUHCA..... Public Utility Holding Company Act of  
1935

</TABLE>

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<TABLE>

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Term	Definition
----	-----
<C>	<S>
PURPA.....	Public Utility Regulatory Policy Act of 1978
RACT.....	Reasonably Available Control Technology
RISC.....	Rate Intervention Steering Committee
RTP.....	Real Time Pricing
Salem.....	Salem Nuclear Generating Station
SALP.....	Systematic Assessment of Licensee Performance
SEC.....	Securities and Exchange Commission
SFAS.....	Statement of Financial Accounting Standards
SFAS No. 71.....	SFAS No. 71, "Accounting For the Effects of Certain Types of Regulation"
SFAS No. 88.....	SFAS No. 88, "Employers' Accounting For Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits"
SFAS No. 128.....	SFAS No. 128, "Earnings Per Share"
SFAS No. 131.....	SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information"
SFAS No. 133.....	SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities"
SO/2/ .....	Sulfur Dioxide
TEFA.....	Transitional Energy Facility Assessment Tax
USEPA.....	United States Environmental Protection Agency
VRDB.....	Variable Rate Demand Bonds
Westinghouse.....	Westinghouse Electric Corporation

</TABLE>

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## PART I

### Item 1. Business

#### General

Atlantic City Electric Company (ACE) is a regulated public electric utility and a subsidiary of Conectiv, which is a Delaware corporation and a registered holding company under the Public Utility Holding Company Act of 1935 (PUHCA). ACE was organized under the laws of New Jersey on April 28, 1924 by merger and consolidation of several utility companies. ACE holds the franchises necessary to provide regulated electric service in its service territory.

ACE is primarily engaged in generating, purchasing, delivering, and selling electricity. ACE serves approximately 488,800 customers in its service territory which covers an area of about 2,700 square miles in the southern one-third of New Jersey and has a population of approximately 850,000. ACE's customer base is comprised primarily of residential and commercial customers. In 1998, the percentages of retail electric revenues contributed by customer class were as follows: residential--47.3%; commercial--41.1%; and industrial / other--11.6%.

ACE's utility business is subject to regulation with respect to its retail electric sales by the New Jersey Board of Public Utilities (NJBPUB). The Federal Energy Regulatory Commission (FERC) also has regulatory authority over certain aspects of ACE's electric utility business, including the transmission of electricity, the sale of electricity to municipalities and electric cooperatives, and interchange and other purchases and sales of electricity involving other utilities. ACE is also subject to regulation by the Pennsylvania Public Utility Commission in limited respects concerning property and operations in Pennsylvania.

On March 1, 1998, ACE and Delmarva Power & Light Company (DPL) became wholly-owned subsidiaries of Conectiv (the Merger). Before the Merger, ACE was owned by Atlantic Energy, Inc. (Atlantic). As a result of the Merger, Atlantic no longer exists and Conectiv owns, directly or indirectly, ACE, DPL and the nonutility subsidiaries formerly held separately by Atlantic and DPL. Conectiv is a registered holding company under PUHCA, which imposes certain restrictions on the operations of registered holding companies and their subsidiaries.

As of December 31, 1998, ACE had 857 employees, of which 524 were represented by a collective bargaining labor organization. During 1998, ACE reduced its workforce by 573 employees, including 354 employees separated through Merger-related employee separation programs and 219 employees transferred to Conectiv Resource Partners, Inc. (CRP), a Conectiv subsidiary and service company established pursuant to PUHCA. CRP provides a variety of support services to Conectiv subsidiaries, and its employees are primarily former DPL and ACE employees. The costs of CRP are directly assigned, distributed and allocated to the Conectiv subsidiaries using CRP's services, including ACE.

For additional information about the Merger, refer to Note 4 to ACE's 1998 Consolidated Financial Statements included in Item 8 of Part II.

For information concerning ACE's business segments, refer to Note 18 to ACE's 1998 Consolidated Financial Statements included in Item 8 of Part II.

#### Competition and Electric Utility Industry Restructuring

For information concerning restructuring the electric utility industry in New Jersey and the Electric Discount and Competition Act (the Act), see Note 5 to ACE's 1998 Consolidated Financial Statements included in Item 8 of Part II. Under the Act, New Jersey electric customers may choose an electricity supplier beginning August 1, 1999. Customers will continue to pay the local utility a regulated price for delivery of electricity over the transmission and distribution system. As electric utility industry restructuring is implemented in ACE's and other utilities' service territories, gross margins earned from supplying electricity are expected to decrease as

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competition to supply customers with electricity increases. As a greater percentage of ACE's revenues become subject to competition, financial risks and rewards, and the volatility of earnings are expected to increase. ACE's ability to continue reducing costs by streamlining operations, regulatory decisions pursuant to restructuring under the Act, retention of existing customers and the ability to gain new customers are significant determinants of ACE's future success.

#### Installed Capacity

The megawatts (MW) of net installed summer electric generating capacity available to ACE to serve its peak load as of December 31, 1998, are presented below. See Item 2, Properties, for additional information.

<TABLE>  
<CAPTION>

Source of Capacity -----	MW	% of Total
<S>	<C>	<C>

Coal-fired generating units.....	471	19
Oil-fired generating units.....	295	12
Combustion turbines/combined cycle generating units.....	524	21
Nuclear generating units.....	380	15
Diesel units.....	9	--
Long-term purchased capacity.....	828	33
	----	---
Subtotal.....	2,507	100
Short-term purchased capacity.....	9	--
	----	---
Total.....	2,516	100
	=====	===

</TABLE>

The net generating capacity available for operations at any time may be less than the total net installed generating capacity due to generating units being out of service for inspection, maintenance, repairs, or unforeseen circumstances.

As restructuring of the electric utility industry is implemented, ACE expects to sell some of its generating units. ACE has identified certain generating assets that may be sold, but has not determined when such sale, or sales, would occur.

Electricity Supply

As a member of the Pennsylvania-New Jersey-Maryland Interconnection Association (PJM Interconnection), ACE is obligated to maintain capacity levels based on its allocated share of estimated aggregate PJM Interconnection capacity requirements. (The PJM Interconnection is discussed on page I-3.) ACE periodically updates its forecast of peak demand and PJM Interconnection reserve requirements, and re-evaluates resources available to supply projected growth. Any short-term capacity deficiencies related to obligations to the PJM Interconnection are expected to be satisfied through short-term capacity-only purchases. Incremental energy supply needs are expected to be filled through purchased power.

ACE experienced its highest historical peak demand of 2,162 MW on July 22, 1998, which was 1.6% above the previous peak demand of 2,127 MW recorded on August 16, 1997. ACE's capacity obligation to the PJM Interconnection, which includes a reserve margin, is based on normal weather conditions and full implementation of its demand-side management programs. Under these conditions, ACE's 1998 peak demand would have been approximately 2,115 MW. ACE's installed capacity of 2,501 MW at the time of the peak resulted in a reserve margin of 18%, computed under PJM Interconnection guidelines. ACE's reserve obligation to the PJM Interconnection is approximately 20%.

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The sources of the electricity supplied to ACE's customers during 1998, 1997, and 1996 are shown below:

<TABLE>

<CAPTION>

Source of Electricity	1998	1997	1996
-----	----	----	----
<S>	<C>	<C>	<C>
Generation fuel type			
Coal.....	26%	26%	28%
Nuclear.....	29	18	15
Oil/Natural Gas.....	4	3	2
Interchange and Purchased Power.....	12	30	35
Nonutility Purchased Power.....	29	23	20
	---	---	---
Total.....	100%	100%	100%
	===	===	===

</TABLE>

Pennsylvania-New Jersey-Maryland Interconnection Association

As a member of the PJM Interconnection, ACE's generation and transmission

facilities are operated on an integrated basis with other electricity suppliers in Pennsylvania, New Jersey, Maryland, and the District of Columbia, and are interconnected with other major utilities in the United States. This power pool improves the reliability and operating economies of the systems in the group and provides capital economies by permitting shared reserve requirements. The PJM Interconnection's installed capacity as of December 31, 1998, was 57,551 MW. The PJM Interconnection peak's demand during 1998 was 48,663 MW on August 15, which resulted in a summer reserve margin of 18.2% (based on installed capacity of 57,511 MW on that date).

On October 15, 1998, the PJM Interconnection began operating a centralized capacity credit market, providing a new option to participants for procuring and selling surplus capacity to meet reliability obligations within the PJM Interconnection region. Capacity is the capability to produce electric power, typically from owned generation or third-party purchase contracts and differs from the electric energy markets, which trade the actual energy being generated. This market facilitates the selling and buying of capacity for participants by providing a single point of contact for market participants and a published capacity market clearing price.

Effective April 1, 1998, the PJM Interconnection implemented locational marginal pricing (LMP) to establish the market clearing prices for electric energy and to price electric transmission usage based upon costs associated with transmission system congestion. When there is no congestion on the power system and energy is flowing on the grid in an unconstrained manner, energy prices are cleared at the highest bid accepted by the PJM Interconnection for the entire PJM Interconnection region. When a limit is reached on the transmission grid, the PJM Interconnection will operate generators to preserve system reliability. LMP allows the PJM Interconnection to send price signals to raise and lower generator output when the power flows are constrained. Different energy market clearing prices are paid by wholesale power buyers and sellers on the power grid that reflect the value relative to a system constraint. LMP provides for an efficient allocation of congestion costs to transmission users within the PJM Interconnection region. The FERC has approved the use of the LMP congestion management system to allow electric energy market participants with power contracts on neighboring electric systems to compensate the PJM Interconnection for any unintended flows on the PJM Interconnection system, rather than forcing those participants to curtail their contracts.

Currently, the PJM Interconnection Operating Agreement requires bids to sell electricity received from generation located within the PJM Interconnection control area not to exceed the variable cost of producing such electricity. Transactions that are bid into the PJM pool from generation located outside the PJM Interconnection control area are capped at \$1,000 per megawatt hour. All power providers are paid the LMP set through power providers' bids. Certain PJM Interconnection members have requested that FERC revise the PJM Interconnection Operating Agreement to allow the submission of market based bids to the PJM Interconnection energy market.

Purchased Power

The Public Utility Regulatory Policy Act of 1978 (PURPA) established a class of nonutility power suppliers, known as independent power producers (IPPs), and required electric utilities to purchase the excess power from IPPs. As a result of PURPA, ACE has long-term contracts with four IPPs for the purchase of 659 MW of capacity and energy. In view of electric utility industry restructuring, various parties continue to seek the repeal of PURPA; however, federal action with regard to PURPA is not likely to affect ACE's IPP contracts.

ACE's NJBPU-approved IPP contracts are shown below.

<TABLE>  
<CAPTION>

Project Location	Fuel Type	MW Provided	Date of Commercial Operation
-----	-----	-----	-----



<S>	<C>	<C>	<C>
Chester, Pennsylvania.....	solid waste	75	September 1991
Pedricktown, New Jersey.....	gas	116	March 1992
Carney's Point, New Jersey.....	coal	249	March 1994
Logan Township, New Jersey.....	coal	219	September 1994
		---	
Total.....		659	
		===	

</TABLE>

ACE is also currently purchasing 125 MW of capacity and energy from PECO Energy Company (PECO) under a contract which ends May 31, 2000. This agreement replaced a terminated agreement with Pennsylvania Power & Light Company, effective March 1998. ACE also contracts with other electric suppliers on an as-needed basis for the purchase of short-term generating capacity, energy and transmission capacity.

#### Nuclear Power Plants

ACE owns 5% of the 1,031 MW, Hope Creek Nuclear Generating Station (Hope Creek) and 7.41% of the 2,212 MW, Salem Nuclear Generating Station (Salem). The Hope Creek Unit and Salem Units 1 and 2 are located adjacent to each other in Salem County, New Jersey, and are operated by Public Service Electric & Gas (PSE&G). ACE also owns 7.51% of the 2,186 MW, Peach Bottom Atomic Power Station (Peach Bottom), which has Units 2 and 3, is located in York County, Pennsylvania, and is operated by PECO.

ACE's ownership share in nuclear power plants provided approximately 15% of its installed capacity as of December 31, 1998. In 1998, ACE's share of output from the jointly-owned nuclear power plants provided 29% of the electricity used by ACE's customers. See Note 7 to ACE's 1998 Consolidated Financial Statements included in Item 8 of Part II for information about ACE's investment in jointly-owned generating stations.

The operation of nuclear generating units is regulated by the Nuclear Regulatory Commission (NRC). Such regulation requires that all aspects of plant operation be conducted in accordance with NRC safety and environmental requirements and that continuous demonstrations be made to the NRC that plant operations meet applicable requirements. The NRC has the ultimate authority to determine whether any nuclear generating unit may operate.

As a by-product of nuclear operations, nuclear generating units produce low-level radioactive waste (LLRW). LLRW is accumulated on-site until shipped to a federally licensed permanent disposal facility. Salem, Hope Creek, and Peach Bottom have on-site interim storage facilities with five-year storage capacities.

For a discussion of the cycle of production, use and disposal of nuclear fuel, see "Nuclear" on page I-6.

For a discussion of ACE's funding of its share of the estimated future cost of decommissioning the Hope Creek, Peach Bottom, and Salem nuclear reactors, see Note 15 to ACE's 1998 Consolidated Financial Statements included in Part II, Item 8.

The NRC is requiring nuclear plant operators to report by July 1, 1999, that their nuclear power plants are Year 2000 ready, or will be Year 2000 ready, by January 1, 2000. PSE&G and PECO have informed ACE that they are on schedule to meet the July 1, 1999 response date and that their nuclear operations' Year 2000 programs will make Salem, Hope Creek, and Peach Bottom Year 2000 ready by January 1, 2000.

Salem Units 1 and 2 were removed from operation by PSE&G in the second quarter of 1995 due to operational problems, and maintenance and safety concerns. Due to degradation of a significant number of tubes in the Unit 1 steam generators, PSE&G replaced the Unit 1 steam generators. After receiving NRC authorization, PSE&G returned Unit 2 to service on August 30, 1997, and Unit 1 to service on April 17, 1998. On July 29, 1998, the NRC removed Salem from its "watch list" of troubled nuclear plants. The Salem Unit 2 steam generators will be inspected for tube degradation in upcoming outages.

See Note 13 to ACE's 1998 Consolidated Financial Statements included in Part II, Item 8, for information concerning ACE's lawsuit against Westinghouse Electric Corporation, the designer and manufacturer of the Salem steam generators, and the financial impact of the outages.

Systematic Assessment of Licensee Performance (SALP) reports issued by the NRC rate licensee performance in four assessment areas: Operations, Maintenance, Engineering and Plant Support. Ratings range from a high of "1" to a low of "3." In September 1998, the NRC issued a SALP Report on the performance of activities at Salem for the period March 1, 1997, to August 1, 1998. Salem received a rating of 1 in Operations, a 2 in Maintenance, a 2 in Engineering, and a 1 in Plant Support. The NRC noted that the overall performance at Salem improved, as demonstrated by a nearly event-free return of both units to operation following the extended outage.

On June 8, 1998, the NRC issued a SALP report on Hope Creek for the period November 10, 1996, to May 16, 1998. Hope Creek received a rating of 2 in the areas of Operations, Maintenance, and Engineering, and a rating of 1 in the area of plant support. The NRC noted improved performance in all functional areas during the period.

On July 17, 1997, the NRC issued a SALP report on Peach Bottom for the period October 15, 1995, to June 7, 1997. Peach Bottom received a rating of 1 in the areas of Operations, Maintenance, and Plant Support, and 2 in Engineering.

On September 16, 1998, the NRC announced that it was suspending the SALP report process until it completes a review of its nuclear power plant performance assessment process. The SALP process has not yet been resumed or replaced.

#### Fuel Supply for Electric Generation

ACE's electric generating capacity by fuel type is shown under "Installed Capacity" on page I-2. To facilitate the purchase of adequate amounts of fuel at reasonable prices, ACE contracts with various suppliers of coal, oil, and natural gas on both a long- and short-term basis. Prices under oil and natural gas contracts are generally determined by market-based indices.

#### Coal

B.L. England Units 1 and 2, Deepwater Unit 6, and the Keystone and Conemaugh Generating Stations are coal-fired. During 1998, 92% of ACE's coal supply for these units was purchased under two long-term contracts, which expire in April 1999 and June 2001, and the balance was purchased on the spot market. Approximately 56% of ACE's projected coal requirements are expected to be provided under supply contracts. ACE does not anticipate any difficulty in obtaining adequate amounts of coal at reasonable prices.

#### Oil

Currently, 100% of the residual oil used in B.L. England Unit 3 and Deepwater Unit 1 is supplied under a three-year contract that expires October 31, 2000. Another three-year contract which expires October 31, 2000, provides all of the distillate oil supply for ACE's combustion turbines.

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#### Gas

Natural gas is the primary fuel for six of ACE's combustion turbines and a secondary fuel at Deepwater Units 1 and 6. Natural gas for ACE's gas-fired generating units is purchased primarily from the local gas distribution company on a firm basis and is also purchased from other suppliers, such as marketers, producers, and utilities. The gas is delivered under contract through the interstate pipeline system.

#### Nuclear

The supply of fuel for nuclear generating units involves the mining and

milling of uranium ore to uranium concentrate, conversion of the uranium concentrate to uranium hexafluoride, enrichment of the uranium hexafluoride gas, conversion of the enriched gas to fuel pellets, and fabrication of fuel assemblies. After spent fuel is removed from a nuclear reactor, it is placed in temporary storage for cooling in a spent fuel pool at the nuclear station site. The federal government has an obligation for the transportation and ultimate disposal of the spent fuel, as discussed below.

PSE&G has informed ACE it has several long-term contracts with uranium ore operators, converters, enrichers and fabricators to process uranium ore to uranium concentrate to meet the currently projected requirements for Salem and Hope Creek. ACE has also been advised by PECO that it has similar contracts to satisfy the fuel requirements of Peach Bottom. Currently, there is an adequate supply of nuclear fuel for Salem, Hope Creek, and Peach Bottom.

In conformity with the Nuclear Waste Policy Act of 1982 (NWPA), PSE&G and PECO have entered into contracts with the United States Department of Energy (DOE) on behalf of the joint owners providing that the federal government shall for a fee take title to, transport, and dispose of spent nuclear fuel and high level radioactive waste from the Salem, Hope Creek, and Peach Bottom reactors. In accordance with the NWPA, ACE pays the DOE one-tenth of one cent per kilowatt-hour (kWh) of nuclear generation (net of station use) for the future cost of spent nuclear fuel disposal. Under the NWPA, the DOE was to begin accepting spent fuel for permanent off-site storage no later than January 1998. However, no such repositories are in service or under construction. The DOE has stated that it would not be able to open a permanent, high level nuclear waste storage facility until 2010, at the earliest.

Pursuant to NRC rules, spent nuclear fuel generated in any reactor can be stored in reactor facility storage pools or in independent spent nuclear fuel storage installations located at or away from reactor sites for at least 30 years beyond the licensed life for operation (which may include the term of a revised or renewed license).

PSE&G has advised ACE that, as a result of reracking the two spent fuel storage pools at Salem, the availability of spent fuel storage capacity is estimated to be adequate through 2012 for Unit 1 and 2016 for Unit 2. PSE&G has also advised ACE that the Hope Creek pool is also fully racked and it is expected to provide adequate storage capacity until 2006. PECO has advised ACE that spent fuel racks at Peach Bottom have storage capacity until 2000 for Unit 2 and until 2001 for Unit 3. PECO has also advised ACE that it is constructing an on-site dry storage facility, which is expected to be operational in 2000, to provide additional storage capacity.

#### Regulatory Matters

For information concerning restructuring the electric utility industry in New Jersey, see Note 5 to ACE's 1998 Consolidated Financial Statements included in Item 8 of Part II.

#### Electric Retail Rates

ACE's base rates for retail electric service are subject to the approval of the NJBPU. However, the utility ratemaking process is changing in New Jersey, as discussed in Note 5 to ACE's 1998 Consolidated Financial Statements included in Item 8 of Part II.

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For information concerning base rate increases and decreases affecting the 1996-1998 results of operations, including the Merger-related base rate decrease and base rate decreases expected in connection with the electric utility industry restructuring, see Notes 3, 5 and 13 to ACE's 1998 Consolidated Financial Statements included in Item 8 of Part II.

#### Off-Tariff Rates

Legislation enacted in New Jersey in July 1995 allows the NJBPU, upon petition from any electric or gas utility, to adopt a plan of regulation other than the traditional rate-base/rate-of-return regulation. In addition, on a

case-by-case basis, the law allows utilities to petition the NJBPU for the right to offer customers, who meet certain conditions, off-tariff, discounted rates. Off-tariff pricing arrangements with certain ACE customers have been arranged. Refer to "Electric Revenues" in ACE's Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) herein for further information regarding off-tariff rates (OTRAs).

#### Levelized Energy Adjustment Clause

Information concerning the Levelized Energy Adjustment Clause (LEC) is included in the Notes to ACE's 1998 Consolidated Financial Statements (Part II, Item 8) as follows: (i) the operation of the LEC and deferred energy accounting are discussed under "Deferred Energy Costs" in Note 1, (ii) the nuclear performance standard is discussed under "Other Rate Matters" in Note 5, and (iii) the financial impact of extended outages at Salem is discussed in Note 13.

In January 1999, ACE filed with the NJBPU a petition requesting that the estimated cost of oxides of nitrogen (NOx) allowances in 1999 of \$4.8 million be included in LEC rates. A ruling on this matter is expected during 1999. For information concerning NOx emission regulations, see "Air Quality Regulations" on page I-9.

On April 11, 1997, the Rate Intervention Steering Committee (RISC) submitted its brief on its appeal to the Superior Court of New Jersey in response to the NJBPU's decision which provided for ACE's recovery (through LEC rates) of the cost of power purchased from IPPs. In May 1998, the Superior Court of New Jersey rejected RISC's appeal and upheld the NJBPU's decision providing for LEC recovery of IPP purchased power costs. In May 1998, RISC appealed the Superior Court's decision to the Supreme Court of New Jersey, which denied RISC's appeal in July 1998.

The LEC is expected to be superceded by provisions contained in the Act which permit Basic Generation Service (BGS) suppliers full and timely recovery of their costs. The Act also authorizes the NJBPU to allow the deferral and subsequent recovery of BGS costs if necessary for attainment of the rate reductions required by the Act. Regulations governing BGS are expected to be promulgated by the NJBPU prior to beginning retail choice of electricity suppliers in New Jersey.

#### Electric Distribution Service Reliability and Quality Standards

On December 30, 1997, the NJBPU directed its Staff to initiate an inquiry into establishing measurable performance and reliability standards for New Jersey electric and gas utilities. The Staff's most recent draft proposal does not propose monetary penalties, but does require establishment of utility specific standards and contains potentially costly and burdensome reporting requirements. The NJBPU is expected to review this matter in 1999.

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#### Other Regulatory Matters

The 1992 Energy Act provided for creation of a Decontamination & Decommissioning (D&D) Fund to pay for the future clean-up of DOE gaseous diffusion enrichment facilities. Domestic utilities and the federal government are required to make payments to the D&D Fund until 2008 or \$2.25 billion, adjusted annually for inflation, is collected. The liability accrued for ACE's share of the D&D Fund was \$5.7 million as of December 31, 1998. ACE is recovering this cost through LEC revenues.

ACE has cost allocation and direct charging mechanisms in place to ensure that there is no cross-subsidization of its competitive activities by regulated utility activities. In accordance with the NJBPU's order which approved the Merger, ACE filed Conectiv's Cost Accounting Manual and the Service Agreement between ACE and CRP with the NJBPU on October 28, 1998.

Certain types of transactions between ACE and its affiliates may require prior approval of the NJBPU.

The New Jersey Public Utility Fault Determination Act requires the NJBPU to make a determination of fault with regard to any past or future accident at any electric generating or transmission facility, prior to granting a utility's request for a rate increase to cover accident-related costs in excess of \$10 million. However, the law allows a utility to file for non-accident related rate increases during such fault determination hearings and to recover contributions to federally mandated or voluntary cost-sharing plans. The law further allows the NJBPU to authorize the recovery of certain fault-related repair, cleanup, replacement power or damage costs, if appropriate.

#### Capital Spending and Financing Program

For financial information concerning ACE's capital spending and financing program, refer to "Liquidity and Capital Resources" in the MD&A included in Item 7 of Part II and Notes 8 and 9 to ACE's 1998 Consolidated Financial Statements, included in Item 8 of Part II.

ACE's ratios of earnings to fixed charges and earnings to fixed charges and preferred stock dividends under the Securities and Exchange Commission (SEC) Methods for 1994-1998 are shown below.

<TABLE>  
<CAPTION>

	Year Ended December 31,				
	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Ratio of Earnings to Fixed Charges (SEC Method)...	1.66	2.84	2.59	3.19	3.07
Ratio of Earnings to Fixed Charges and Preferred Stock Dividends (SEC Method).....	1.55	2.58	2.16	2.43	2.26

</TABLE>

Under the SEC Method, earnings, including Allowance For Funds Used During Construction (AFUDC), have been computed by adding income taxes and fixed charges to net income. Fixed charges include gross interest expense, the estimated interest component of rentals, and dividends on preferred securities of subsidiary trusts. For the ratio of earnings to fixed charges and preferred stock dividends, preferred stock dividends represent annualized preferred stock dividend requirements multiplied by the ratio that pre-tax income bears to net income. Excluding Merger-related pre-tax charges of \$79.1 million in 1998 and \$22.2 million in 1997, the Ratio of Earnings to Fixed Charges was 2.74 in 1998 and 3.15 in 1997, and the Ratio of Earnings to Fixed Charges and Preferred Stock Dividends was 2.55 in 1998 and 2.86 in 1997.

#### Environmental Matters

ACE is subject to various federal, regional, state, and local environmental regulations, including air and water quality control, oil pollution control, solid and hazardous waste disposal, and limitation on land use. Permits are required for ACE's construction projects and the operation of existing facilities. ACE has incurred, and expects to continue to incur, capital expenditures and operating costs because of environmental considerations and requirements. ACE has a continuing program to assure compliance with the environmental standards adopted by various regulatory authorities.

Included in ACE's forecasted capital requirements are construction expenditures for compliance with environmental regulations, which are estimated to be \$2 million in 1999.

#### Air Quality Regulations

The federal Clean Air Act requires utilities and other industries to significantly reduce emissions of air pollutants such as sulfur dioxide (SO<sub>2</sub>) and oxides of nitrogen (NO<sub>x</sub>). Title IV of the Clean Air Act, the acid rain provisions, established a two-phase program which mandated reductions of SO<sub>2</sub> and NO<sub>x</sub> emissions from certain utility units by 1995 (Phase I) and

required other utility units to begin reducing SO<sub>2</sub>/ and NO<sub>x</sub> emissions in the year 2000 (Phase II). Phase I emission reduction requirements have been achieved by the jointly-owned Conemaugh generating station and B.L. England Units 1 and 2. The remainder of ACE's wholly- and jointly-owned fossil-fuel units are required to comply with Phase II emission limits.

ACE's facilities must also comply with Title I of the Clean Air Act, the ozone nonattainment provisions, which require states to promulgate Reasonably Available Control Technology (RACT) regulations for existing sources located within ozone nonattainment areas or within the Northeast Ozone Transport Region (NOTR). In accordance with New Jersey Department of Environmental Protection (NJDEP) regulatory requirements, ACE has submitted and received NJDEP's approval of ACE's RACT compliance plan.

Additional "post RACT" NO<sub>x</sub> emission regulations are being pursued by states in the NOTR. In New Jersey, post-RACT NO<sub>x</sub> control regulations require attainment of summer seasonal emission reductions of up to 65% below 1990 levels by May 1999 and 90% by 2003 through reduced emissions or the procurement of NO<sub>x</sub> emission allowances. ACE anticipates spending approximately \$5 to \$8 million over the next five years to achieve compliance with post-RACT NO<sub>x</sub> regulations.

In addition to the above requirements, the United States Environmental Protection Agency (USEPA) has proposed summer seasonal NO<sub>x</sub> controls commensurate with reductions of up to 85% below baseline years by the year 2003 for a 22 state region; including Delaware and New Jersey. Since New Jersey will require a greater percent reduction than EPA, the ACE facilities will most likely achieve compliance with the EPA requirement by 2003.

In July 1997, the USEPA adopted new federal air quality standards for particulate matter and ozone. The new particulate matter standard addressed fine particulate matter. Attainment of the fine particulate matter standard may require reductions in NO<sub>x</sub> and SO<sub>2</sub>/. However, under the time schedule announced by the USEPA, particulate matter non-attainment areas will not be designated until 2002 and control measures to meet this standard will not be identified until 2005.

#### Water Quality Regulations

The federal Water Pollution Control Act, as amended (the Clean Water Act) provides for the imposition of effluent limitations to regulate the discharge of pollutants, including heat, into the waters of the United States. National Pollution Discharge Elimination System (NPDES) permits issued by state environmental regulatory agencies specify effluent limitations, monitoring requirements, and special conditions with which facilities discharging wastewaters must comply. To ensure that water quality is maintained, permits are issued for a term of five years and are modified as necessary to reflect requirements of new or revised regulations or changes in facility operations.

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ACE holds New Jersey Pollution Discharge Elimination System (NJPDES) permits issued by the NJDEP for the Deepwater and B.L. England power stations. The NJDEP has issued a draft revised NJPDES permit for the Deepwater station which is currently under review. The NJPDES permit for the B.L. England station will expire in December 1999. Application for renewal will be submitted, as required, in June 1999.

The Clean Water Act also requires that cooling water intake structures be designed to minimize adverse environmental impact. The USEPA is required by a consent order to propose regulations in 1999 for determining whether cooling water intake structures represent the best technology available for minimizing adverse environmental impacts. Final action on the proposed regulations is required in 2001.

PSE&G is implementing the 1994 NJPDES permit issued for the jointly-owned Salem facility which requires, among other things, water intake screen modifications and wetlands restoration. Under the 1994 permit, PSE&G is continuing to restore wetlands and conduct the requisite management and monitoring associated with the special conditions of the 1994 permit. In 1999, PSE&G must apply to renew Salem's NJPDES permit.

Hazardous Substances

The nature of the electric utility business results in the production, or handling, of various by-products and substances which may contain substances defined as hazardous under federal or state statutes. The disposal of hazardous substances can result in costs to clean up facilities found to be contaminated due to past disposal practices. Federal and state statutes authorize governmental agencies to compel responsible parties to clean up certain abandoned or uncontrolled hazardous waste sites. ACE's exposure is minimized by adherence to environmental standards for ACE-owned facilities and through a waste disposal contractor screening and audit process. ACE has accrued a \$1.0 million liability for potential future remediation costs associated with certain hazardous waste sites.

In 1991, the NJDEP identified ACE as one of a number of parties allegedly responsible for the placement of certain hazardous substances in a sanitary landfill in Atlantic County, New Jersey. Pursuant to an action in 1992 by the USEPA, ACE was named as one of several defendants in connection with the alleged release of hazardous substances at a site located in Gloucester County, New Jersey. ACE's cumulative contributions to the remediation and clean-up of these sites have been approximately \$0.4 million.

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Executive Officers

The names, ages, and positions of all of the executive officers of ACE as of December 31, 1998, are listed below, along with their business experiences during the past five years. Officers are elected annually by Conectiv's Board of Directors. There are no family relationships among these officers, nor any arrangement or understanding between any officer and any other person pursuant to which the officer was selected.

Executive Officers of ACE  
(As of December 31, 1998)

<TABLE>  
<CAPTION>

Name, Age and Position	Business Experience During Past 5 Years
-----	-----
<S> Howard E. Cosgrove, 55, ..... Chairman of the Board and Chief Executive Officer	<C> Elected 1998 as Chairman of the Board and Chief Executive Officer of Conectiv, Delmarva Power & Light Company, and Atlantic City Electric Company. Elected 1992 as Chairman of the Board, President and Chief Executive Officer and Director of Delmarva Power & Light Company.
Meredith I. Harlacher, Jr., 56, President	Elected 1998 as President and Chief Operating Officer of Conectiv, and President and Chief Operating Officer and Director of Delmarva Power & Light Company and Atlantic City Electric Company. Elected 1993 as Senior Vice President of Atlantic Energy, Inc.
Barry R. Elson, 57, ..... Executive Vice President	Elected 1998 as Executive Vice President of Conectiv, and Executive Vice President and Director of Delmarva Power & Light Company and Atlantic City Electric Company. Elected 1997 as Executive Vice President, Delmarva Power & Light Company. Executive Vice President, Cox Communications, Inc., Atlanta, Georgia, from 1995 to 1996. Senior Vice President, Cox Enterprises/Cox Communications, Inc., Atlanta, Georgia, from 1984 to 1995.
Thomas S. Shaw, 51, ..... Executive Vice President	Elected 1998 as Executive Vice President of Conectiv, and Executive Vice President and Director of Delmarva Power & Light Company and Atlantic City Electric Company. Elected 1992 as Senior Vice President, Delmarva Power & Light Company.



Barbara S. Graham, 50, ..... Elected 1998 as Senior Vice President and Chief Financial Officer of Conectiv, and Senior Vice President and Chief Financial Officer and Director of Delmarva Power & Light Company and Atlantic City Electric Company. Elected 1994 as Senior Vice President, Treasurer and Chief Financial Officer, Delmarva Power & Light Company. Vice President and Chief Financial Officer of Delmarva Power & Light Company from 1992 to 1994.

James P. Lavin, 51..... Elected 1998 as Controller of Conectiv, Delmarva Power & Light Company, and Atlantic City Electric Company. Elected 1993 as Comptroller, Delmarva Power & Light Company.

John C. van Roden, 49..... Elected 1998 as Senior Vice President and Chief Financial Officer, effective January 1999, of Conectiv, Delmarva Power & Light Company, and Atlantic City Electric Company. Principal, Cook and Belier, Inc. in 1998. Senior Vice President/Chief Financial Officer and Vice President/Treasurer, Lukens, Inc. from 1987 to 1998.

</TABLE>

-----  
\*Effective January 1999

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Item 2. Properties

Substantially all utility plants and properties of ACE are subject to the lien of the Mortgage under which First Mortgage Bonds are issued.

The following table sets forth the net installed summer electric capacity available to ACE to serve its peak load as of December 31, 1998.

<TABLE>  
<CAPTION>

Station -----	Location -----	Net Installed Capacity (kilowatts) -----
<S>	<C>	<C>
Coal-Fired		
B L England.....	Beesley's Pt., NJ.....	284,000
Conemaugh.....	New Florence, PA.....	65,000 (A)
Keystone.....	Shelocta, PA.....	42,000 (A)
Deepwater.....	Pennsville, NJ.....	80,000
		-----
		471,000
		-----
Oil-Fired		
B L England.....	Beesley's Pt., NJ.....	155,000
Deepwater.....	Pennsville, NJ.....	140,000
		-----
		295,000
		-----
Combustion Turbines/Combined Cycle		
Cumberland.....	Millville, NJ.....	84,000
Sherman Avenue.....	Vineland, NJ.....	81,000
Middle.....	Rio Grande, NJ.....	77,000
Carll's Corner.....	Upper Deerfield Twp, NJ.....	73,000
Cedar.....	Cedar Run, NJ.....	68,000
Missouri Avenue.....	Atlantic City, NJ.....	60,000
Mickleton.....	Mickleton, NJ.....	59,000
Deepwater.....	Pennsville, NJ.....	19,000
Salem.....	Lower Alloways Creek Twp., NJ.....	3,000 (A)
		-----



		524,000	
		-----	
Nuclear			
Peach Bottom.....	Peach Bottom Twp., PA.....	164,000	(A)
Salem.....	Lower Alloways Creek Twp., NJ.....	164,000	(A)
Hope Creek.....	Lower Alloways Creek Twp., NJ.....	52,000	(A)
		-----	
		380,000	
		-----	
Diesel Units			
B L England.....	Beesley's Pt., NJ.....	8,000	
Keystone.....	Shelocta, PA.....	300	(A)
Conemaugh.....	New Florence, PA.....	400	(A)
		-----	
		8,700	
		-----	
Long-term Capacity Purchases.....		828,000	
		-----	
Subtotal.....		2,506,700	
		-----	
Short-term Capacity Purchases.....		9,500	
		-----	
Total.....		2,516,200	
		=====	

</TABLE>

(A)ACE's portion of jointly-owned plants.

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ACE's electric transmission and distribution system includes 1,231 transmission poleline miles of overhead lines, 9,419 distribution poleline miles of overhead lines, and 1,198 distribution cable miles of underground cables.

Under New Jersey law, the State of New Jersey owns in fee simple for the benefit of the public schools all lands now or formerly flowed by the tide up to the mean high-water line, unless it has made a valid conveyance of its interests in such property. In 1981, because of uncertainties raised as to possible claims of State ownership, the New Jersey Constitution was amended to provide that lands formerly tidal-flowed, but which were not then tidal-flowed at any time for a period of 40 years, were not to be subject to State claim unless the State has specifically defined and asserted a claim within one year period ending November 2, 1982. As a result, the State published maps of the eastern (Atlantic) coast of New Jersey depicting claims to portions of many properties, including certain properties owned by ACE. ACE believes it has good title to such properties and will defend its title, or will obtain such grants from the State as may ultimately be required. The cost to acquire any such grants may be covered by title insurance policies. Assuming that all of such State claims were determined adversely to ACE, they would relate to land, which, together with the improvements thereon, would amount to less than 1% of net utility plant. No maps depicting State claims to property owned by ACE on the western (Delaware River) side of New Jersey were published within one year period mandated by the constitutional amendment. Nevertheless, ACE believes it has obtained all necessary grants from the State for its improved properties along the Delaware River.

### Item 3. Legal Proceedings

See Note 13 to ACE's 1998 Consolidated Financial Statements included in Part II, Item 8, for information concerning ACE's lawsuit against Westinghouse Electric Corporation, the designer and manufacturer of the Salem steam generators.

### Item 4. Submission of Matters to a Vote of Security Holders

A special meeting of ACE shareholders was held on October 14, 1998 to approve an amendment to ACE's Charter. Shareholders voted to eliminate paragraph (7) (B) (c) of Article III of the Charter, removing a restriction on the amount of securities representing unsecured indebtedness issuable by ACE. Votes cast on the proposal were as follows:

<TABLE>  
<CAPTION>

	Number of Shares			
	Outstanding	For	Against	Abstain
<S>	<C>	<C>	<C>	<C>
Common Securities:	18,320,937	18,320,937	--	--
Preferred Securities:				
Cumulative Preferred Stock (\$100 Par Value)				
4% Series.....	77,000	59,223	232	150
4.10% Series.....	72,000	71,496	--	--
4.35% Series.....	15,000	12,183	--	--
4.35% 2nd Series.....	36,000	35,672	--	--
4.75% Series.....	50,000	45,550	--	--
5.00% Series.....	50,000	46,455	100	--
No Par Preferred Stock				
\$7.80 Series.....	239,500	239,500	--	--

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ATLANTIC CITY ELECTRIC COMPANY

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

All shares of ACE's common stock are owned by Conectiv, its parent company.

ACE is subject to certain limitations on the payment of dividends to Conectiv. Whenever full dividends on preferred stock have been paid for all past periods, ACE may pay dividends on its common stock from funds legally available for such purpose. Until all cumulative dividends have been paid upon all series of preferred stock and until certain required sinking fund redemptions of such preferred stock have been made, no dividend or other distribution may be paid or declared on the common stock of ACE. In addition, as long as any preferred stock is outstanding, ACE may not pay dividends to Conectiv if, after giving effect to such payment or distribution, the capital of ACE represented by its common stock, together with its surplus as then stated on its books of account, shall in the aggregate, be less than the involuntary liquidation value of the then outstanding shares of preferred stock.

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ATLANTIC CITY ELECTRIC COMPANY

ITEM 6. SELECTED FINANCIAL DATA

<TABLE>  
<CAPTION>

	1998 (1)	1997 (2)	1996	1995	1994 (3)
	-----	-----	----	----	-----
	(Thousands of Dollars)				
<S>	<C>	<C>	<C>	<C>	<C>
Operating Results and Data					
Operating Revenues.....	\$1,037,613	\$1,084,890	\$ 989,647	\$ 954,783	\$ 913,226
Operating Income.....	\$ 108,868	\$ 190,052	\$ 165,120	\$ 194,687	\$ 135,660
Net Income.....	\$ 30,276	\$ 85,747	\$ 75,017	\$ 98,752	\$ 93,174
Earnings Applicable to Common Stock.....	\$ 29,385	\$ 80,926	\$ 65,113	\$ 84,125	\$ 76,458
Capitalization					
Variable Rate Demand Bonds (VRDB) (4).....	\$ 22,600	\$ 22,600	--	--	--
Long-term Debt.....	791,127	811,144	802,245	802,356	763,289
Preferred Stock of					

Subsidiaries					
Subject to Mandatory					
Redemption.....	118,950	103,950	113,950	114,750	149,250
Not Subject to					
Mandatory Redemption..	6,231	30,000	30,000	40,000	40,000
Common Stockholder's					
Equity.....	730,093	783,033	778,425	796,042	796,260
-----					
Total Capitalization					
with VRDB.....	\$1,669,001	\$1,750,727	\$1,724,620	\$1,753,148	\$1,748,799
=====					
Other Information					
Total Assets.....	\$2,367,222	\$2,436,755	\$2,460,741	\$2,459,104	\$2,418,784
Long-term Capital Lease					
Obligations.....	\$ 19,523	\$ 24,077	\$ 24,212	\$ 25,277	\$ 26,102
Capital Expenditures....	\$ 71,342	\$ 80,896	\$ 88,914	\$ 100,904	\$ 119,961
Common Dividends					
Declared(5).....	\$ 81,450	\$ 80,857	\$ 82,163	\$ 81,239	\$ 83,482

</TABLE>

- 
- (1) As discussed in Note 4 to ACE's 1998 Consolidated Financial Statements, in 1998, employee separation and other Merger-related charges reduced operating income \$79.1 million and net income \$47.2 million.
  - (2) In 1997, employee separation and other Merger-related charges reduced operating income \$22.6 million and net income \$15.6 million.
  - (3) In 1994, employee separation programs reduced operating income \$26.6 million and net income \$17.3 million.
  - (4) Although Variable Rate Demand Bonds are classified as current liabilities, ACE intends to use the bonds as a source of long-term financing as discussed in Note 9 to ACE's 1998 Consolidated Financial Statements.
  - (5) Amounts shown as total, rather than on a per-share basis, since ACE is a wholly-owned subsidiary of Conectiv.

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ATLANTIC CITY ELECTRIC COMPANY

ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Merger

On March 1, 1998, Atlantic City Electric Company (ACE) and Delmarva Power & Light Company (DPL) became wholly-owned subsidiaries of Conectiv (the Merger). Before the Merger, Atlantic Energy, Inc. (Atlantic) owned ACE and nonutility subsidiaries. As a result of the Merger, Atlantic no longer exists and Conectiv owns (directly or indirectly) ACE, DPL and the nonutility subsidiaries formerly held separately by Atlantic and DPL. Conectiv is a registered holding company under the Public Utility Holding Company Act of 1935 (PUHCA).

In 1998, enhanced retirement offers and other employee separation programs were utilized to reduce the workforce by 354 positions. The employee separation programs and other Merger-related costs resulted in a \$61.1 million pre-tax charge to expense (or \$36.6 million after taxes) in 1998 and a \$22.2 million pre-tax charge to expenses (or \$15.6 million after taxes) in 1997.

Certain of ACE's operational and administrative facilities are being sold due to consolidation of ACE's and DPL's facilities pursuant to the Merger. The estimated fair market value of the assets held for sale is \$18.0 million less than their aggregate carrying value of \$32.7 million at December 31, 1998. In accordance with Statement of Financial Accounting Standards (SFAS) No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," ACE has recorded an estimated impairment loss of \$18.0 million (\$10.6 million net of taxes).

Earnings Results Summary

ACE's earnings applicable to common stock were \$29.4 million for 1998, compared to \$80.9 million for 1997, a \$51.5 million decrease. Excluding the Merger-related charges discussed above, ACE earned \$76.6 million in 1998

compared to \$96.5 million in 1997. This \$19.9 million earnings decrease was primarily attributed to higher operations and maintenance expenses.

Excluding the Merger-related charge of \$15.6 million in 1997, earnings increased to \$96.5 million in 1997 from \$65.1 million in 1996. The \$31.4 million earnings increase was due to lower operations and maintenance expenses and higher electric revenues, net of fuel, energy and capacity costs. In 1997, ACE's share of operations and maintenance expenses associated with an extended outage at Salem Nuclear Generating Station (Salem) was limited by an agreement which settled ACE's related suit against the Salem operator, Public Service Electric & Gas (PSE&G).

#### Electric Utility Industry Restructuring

As discussed below, the electric utility industry is being deregulated in New Jersey. Generally, the restructuring will deregulate the supply component of the price charged to a customer for electricity, and electricity suppliers will compete to supply electricity to customers. Customers will continue to pay the local utility a regulated price for the delivery of the electricity over the transmission and distribution system.

Stranded costs are costs which may not be recoverable in a competitive energy supply market due to lower prices or customers choosing a different supplier. Stranded costs generally include above-market costs associated with generation facilities or long-term purchased power agreements, and regulatory assets. ACE has quantified stranded costs in a New Jersey regulatory filing and has proposed a plan seeking approval for recovery of those costs from customers during the transition to a competitive market.

When the New Jersey Board of Public Utilities (NJBPUB) issues an order specifically addressing deregulation in ACE's service territory, ACE will cease applying SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," to its electricity supply business. To the extent that the NJBPUB's order provides for recovery of

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stranded costs through cash flows from the regulated transmission and distribution business, the stranded costs would continue to be recognized as assets under SFAS No. 71. Any stranded costs (including regulatory assets) for which cost recovery is not provided would be expensed.

The amount of stranded costs ultimately recovered from utility customers, if any, and the full impact of New Jersey legislation deregulating the electric utility industry, as discussed below, cannot be predicted. Also, the quantification of stranded costs under existing generally accepted accounting principles (GAAP) differs from methods used in regulatory filings. Among other differences, GAAP precludes recognition of the gains on plants (or purchased power contracts) not impaired, but requires write down of the plants that are impaired. Due to these considerations, market conditions, timing and other factors, ACE's management currently cannot predict the ultimate effects that electric utility industry deregulation may have on the financial statements of ACE, although deregulation may have a material adverse effect on ACE's results of operations.

#### New Jersey Legislation

The "Electric Discount and Energy Competition Act" (the Act) was signed into law by the Governor of New Jersey on February 9, 1999. The Act provides for retail choice of electricity suppliers; deregulation of electric rates and other competitive services, such as metering and billing; separation of competitive and regulated services; unbundling of rates for electric service; and licensing of electric and gas suppliers. August 1, 1999 is the effective starting date for each utility to provide retail choice of electricity suppliers to all of its customers.

The Act requires each electric utility to reduce its rates by at least 5% at the start of retail choice and by 10% within 36 months of the start of choice. If the NJBPUB determines that a rate decrease of more than 10% is warranted, a "just and reasonable" financial test is applied. The mandated rate reductions must be sustained through the end of the 48th month after choice begins. The

Act requires that the rate reductions be measured against the rates in effect on April 30, 1997. The rate reductions mandated by the Act could have a material adverse effect upon the results of operations of ACE.

In connection with the deregulation of electric rates, the Act authorizes the NJBPU to permit electric public utilities to recover the full amount of their stranded costs through a non-bypassable market transition charge, as long as the mandated rate reductions are achieved. The NJBPU will determine the utility's stranded cost amount. The NJBPU-determined stranded cost amount will be subject to periodic recalculation and true-up over the recovery period. The Act establishes an 8-year recovery period for stranded costs associated with owned generation. The recovery period can be extended by the NJBPU so as to allow for the full recovery of the stranded costs and the meeting of mandated rate reductions. The recovery period for stranded costs associated with purchased power contracts is to be the remainder of the contract term. In addition, the Act would allow for the issuance of transition bonds to finance portions of a given utility's stranded costs, as determined to be appropriate by the NJBPU. All savings generated through the use of such transition bonds are to be provided to the customers through rate reductions.

The Act establishes the current incumbent utility as the provider of "default service" or Basic Generation Service (BGS) for a period of 3 years. Future proceedings will be held to determine if the provision of BGS should be made competitive. The Act contains numerous provisions regarding the providing of competitive services by each utility. The primary focus is to ensure that there is no cross subsidization from the utility to competitive entities. The NJBPU also is required to develop fair competition standards and conduct an audit to determine that the utilities are in compliance with those standards. The Act gives the NJBPU the authority to order a utility to divest its generating assets if it is determined through a hearing that competition or customers are being adversely affected by plant location, market power or non-competitive rates. The NJBPU may require that the generation function be separated from a utility's non-competitive functions.

The NJBPU is authorized to establish standards for the licensing of energy suppliers, standards for switching customers from one supplier to another, and standards for issues such as credit and collections. The Act also contains provisions for protecting workers displaced by the impacts of the restructuring of the utility industry.

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#### Stranded Cost Filing

Electric utilities in New Jersey, including ACE, previously filed stranded cost estimates and unbundled rates, as required by the NJBPU. On August 19, 1998, an Administrative Law Judge (ALJ) from the New Jersey Office of Administrative Law issued an initial decision on ACE's stranded costs and unbundled rate filing. The ALJ, in reviewing ACE's filing, recognized that ACE's stranded costs were \$812 million for nonutility generation contracts and \$397 million for owned generation. The ALJ made no specific recommendations on rate issues. A final NJBPU decision on this filing is expected by mid-1999.

#### Price Regulation of Energy Revenues

Through 1998, customer rates for non-energy costs have been established in past base rate proceedings before the NJBPU. Changes in non-energy (or base rate) revenues due to volume, or rate changes, generally affect the earnings of ACE. Energy costs, including fuel and purchased energy, are currently billed to ACE's rate-regulated customers under ACE's Levelized Energy Clause (LEC) rates. These energy rates are adjusted annually for cost changes and are subject to review by the NJBPU. "Energy revenues," or energy costs billed to customers, do not generally affect net income, because the amount of under- or over-recovered energy costs is generally deferred until it is subsequently recovered from or returned to ACE's rate-regulated customers.

The LEC is expected to be superceded by provisions contained in the Act which permit BGS suppliers full and timely recovery of their costs. The Act also authorizes the NJBPU to permit deferral and subsequent recovery of BGS costs if necessary for attainment of the rate reductions required by the Act. Regulations governing BGS are expected to be promulgated by the NJBPU prior to

beginning retail choice of electricity suppliers in New Jersey.

Electric revenues also include interchange delivery revenues, which result primarily from the sale of electricity to other electricity suppliers in the Pennsylvania-New Jersey-Maryland Interconnection, which is an electric power pool. Interchange delivery revenues are currently reflected in the calculation of rates charged to customers under the LEC and, thus, do not affect net income.

Revenues are also earned from sales not subject to price regulation. These sales include off-system bulk commodity sales and retail energy sales.

Electric Revenues

In 1998, the percentage of electric retail revenues contributed by the various retail customer classes were as follows: residential 47.3%; commercial 41.1%; industrial 11.0%; and other 0.6%.

Details of the changes in the various components of electric revenues, from prior years, are shown below.

<TABLE>  
<CAPTION>

(dollars in millions) <S>	1998	1997
	Variance	Variance
	-----	-----
	<C>	<C>
Non-energy (base rate) revenues:		
Change in New Jersey tax law.....	\$ (54.1)	\$ --
Merger-related base rate decrease.....	(13.3)	--
Other postretirement benefits (OPEB) costs base rate increase.....	5.0	--
All other variances.....	1.3	4.9
	-----	-----
Subtotal.....	(61.1)	4.9
Energy revenues.....	22.4	13.0
Interchange revenues.....	45.5	(3.9)
Revenues not subject to price regulation.....	(40.4)	70.2
	-----	-----
Total.....	\$ (33.6)	\$84.2
	=====	=====

</TABLE>

The \$54.1 million decrease in electric revenues which was due to changes in the New Jersey tax law related to sales of electricity did not affect earnings due to corresponding reductions in taxes other than income taxes. Sales and use taxes billed to customers in 1998 are recorded as a current liability, whereas in prior years, certain other state taxes (which were replaced, in part, by the sales and use taxes) were recorded as revenues. The \$13.3 million Merger-related base rate decrease shown above resulted from sharing with utility customers the expected Merger-related cost savings, as discussed under "Other Rate Matters" in Note 5 to the Consolidated Financial Statements. The \$5.0 million base rate increase for OPEB is for recovery of the non-cash portion of OPEB costs deferred during 1993-1997.

"All other variances" in electric non-energy revenues primarily reflect growth in retail kilowatt-hour (kWh) sales and the number of customers. Total retail kWh sales increased 3.4% in 1998. Sales growth in 1998 was particularly strong in the commercial and industrial sectors, with increases of 5.3% and 4.4%, respectively. Lower "other electric revenues" in 1998 partly offset the additional revenues from sales growth. Other electric revenues are primarily from non-regulated energy-related activities, such as, indoor and outdoor lighting programs, appliance warranty programs and other energy services, which are now being conducted through other Conectiv subsidiaries.

The 1997 increase for "All other variances" primarily reflects a 1996 \$13.0 million refund to customers, which resulted from a stipulation agreement related to Salem (as discussed in Note 13 to the Consolidated Financial Statements), which was substantially offset by ACE's NJBPU-approved Off-Tariff

Rate Adjustments (OTRAs). OTRAs are special reduced rates offered by ACE to large customers, which aggregated \$10.5 million for 1997.

As discussed under "Price Regulation of Energy Revenues," energy and interchange delivery revenues generally do not affect net income.

Revenues not subject to price regulation decreased \$40.4 million in 1998 because non-price regulated bulk power sales have been conducted solely through DPL subsequent to the Merger in order to achieve synergies. In 1997, revenues from non-price regulated sales increased \$70.2 million because ACE entered the bulk power market in late-1996 and expanded sales during 1997. The margin provided by the wholesale market revenues in excess of the related energy costs is relatively small due to the competitive nature of bulk power sales.

#### Other Services Revenues

Other services revenues represent non-regulated energy related services, including energy management services. Effective with the Merger, most of these services are being provided by other Conectiv subsidiaries.

#### Operation and Maintenance Expenses

Operation and maintenance expenses increased \$29.1 million for 1998. An actuarial valuation of ACE's pension plan liability based on updated assumptions and data resulted in a \$5.9 million pension expense increase; the remaining increase in operation and maintenance expenses was due primarily to lower capitalized expenses and increased contracted services.

In 1997, operation and maintenance expenses decreased \$27.7 million primarily due to reduced Salem outage expenses. An agreement which settled ACE's lawsuit against PSE&G limited ACE's 1997 share of Salem's operation and maintenance expenses.

#### Depreciation Expense

In 1998, ACE began amortizing OPEB costs deferred during 1993-1997 and depreciating new assets, including business, financial, and human resource management systems. Primarily due to these factors, depreciation expense increased \$12.3 million in 1998.

#### Taxes Other Than Income Taxes

Taxes other than income taxes decreased \$65.2 million for 1998 due primarily to the changes in the New Jersey tax laws which eliminated the state gross receipts and franchise tax. Earnings generally were not affected

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by this decrease due to related reductions in electric revenues resulting from the tax law change. See Note 3 to the Consolidated Financial Statements for further details on the tax law change.

#### Gain on Preferred Stock Redemption

In October 1998, ACE purchased and retired 237,232 shares, or \$23.7 million of various series of mandatorily redeemable preferred stock, which had an average dividend rate of 4.4%. ACE purchased these shares at a discount, which resulted in a gain of \$2.5 million that is included in ACE's 1998 results of operations.

#### Year 2000

The Year 2000 issue is the result of computer programs and embedded systems using a two-digit format, as opposed to four digits, to indicate the year. Computer and embedded systems with this characteristic may be unable to interpret dates during and beyond the year 1999, which could cause a system failure or other computer errors, leading to disruption of operations. A Conectiv project team, originally started in 1996 by ACE, is assisting line management in addressing the issue of computer programs and embedded systems not properly recognizing the Year 2000. A Conectiv corporate officer,

reporting directly to the Chief Executive Officer, is coordinating all Year 2000 activities. There are substantial challenges in identifying and correcting the many computer and embedded systems critical to generating and delivering power and providing other services to customers.

The project team is using a phased approach to managing its activities. The first phase is inventory and assessment of all systems, equipment, and processes. Each identified item is given a criticality rating of high, medium or low. Those items rated as high or medium are then subject to the second phase of the project. The second phase is determining and implementing corrective action for the systems, equipment and processes, and concludes with a test of the unit being remediated. The third phase is system testing and compliance certification. Additionally, the project team will be updating existing outage contingency plans to address Year 2000 issues.

Overall, Conectiv's Year 2000 Project covers approximately 140 different systems (some with numerous components) that had been originally identified as high or medium in criticality. However, only 21 of those 140 systems are essential for Conectiv to provide electric and gas service to its customers. The Year 2000 Project team will be focusing on these 21 systems, with additional work on other systems continuing based on their relative importance to Conectiv's business.

The following chart sets forth the current estimated completion percentage of the 140 different systems in the Year 2000 Project by major business group, and for the information technology systems used in managing Conectiv's businesses. Conectiv expects significant progress in remediation and testing over the next quarter based on work that is in process and material that is being ordered.

<TABLE>  
<CAPTION>

Business Group	Corrective		
	Inventory and Assessment	Action/Unit Testing	System Testing/ Compliance
<S>	<C>	<C>	<C>
Business systems.....	95%	85%	65%
Power production.....	95%	30%	30%
Electricity distribution.....	95%	10%	5%
Gas delivery.....	95%	60%	60%
Competitive services.....	90%-95%	30%-80%	30%-80%

</TABLE>

ACE is also contacting vendors and service providers to review remediation of their Year 2000 issues. Many aspects of ACE's businesses are dependent on third parties. For example, fuel suppliers must be able to provide coal or gas to allow ACE to generate electricity.

Distribution of electricity is dependent on the overall reliability of the electric grid. ACE is cooperating with the North American Electric Reliability Council (NERC) and the PJM Interconnection in Year 2000 remediation and remediation planning efforts, and has accelerated its Year 2000 Project timeline to be generally in-line with the recommendations of those groups. At this time, a few generating units are scheduled for remediation and

testing in September to coincide with previously scheduled outages. Recent reports issued by the NERC indicate a diminished risk of disruption to the electric grid caused by Year 2000 issues.

Conectiv has incurred approximately \$3 million in costs for the Year 2000 Project. Current estimates of the costs for the Year 2000 Project range from \$10 million to \$15 million. These estimates could change significantly as the Year 2000 Project progresses. The costs set forth above do not include several significant expenditures covering new systems, such as ACE's SAP business, financial and human resources management system and an Energy Control System. While the introduction of these new systems effectively remediated Year 2000 problems in the systems they replaced, ACE has not previously reported the expenditures on these systems in its costs for the Year 2000 Project.



Since the project team is still in the process of assessing and correcting impacted systems, equipment and processes, ACE cannot currently determine whether the Year 2000 issue might cause disruptions to its operations and have impacts on related costs and revenues. ACE assesses the status of the Year 2000 Project on at least a monthly basis to determine the likelihood of business disruptions. Based on its own Year 2000 Project, as well as, reports from NERC and other utilities, ACE's management believes that it is unlikely that significant Year 2000 related disruptions will occur. However, any substantial disruption to ACE's operations could negatively impact ACE's revenues, significantly impact its customers and could generate legal claims against ACE. ACE's results of operations and financial position would likely suffer an adverse impact if other entities, such as suppliers, customers and service providers do not effectively address their Year 2000 issues.

#### Liquidity and Capital Resources

ACE's principal sources of capital are internally generated funds (net cash provided by operating activities, less common and preferred dividends) and external funds. The principal capital requirements of ACE are construction expenditures, the repayment of debt and capital lease obligations.

Internally generated funds were \$157.7 million for 1998, \$87.0 million for 1997 and \$127.4 million for 1996. The yearly fluctuations in internally generated funds were primarily due to changes in working capital and in fuel revenues, net of energy and capacity costs. Internally generated funds provided 221%, 108%, and 143%, respectively, of the cash required for construction expenditures for 1998, 1997 and 1996. Cash construction expenditures were \$71.3 million for 1998, \$80.9 million for 1997 and \$88.9 million for 1996.

On an interim basis, ACE finances construction costs and other capital requirements in excess of internally generated funds through the issuance of unsecured short-term debt, consisting of commercial paper and notes from banks. As of December 31, 1998, ACE had authority to issue \$150 million in short-term debt, all of which was available. ACE also has two separate uncommitted lines of credit in the amount of \$25 million and \$20 million, respectively. The facilities are renewable annually and bear interest at variable rates.

Common dividends paid to Conectiv in 1998 were \$81.5 million. Common dividends paid to Atlantic in 1997 and 1996 were \$80.9 million and \$82.2 million, respectively.

Presented below are sources and uses of capital from ACE's debt and equity securities.

<TABLE>  
<CAPTION>

Debt/Equity -----	1998 ----		1997 ----		1996 ----	
	Issued	Redeemed	Issued	Redeemed	Issued	Redeemed
	(dollars in millions)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Short term debt.....	\$ --	\$ (72.1)	\$ 7.2	\$ --	\$ 34.4	\$ --
Long term debt.....	85.0	(58.6)	87.6	(74.1)	--	(12.3)
Preferred stock & securities.....	25.0	(33.8)	--	(20.0)	70.0	(98.9)
	-----	-----	-----	-----	-----	-----
	\$110.0	\$ (164.5)	\$94.8	\$ (94.1)	\$104.4	\$ (111.2)
	=====	=====	=====	=====	=====	=====

</TABLE>

In January 1998, ACE issued \$85 million of medium-term notes and used \$50 million of the proceeds to redeem medium-term notes, which matured in January 1998.

In May 1998, ACE repaid at maturity \$6.0 million of 5.5% Medium-Term Notes and \$2.5 million of 7.25% Debentures.

In August 1998, ACE redeemed 100,000 shares of its \$8.20 No Par Preferred Stock at \$100 per share, or \$10.0 million in total (the book value of the preferred stock).

In October 1998, ACE redeemed \$23.7 million of preferred stock not subject to mandatory redemption, which had an average dividend rate of 4.4%. In November 1998, a subsidiary trust of ACE issued \$25 million of 7 3/8% preferred securities subject to mandatory redemption. On a consolidated basis, Conectiv receives a tax benefit, which is equivalent to the tax effect of a deduction for the trust's distributions on the preferred securities.

The scheduled maturities and sinking fund requirements of debt and preferred securities for the next five years are presented below.

<TABLE>  
<CAPTION>

Year ----	Preferred		Total -----
	Debt ----	Securities -----	
(Dollars in Thousands)			
<S>	<C>	<C>	<C>
1999.....	\$30,075	--	\$30,075
2000.....	\$46,075	--	\$46,075
2001.....	\$40,075	\$11,500	\$51,575
2002.....	\$50,075	\$11,500	\$61,575
2003.....	\$70,075	\$ 950	\$71,025

</TABLE>

ACE's capital structure as of December 31, 1998 and 1997, expressed as a percentage of total capitalization is shown below.

<TABLE>  
<CAPTION>

	1998	1997
<S>	<C>	<C>
Long-term debt and variable rate demand bonds.....	48.8%	47.6%
Preferred securities.....	7.5%	7.7%
Common stockholder's equity.....	43.7%	44.7%

</TABLE>

ACE's estimated requirements during 1999 for capital expenditures are \$85 million. The uncertainty of the impact of electric utility industry restructuring, and the extent to which ACE retains or divest certain of its assets, including generating plants, will affect the ultimate amount of capital expenditures and the amount of external funds required in excess of internally generated funds. ACE's management expects that external funds will be derived from the sale of long-term debt, as required.

#### Quantitative and Qualitative Disclosures About Market Risks

The following discussion contains "forward looking statements." These projected results have been prepared based upon certain assumptions considered reasonable given the information currently available to ACE. Nevertheless, because of the inherent unpredictability of interest rates and equity market prices as well as other factors, actual results could differ materially from those projected in such forward-looking information.

#### Interest Rate Risk

ACE is subject to the risk of fluctuating interest rates in the normal course of business. ACE manages interest rates through the use of fixed and, to a lesser extent, variable rate debt. As of December 31, 1998, a hypothetical 10% change in interest rates would not have a material impact on the results of operations of ACE.

## Equity Price Risk

ACE maintains trust funds, as required by the Nuclear Regulatory Commission, to fund certain costs of nuclear decommissioning. (See Note 15 to the Consolidated Financial Statements.) These funds are invested primarily in domestic and international equity securities, fixed-rate, fixed income securities, and cash and cash equivalents. By maintaining a portfolio that includes long-term equity investments, ACE is maximizing the returns to be utilized to fund nuclear decommissioning costs. However, the equity securities included in ACE's portfolio are exposed to price fluctuations in equity markets, and the fixed-rate, fixed income securities are exposed to changes in interest rates. ACE actively monitors its portfolio by benchmarking the performance of its investments against certain indexes and by maintaining, and periodically reviewing, established target asset allocation percentages of the assets in the trusts. Because the accounting for nuclear decommissioning recognizes that costs are recovered through electric rates, fluctuations in equity prices and interest rates, while affecting the carrying value of the investments, are offset by the effects of regulation and therefore do not affect earnings.

## Commodity Price Risk

Due to the LEC, as discussed under "Price Regulation of Energy Revenues" and in Note 1 to the Consolidated Financial Statements, ACE's exposure to commodity price risk is immaterial to ACE's results of operations.

## Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 (Litigation Reform Act) provides a "safe harbor" for forward looking statements to encourage such disclosure without the threat of litigation, provided those statements are identified as forward-looking and are accompanied by meaningful, cautionary statements identifying important factors that could cause the actual results to differ materially from those projected in the statement. Forward-looking statements have been made in this report. Such statements are based on management's beliefs, as well as, assumptions made by and information currently available to management. When used herein, the words "will," "anticipate," "estimate," "expect," "objective," and similar expressions are intended to identify forward-looking statements. In addition to any assumptions and other factors referred to specifically in connection with such forward-looking statements, factors that could cause actual results to differ materially from those contemplated in any forward-looking statements include, among others, the following: deregulation and the unbundling of energy supplies and services; an increasingly competitive energy marketplace; sales retention and growth; federal and state regulatory actions; costs of construction; operating restrictions; increased cost and construction delays attributable to environmental regulations; nuclear decommissioning and the availability of reprocessing and storage facilities for spent nuclear fuel; and credit market concerns. ACE undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The foregoing review of factors pursuant to the Litigation Reform Act should not be construed as exhaustive or as any admission regarding the adequacy of disclosures made by ACE prior to the effective date of the Litigation Reform Act.

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## ATLANTIC CITY ELECTRIC COMPANY

### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

#### REPORT OF MANAGEMENT

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

ACE and its subsidiary companies maintain a system of internal controls designed to provide reasonable, but not absolute, assurance of the reliability of the financial records and the protection of assets. The internal control system is supported by written administrative policies, a program of internal audits, and procedures to assure the selection and training of qualified personnel.

PricewaterhouseCoopers LLP, independent accountants, are engaged to audit the financial statements and express their opinion thereon. Their audits are conducted in accordance with generally accepted auditing standards which include a review of selected internal controls to determine the nature, timing, and extent of audit tests to be applied.

Conectiv's Audit Committee of the Board of Directors, composed of outside directors only, meets with management, internal auditors, and independent accountants to review accounting, auditing, and financial reporting matters. The independent accountants are appointed by the Board on recommendation of the Audit Committee, subject to stockholder approval.

/s/ Howard E. Cosgrove  
-----  
Howard E. Cosgrove  
Chairman of the Board  
and Chief Executive Officer

/s/ John C. van Roden  
-----  
John C. van Roden  
Senior Vice President and  
Chief Financial Officer

February 5, 1999

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors  
Atlantic City Electric Company  
Wilmington, Delaware

In our opinion, the consolidated financial statements listed in the accompanying index appearing under Item 14(a)(1) on page IV-1 present fairly, in all material respects, the financial position of Atlantic City Electric Company and subsidiary companies as of December 31, 1998, and the results of their operations and their cash flows for the year ended December 31, 1998, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedule listed in the accompanying index appearing under Item 14(a)(2) on page IV-1 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audit. We conducted our audit of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above.

/s/ PricewaterhouseCoopers LLP  
-----  
PricewaterhouseCoopers LLP  
2400 Eleven Penn Center  
Philadelphia, Pennsylvania  
February 5, 1999

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors  
Atlantic City Electric Company

We have audited the accompanying consolidated balance sheet of Atlantic City Electric Company and subsidiary as of December 31, 1997 and the related consolidated statements of income, changes in common stockholder's equity, and cash flows for each of the two years in the period ended December 31, 1997. Our audits also included the financial statement schedule for years ended December 31, 1997 and 1996 listed in the Index as Item 14. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits 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, such consolidated financial statements present fairly, in all material respects, the financial position of Atlantic City Electric Company and subsidiary at December 31, 1997 and the results of their operations and their cash flows for each of the two years in the period ended December 31, 1997, in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedule for the years ended December 31, 1997 and 1996, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP  
 -----  
 Deloitte & Touche LLP  
 February 2, 1998 (March 1, 1998, as to Note 4)  
 Parsippany, New Jersey

ATLANTIC CITY ELECTRIC COMPANY  
 CONSOLIDATED STATEMENTS OF INCOME  
 (Dollars in Thousands)

<TABLE>  
 <CAPTION>

	For the Year Ended December 31,		
	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Operating Revenues			
Electric.....	\$ 1,034,894	\$ 1,068,534	\$ 984,360
Other Services.....	2,719	16,356	5,287
	-----	-----	-----
	1,037,613	1,084,890	989,647
	-----	-----	-----
Operating Expenses			
Electric Fuel and Purchased Power.....	308,943	293,457	225,185
Cost of Sales--Other Services.....	5,465	13,566	6,742
Purchased Electric Capacity.....	173,741	180,250	179,282
Employee Separation and Other Merger- Related Costs.....	61,091	22,246	--
Merger-Related Impairment Loss on Assets Held for Sale.....	18,000	--	--
Operation and Maintenance.....	206,951	177,875	205,615
Depreciation.....	112,711	100,412	97,262
Taxes Other Than Income Taxes.....	41,843	107,032	110,441
	-----	-----	-----
	928,745	894,838	824,527

Operating Income.....	108,868	190,052	165,120
Other Income			
Allowance for Equity Funds Used During Construction.....	593	815	879
Other Income.....	8,028	14,595	11,275
	8,621	15,410	12,154
Interest Expense			
Interest Charges.....	63,940	64,501	64,847
Allowance for Borrowed Funds Used During Construction and Capitalized Interest...	(957)	(1,003)	(976)
	62,983	63,498	63,871
Dividends on Preferred Securities of Subsidiary Trusts.....	6,052	5,775	1,428
Income Before Income Taxes.....	48,454	136,189	111,975
Income Taxes.....	18,178	50,442	36,958
Net Income.....	30,276	85,747	75,017
Dividends on Preferred Stock.....	3,436	4,821	9,904
Gain on Preferred Stock Redemption.....	2,545	--	--
Earnings Applicable to Common Stock.....	\$ 29,385	\$ 80,926	\$ 65,113

</TABLE>

See accompanying Notes to Consolidated Financial Statements.

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ATLANTIC CITY ELECTRIC COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Dollars in Thousands)

<TABLE>

<CAPTION>

	For the Year Ended December 31,		
	1998	1997	1996
	<C>	<C>	<C>
Cash Flows from Operating Activities			
Net Income.....	\$ 30,276	\$ 85,747	\$ 75,017
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and Amortization.....	117,285	109,000	104,408
Investment Tax Credit Adjustments, Net....	(1,690)	(2,534)	(2,534)
Deferred Income Taxes, Net.....	(37,915)	3,330	3,982
Deferred Energy Costs.....	43,001	6,105	(2,095)
Prepaid State Sales Taxes.....	(19,522)	--	--
Prepaid State Excise Taxes.....	3,248	3,321	3,628
Unrecovered State Excise Taxes.....	9,560	9,560	9,560
Employee Separation and Merger-Related Costs.....	16,147	--	--
Net Change in:			
Accounts Receivable.....	(500)	(5,536)	5,795
Inventories.....	5,077	3,365	(2,523)
Accounts Payable.....	18,765	(14,370)	2,814
Other Current Assets and Liabilities (1)..	19,198	(10,245)	(2,525)
Impairment Loss on Assets Held for Sale....	18,000	--	--
Other, Net.....	21,687	(15,052)	23,960
Net Cash Provided by Operating Activities..	242,617	172,691	219,487

Cash Flows from Investing Activities			
Capital Expenditures.....	(71,342)	(80,896)	(88,914)
Nuclear Decommissioning Trust Fund			
Deposits.....	(6,424)	(6,424)	(6,424)
Other, Net.....	(1,040)	2,916	(9,283)
Net Cash Used by Investing Activities.....	(78,806)	(84,404)	(104,621)
Cash Flows from Financing Activities			
Dividends:			
Common Stock.....	(81,450)	(80,857)	(82,163)
Preferred Stock.....	(3,436)	(4,821)	(9,904)
Issuances:			
Long-term Debt.....	85,000	87,600	--
Preferred Securities.....	25,000	--	70,000
Redemptions:			
Long-term Debt.....	(58,575)	(74,066)	(12,266)
Preferred Stock.....	(33,769)	(20,000)	(98,876)
Principal Portion of Capital Lease			
Payments.....	(12,295)	(8,588)	(7,146)
Net Change in Short-term Debt.....	(72,100)	7,150	34,405
Other, Net.....	(4,184)	2,616	(3,879)
Net Cash Used by Financing Activities.....	(155,809)	(90,966)	(109,829)
Net Change in Cash and Cash Equivalents....	8,002	(2,679)	5,037
Cash and Cash Equivalents at Beginning of the Year.....	20,765	23,444	18,407
Cash and Cash Equivalents at End of the Year.....	\$ 28,767	\$ 20,765	\$ 23,444

</TABLE>

(1) Other than debt and deferred income taxes classified as current.

See accompanying Notes to Consolidated Financial Statements.

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ATLANTIC CITY ELECTRIC COMPANY

CONSOLIDATED BALANCE SHEETS  
(Dollars in Thousands)

ASSETS

<TABLE>

<CAPTION>

	December 31,	
	1998	1997
	----	----
	<C>	<C>
Current Assets		
Cash and Cash Equivalents.....	\$ 28,767	\$ 20,765
Accounts Receivable .....	130,148	129,648
Allowance for Doubtful Accounts.....	(3,500)	(3,500)
Inventories, at Average Cost:		
Fuel (Coal and Oil).....	27,233	29,159
Materials and Supplies.....	21,296	20,893
Deferred Energy Costs.....	--	27,424
Prepaid New Jersey Sales and Excise Tax.....	20,078	3,804
Deferred Income Taxes, Net.....	7,735	--
Other Prepayments.....	4,420	3,949
	-----	-----
	236,177	232,142
Investments		
Funds Held by Trustee.....	102,765	88,743

Other Investments.....	112	9
	-----	-----
	102,877	88,752
	-----	-----
Property, Plant, and Equipment		
Electric Utility Plant.....	2,600,699	2,591,825
Less: Accumulated Depreciation.....	1,007,106	945,921
	-----	-----
Net Utility Plant in Service.....	1,593,593	1,645,904
Utility Construction Work-in-Progress.....	97,955	106,806
Leased Nuclear Fuel, at Amortized Cost.....	35,003	38,795
Nonutility Property, Net.....	8,207	8,517
	-----	-----
	1,734,758	1,800,022
	-----	-----
Deferred Charges and Other Assets		
Unrecovered Purchased Power Costs.....	48,274	66,264
Deferred Recoverable Income Taxes.....	102,223	85,858
Unrecovered State Excise Taxes.....	35,594	45,154
Deferred Debt Refinancing Costs.....	28,043	30,002
Deferred Other Postretirement Benefit Costs.....	34,978	37,476
Unamortized Debt Costs.....	14,141	13,416
Prepaid Pension Benefit.....	--	8,390
Other.....	30,157	29,279
	-----	-----
	293,410	315,839
	-----	-----
Total Assets.....	\$2,367,222	\$2,436,755
	=====	=====

</TABLE>

See accompanying Notes to Consolidated Financial Statements.

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ATLANTIC CITY ELECTRIC COMPANY

CONSOLIDATED BALANCE SHEETS  
(Dollars in Thousands)

CAPITALIZATION AND LIABILITIES

<TABLE>  
<CAPTION>

	December 31,	
	1998	1997
	----	----
	<C>	<C>
<S>		
Current Liabilities		
Short-term Debt.....	\$ --	\$ 55,675
Long-term Debt Due Within One Year.....	30,075	--
Variable Rate Demand Bonds.....	22,600	22,600
Accounts Payable.....	54,315	37,779
Interest Accrued.....	14,774	19,562
Dividends Payable.....	22,236	21,215
Taxes Accrued.....	22,916	5,922
Current Capital Lease Obligation.....	15,728	15,653
Accrued Employee Separation & Other Merger-related Costs.....	9,554	--
Deferred Energy Costs.....	15,577	--
Deferred Income Taxes, Net.....	--	9,974
Other.....	28,771	37,226
	-----	-----
	236,546	225,606
	-----	-----
Deferred Credits and Other Liabilities		
Deferred Income Taxes, Net.....	343,429	354,127
Deferred Investment Tax Credits.....	42,142	44,043
Long-term Capital Lease Obligation.....	19,523	24,077
Pension Benefit Obligation.....	10,477	--



Other Postretirement Benefit Obligation.....	44,607	37,476
Other.....	24,097	23,299
	-----	-----
	484,275	483,022
	-----	-----
Capitalization		
Common Stock, \$3 Par Value; 25,000,000 Shares Authorized; Shares Outstanding; 1998 and 1997 18,320,937.....	54,963	54,963
Additional Paid-in Capital.....	493,007	493,161
Retained Earnings.....	182,123	234,909
	-----	-----
Total Common Stockholder's Equity.....	730,093	783,033
Preferred Stock Subject to Mandatory Redemption.....	23,950	33,950
Preferred Stock Not Subject to Mandatory Redemption.....	6,231	30,000
ACE Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Solely ACE Debentures.....	95,000	70,000
Long-term Debt	791,127	811,144
	-----	-----
	1,646,401	1,728,127
	-----	-----
Commitments and Contingencies (Notes 11 & 12)		
Total Capitalization and Liabilities.....	\$2,367,222	\$2,436,755
	=====	=====

</TABLE>

See accompanying Notes to Consolidated Financial Statements.

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ATLANTIC CITY ELECTRIC COMPANY  
CONSOLIDATED STATEMENTS OF CHANGES  
IN COMMON STOCKHOLDER'S EQUITY  
(Dollars in Thousands)

<TABLE>

<CAPTION>

	Additional Paid-in Capital				
	Common Stock	Premium Capital Stock	Contri- buted Capital	Capital Stock Expense	Retained Earnings
<S>	<C>	<C>	<C>	<C>	<C>
Balance, December 31, 1995.....	\$54,963	\$231,081	\$259,645	\$(2,131)	\$252,484
Net Income.....					75,017
Capital Stock Expense.....				486	(486)
Capital Contributed from Parent, Net.....			(567)		
Less Dividends:					
Preferred Stock.....					(9,904)
Common Stock.....					(82,163)
Balance, December 31, 1996.....	54,963	231,081	259,078	(1,645)	234,948
Net Income.....					85,747
Capital Stock Expense.....				108	(108)
Capital Contributed from Parent, Net.....			4,539		
Less Dividends:					
Preferred Stock.....					(4,821)
Common Stock.....					(80,857)
Balance, December 31, 1997.....	54,963	231,081	263,617	(1,537)	234,909
Net Income.....					30,276
Preferred Stock Redemption.....		(64)		199	1,824
Capital Contributed from Parent, Net.....			(289)		
Less Dividends:					

Preferred Stock.....					(3,436)
Common Stock.....					(81,450)
	-----	-----	-----	-----	-----
Balance, December 31, 1998.....	\$54,963	\$231,017	\$263,328	\$(1,338)	\$182,123
	=====	=====	=====	=====	=====

</TABLE>

As of December 31, 1998, ACE had 25 million authorized shares of common stock at \$3 par value. Shares outstanding at December 31, 1998, 1997 and 1996 were 18,320,937.

See accompanying Notes to Consolidated Financial Statements.

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ATLANTIC CITY ELECTRIC COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

As discussed in Note 4 to the Consolidated Financial Statements, effective March 1, 1998, Atlantic Energy, Inc. (Atlantic), and Delmarva Power & Light (DPL) consummated a series of merger transactions (the Merger) by which Atlantic City Electric Company (ACE) and DPL became wholly-owned subsidiaries of Conectiv.

ACE is a public utility primarily engaged in the generation, purchase, transmission, distribution and sale of electricity. Sales of electricity include sales at regulated retail and unregulated wholesale levels. Subsequent to the Merger, unregulated wholesale or bulk power sales have been transacted through DPL, in order to achieve Merger synergies. ACE serves approximately 488,800 customers within its service territory, which covers an area of approximately 2,700 square miles within the southern one-third of New Jersey and has a population of approximately 850,000. The majority of customers are residential and commercial.

Principles of Consolidation

The consolidated financial statements include the accounts of ACE and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year reporting of these items.

Regulation of Utility Operations

ACE is subject to regulation with respect to retail electric sales by the New Jersey Board of Public Utilities (NJBPU). The Federal Energy Regulatory Commission (FERC) also has regulatory authority over certain aspects of ACE's business, including the transmission of electricity, the sale of electricity to municipalities and electric cooperatives, and interchange and other purchases and sales of electricity involving other utilities.

ACE is subject to the requirements of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of

Regulation." The NJBPU occasionally provides for future recovery from customers of current period expenses. When this happens, the expenses are deferred as regulatory assets and subsequently recognized in the Consolidated Statement of Income during the period the utility expenses are recovered from customers. Similarly, regulatory liabilities may also be created due to the economic impact of an action taken by the NJBPU. See Notes 3, 5 and 14 to the Consolidated Financial Statements for additional information.

#### Revenue Recognition

At the end of each month, there is an amount of electric service rendered from the last meter reading to the month-end, which has not yet been billed to customers. The revenues associated with such unbilled services are

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accrued by ACE and the accrued amounts receivable for unbilled electric service were \$29.7 million as of December 31, 1998 and \$36.9 million as of December 31, 1997. When interim rates are placed in effect subject to refund, ACE recognizes revenues based on expected final rates.

Revenues from "Other services" are recognized when services are performed or products are delivered.

#### Nuclear Fuel

ACE's share of nuclear fuel at the Peach Bottom Atomic Power Station (Peach Bottom), the Salem Nuclear Generating Station (Salem), and the Hope Creek Nuclear Generating Station (Hope Creek) is financed through contracts accounted for as capital leases. Nuclear fuel costs, including a provision for the future disposal of spent nuclear fuel, are charged to fuel expense on a unit-of-production basis.

#### Electric Utility Plant and Allowance for Funds Used During Construction

Electric utility plant is stated at original cost, including property additions. Generally, utility plant is subject to a First Mortgage lien. Allowance for Funds Used During Construction (AFUDC) is included in the cost of utility plant and represents the cost of borrowed and equity funds used to finance construction of new utility facilities. In the Consolidated Statements of Income, the borrowed funds component of AFUDC is reported as a reduction of interest expense and the equity funds component of AFUDC is reported as other income. AFUDC has been calculated using a semi-annually compounded rate of 8.25% for all periods.

#### Depreciation

ACE provides for straight-line depreciation based on the following: transmission and distribution property--estimated remaining life; nuclear property--remaining life of the related plant operating license in existence at the time of the last base rate case; other depreciable property--estimated average service life. Depreciation expense includes a provision for ACE's share of the estimated cost of decommissioning nuclear power plant reactors based on site-specific studies. Refer to Note 15 to the Consolidated Financial Statements for additional information on nuclear decommissioning. ACE's overall composite rate of depreciation was 3.9% for 1998 and 3.3% for 1997 and 1996. Accumulated depreciation is charged with the cost of depreciable property retired including removal costs less salvage and other recoveries.

#### Funds Held by Trustee

Funds held by trustee are stated at fair market value and primarily include deposits for nuclear decommissioning costs.

#### Deferred Energy Costs

As approved by the NJBPU, ACE has a Levelized Energy Clause (LEC) through which energy and energy-related costs (energy costs) are charged to customers. LEC rates are based on projected energy costs and prior period underrecoveries or overrecoveries. Generally, energy costs are recovered through levelized rates over the period of projection, which is usually a 12-month period. In

any period, the actual amount of LEC revenues recovered from customers may be greater or less than the recoverable amount of energy costs incurred in that period. Electric Fuel and Purchased Power expenses are adjusted to match the associated LEC revenues. Any underrecovery (an asset representing energy costs incurred that are to be collected from customers) or overrecovery (a liability representing previously collected energy costs to be returned to customers) of costs is deferred on the Consolidated Balance Sheet as Deferred Energy Costs. These deferrals are recognized in the Consolidated Statement of Income during the period in which they are subsequently included in the LEC rates.

#### Income Taxes

The consolidated financial statements include two categories of income taxes--current and deferred. Current income taxes represent the amounts of tax expected to be reported on ACE's federal and state income tax returns. Deferred income taxes are discussed below.

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Deferred income tax assets and liabilities represent the tax effects of temporary differences between the financial statement and tax bases of existing assets and liabilities and are measured using presently enacted tax rates. The portion of ACE's deferred tax liability applicable to utility operations that has not been recovered from utility customers represents income taxes recoverable in the future and is shown on the Consolidated Balance Sheets as "Deferred recoverable income taxes." Deferred recoverable income taxes were \$102.2 million and \$85.9 million as of December 31, 1998, and 1997, respectively.

Deferred income tax expense represents the net change during the reporting period in the net deferred tax liability and deferred recoverable income taxes.

Investment tax credits from utility plant purchased in prior years are reported on the Consolidated Balance Sheets as "Deferred investment tax credits." These investment tax credits are being amortized to income over the useful lives of the related utility plant.

#### Energy Trading and Risk Management Activities

Since the Merger, ACE has not used derivative financial instruments because ACE ceased its unregulated electricity trading activities. In 1997, to minimize the risk of market fluctuations associated with unregulated electricity trading, ACE entered into various transactions involving derivative financial instruments for hedging purposes. Gains or losses associated with the derivative transactions were recognized in operations in the period the derivative instrument was terminated or extinguished or ceased to be qualified as a hedge.

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which becomes effective in the first quarter of fiscal years beginning after June 15, 1999, unless early adoption is elected. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that all derivatives be recognized as assets or liabilities in the balance sheet and be measured at fair value. Under specified conditions, a derivative may be designated as a hedge. The change in the fair value of derivatives which are not designated as hedges is recognized in earnings. For derivatives designated as hedges of changes in the fair value of an asset or liability, or as a hedge of exposure to variable cash flows of a forecasted transaction, earnings are affected to the extent the hedge does not match offsetting changes in the hedged item. ACE currently cannot determine the effect that SFAS No. 133 will have on its financial statements.

#### Cash Equivalents

ACE considers all highly liquid investments and debt securities purchased with a maturity of three months or less to be cash equivalents.

#### Debt Costs

Debt premium, discount and expense are amortized over the life of the related debt. Costs associated with refinancing debt are deferred and amortized over the life of the new debt.

## 2. SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the year

<TABLE>

<CAPTION>

	1998	1997	1996
(Dollars in Thousands)	----	----	----
<S>	<C>	<C>	<C>
Interest.....	\$68,278	\$64,966	\$65,269
Taxes, net of refunds.....	\$48,215	\$48,400	\$36,937

</TABLE>

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## 3. INCOME TAXES

ACE, as a subsidiary of Conectiv, is included in the consolidated federal income tax return of Conectiv. Income taxes are allocated to ACE based upon its taxable income or loss, determined on a separate return basis.

The components of income tax expense for the years ended December 31, 1998, 1997, and 1996 are as follows:

<TABLE>

<CAPTION>

	1998	1997	1996
(Dollars in Thousands)	----	----	----
<S>	<C>	<C>	<C>
Federal:			
Current.....	\$43,133	\$49,646	\$35,510
Deferred.....	(27,694)	3,330	3,982
State:			
Current.....	14,650	--	--
Deferred.....	(10,221)	--	--
Investment tax credit adjustments.....	(1,690)	(2,534)	(2,534)
	-----	-----	-----
	\$18,178	\$50,442	\$36,958
	=====	=====	=====

</TABLE>

The amount computed by multiplying income before tax by the federal statutory rate is reconciled below to the total income tax expense.

<TABLE>

<CAPTION>

	1998		1997		1996	
	----	----	----	----	----	----
(Dollars in Thousands)	Amount	Rate	Amount	Rate	Amount	Rate
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Statutory federal income tax expense.....	\$16,959	35%	\$47,666	35%	\$39,191	35%
State income taxes, net of federal tax benefit.....	2,878	6	--	--	--	--
Plant basis differences.....	3,767	8	4,952	4	3,096	3
Amortization of investment tax credits.....	(1,690)	(3)	(2,534)	(2)	(2,534)	(2)
Other, net.....	(3,736)	(8)	358	--	(2,795)	(3)
	-----	---	-----	---	-----	---
Total income tax expense.....	\$18,178	38%	\$50,442	37%	\$36,958	33%
	=====	===	=====	===	=====	===

</TABLE>

Effective January 1, 1998, New Jersey eliminated the Gross Receipts and Franchise Tax paid by electric, natural gas and telecommunication public utilities. In its place, utilities are now subject to the state's corporate

business tax. In addition, the state's existing sales and use tax was expanded to include retail sales of electric power and natural gas. A Transitional Energy Facility Assessment Tax (TEFA) on electric and natural gas utilities will be phased-out over a five-year period. On January 1, 1999, and each of the four years thereafter, the TEFA will be reduced by 20%. When fully implemented, the tax law changes will reduce ACE's effective state tax rate from 13% to approximately 7%. Savings from these changes in New Jersey tax law will be passed through to ACE's customers.

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Items comprising deferred tax balances as of December 31, 1998 and 1997 are as follows:

<TABLE>

<CAPTION>

	1998	1997
	----	----
(Dollars in Thousands)		
<S>	<C>	<C>
Deferred tax liabilities:		
Utility plant basis differences.....	\$274,773	\$302,238
Deferred recoverable income taxes.....	35,944	30,050
Unrecovered purchase power costs.....	12,239	16,813
State excise taxes.....	12,822	16,326
Other.....	31,852	34,190
	-----	-----
Total deferred tax liabilities.....	367,630	399,617
	-----	-----
Deferred tax assets:		
Deferred investment tax credits.....	22,749	23,775
Other.....	9,187	11,741
	-----	-----
Total deferred tax assets.....	31,936	35,516
	-----	-----
Total deferred taxes, net.....	\$335,694	\$364,101
	=====	=====

</TABLE>

#### 4. MERGER

On March 1, 1998, ACE and DPL became wholly-owned subsidiaries of Conectiv (the Merger). Before the Merger, Atlantic owned ACE and nonutility subsidiaries. As a result of the Merger, Atlantic no longer exists and Conectiv owns (directly or indirectly) ACE, DPL and the nonutility subsidiaries formerly held separately by Atlantic and DPL. Conectiv is a registered holding company under the Public Utility Holding Company Act of 1935 (PUHCA).

The Merger was accounted for under the purchase method, with DPL as the acquirer. ACE's financial statements do not reflect "push-down" accounting--the adjustment of the values of assets and liabilities as of the Merger date and recording of goodwill. Push-down accounting was not used because ACE had preferred stock and public debt outstanding as of the Merger date.

Under the terms of the agreement, Atlantic stockholders received 0.75 shares of Conectiv's common stock and 0.125 shares of Conectiv's Class A common stock for each share of Atlantic stock held. DPL stockholders received one share of Conectiv's common stock for each share of DPL common stock held.

ACE has recorded the financial effects of enhanced retirement offers and other employee separation programs utilized to reduce the workforce by 354 positions. The employee separation programs and other Merger-related costs resulted in a \$61.1 million pre-tax charge to expense (or \$36.6 million after taxes) for the year ended December 31, 1998 and a \$22.2 million pre-tax charge to expenses (or \$15.6 million after taxes) for the year ended December 31, 1997. The pre-tax expenses are shown on the Statement of Income as "Employee separation and other merger-related costs." As of December 31, 1998, \$35.4 million of the \$61.1 million expense for the year ended December 31, 1998 had been paid, \$16.1 million will not require the use of operating funds, and \$9.6 million remains to be paid from operating funds.

As part of the Merger, ACE has consolidated its operational and administrative facilities throughout its regulated service territory, causing certain assets to be held for sale. The estimated fair market value of these assets is \$18.0 million less than their aggregate carrying value of \$32.7 million as of December 31, 1998. In accordance with, SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," ACE recorded in the fourth quarter of 1998 an estimated impairment loss of \$18.0 million (\$10.6 million net of taxes).

#### NOTE 5. RATE MATTERS

##### Electric Utility Industry Restructuring

As discussed below, the electric utility industry is being deregulated in New Jersey. Generally, the restructuring will deregulate the supply component of the price charged to a customer for electricity, and

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electricity suppliers will compete to supply electricity to customers. Customers will continue to pay the local utility a regulated price for the delivery of the electricity over the transmission and distribution system.

Stranded costs are costs which may not be recoverable in a competitive energy supply market due to lower prices or customers choosing a different supplier. Stranded costs generally include above-market costs associated with generation facilities or long-term purchased power agreements, and regulatory assets. ACE has quantified stranded costs in a New Jersey regulatory filing and has proposed a plan seeking approval for recovery of those costs from customers during the transition to a competitive market.

When the NJBPU issues an order specifically addressing deregulation in ACE's service territory, ACE will cease applying SFAS No. 71 to its electricity supply business. To the extent that the NJBPU's order provides for recovery of stranded costs through cash flows from the regulated transmission and distribution business, the stranded costs would continue to be recognized as assets under SFAS No. 71. Any stranded costs (including regulatory assets) for which cost recovery is not provided would be expensed.

The amount of stranded costs ultimately recovered from utility customers, if any, and the full impact of New Jersey legislation deregulating the electric utility industry, as discussed below, cannot be predicted. Also, the quantification of stranded costs under existing GAAP differs from methods used in regulatory filings. Among other differences, GAAP precludes recognition of the gains on plants (or purchased power contracts) not impaired, but requires write down of the plants that are impaired. Due to these considerations, market conditions, timing and other factors, ACE's management currently cannot predict the ultimate effects that electric utility industry deregulation may have on the financial statements of ACE, although deregulation may have a material adverse effect on ACE's results of operations.

##### New Jersey Legislation

The "Electric Discount and Energy Competition Act" (the Act) was signed into law by the Governor of New Jersey on February 9, 1999. The Act provides for retail choice of electricity suppliers; deregulation of electric rates and other competitive services, such as metering and billing; separation of competitive and regulated services; unbundling of rates for electric service; and licensing of electric and gas suppliers. August 1, 1999 is the effective starting date for each utility to provide retail choice of electricity suppliers to all of its customers.

The Act requires each electric utility to reduce its rates by at least 5% at the start of retail choice and by 10% within 36 months of the start of choice. If the NJBPU determines that a rate decrease of more than 10% is warranted, a "just and reasonable" financial test is applied. The mandated rate reductions must be sustained through the end of the 48th month after choice begins. The Act requires that the rate reductions be measured against the rates in effect on April 30, 1997. The rate reductions mandated by the Act could have a material adverse effect upon the results of operations of ACE.

In connection with the deregulation of electric rates, the Act authorizes the NJBPU to permit electric public utilities to recover the full amount of their stranded costs through a non-bypassable market transition charge, as long as the mandated rate reductions are achieved. The NJBPU will determine the utility's stranded cost amount. The NJBPU-determined stranded cost amount will be subject to periodic recalculation and true-up over the recovery period. The Act establishes an 8-year recovery period for stranded costs associated with owned generation. The recovery period can be extended by the NJBPU so as to allow for the full recovery of the stranded costs and the meeting of mandated rate reductions. The recovery period for stranded costs associated with purchased power contracts is to be the remainder of the contract term. In addition, the Act would allow for the issuance of transition bonds to finance portions of a given utility's stranded costs, as determined to be appropriate by the NJBPU. All savings generated through the use of such transition bonds are to be provided to the customers through rate reductions.

The Act establishes the current incumbent utility as the provider of "default service" or Basic Generation Service (BGS) for a period of 3 years. Future proceedings will be held to determine if the provision of BGS

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should be made competitive. The Act contains numerous provisions regarding the providing of competitive services by each utility. The primary focus is to ensure that there is no cross subsidization from the utility to competitive entities. The NJBPU also is required to develop fair competition standards and conduct an audit to determine that the utilities are in compliance with those standards. The Act gives the NJBPU the authority to order a utility to divest its generating assets if it is determined through a hearing that competition or customers are being adversely affected by plant location, market power or non-competitive rates. The NJBPU may require that the generation function be separated from a utility's non-competitive functions.

The NJBPU is authorized to establish standards for the licensing of energy suppliers, standards for switching customers from one supplier to another, and standards for issues such as credit and collections. The Act also contains provisions for protecting workers displaced by the impacts of the restructuring of the utility industry.

#### Stranded Cost Filing

Electric utilities in New Jersey, including ACE, previously filed stranded cost estimates and unbundled rates, as required by the NJBPU. On August 19, 1998, an Administrative Law Judge (ALJ) from the New Jersey Office of Administrative Law issued an initial decision on ACE's stranded costs and unbundled rate filing. The ALJ, in reviewing ACE's filing, recognized that ACE's stranded costs were \$812 million for nonutility generation contracts and \$397 million for owned generation. The ALJ made no specific recommendations on rate issues. A final NJBPU decision on this filing is expected by mid-1999.

#### Other Rate Matters

ACE is sharing a portion of the net cost savings expected to result from the Merger (see Note 4 to the Consolidated Financial Statements) with its customers through reduced electric retail customer base rates. ACE's total Merger-related electric base rate decrease of \$15.7 million was phased-in as follows: (1) \$5.0 million effective January 1, 1998 coincident with a \$5.0 million increase for recovery of deferred other postretirement benefit costs (OPEB); (2) \$9.9 million effective March 1, 1998, and (3) \$0.8 million effective January 1, 1999.

ACE is subject to a performance standard for its five jointly-owned nuclear units. Under the standard, the composite target capacity factor for such units is 70%, based upon the maximum dependable capacity of the units. The zone of reasonable performance (deadband) is between 65% and 75%. Penalties or rewards are based on graduated percentages of estimated costs of replacement power. LEC rates are adjusted annually to include any penalty or reward resulting from the nuclear unit performance standard. Pursuant to a December 1996 stipulation agreement, the performance of Salem Units 1 and 2, during prolonged outages which began in the second quarter of 1995, is not included in the calculation of a nuclear performance penalty. ACE was not subject to a



nuclear performance penalty in 1996, 1997 or 1998.

Refer to Note 3 to the Consolidated Financial Statements for information concerning rate changes related to changes in the New Jersey tax laws.

ACE submitted its second Demand Side Management (DSM) Plan for the period from September 1997 through August 1998 in April 1997. The DSM Plan includes programs that address energy conservation needs of the residential, commercial and industrial markets. During the course of DSM Plan proceedings, New Jersey's Division of the Ratepayer Advocate (Ratepayer Advocate) alleged that ACE has been recovering more in rates for DSM programs than it is spending on such programs. ACE's position is that the level of DSM expenditures cannot be viewed in isolation, but must be considered in light of both the overall history of DSM expenditures under current rates, as well as ACE's overall revenue requirement needs in a rate proceeding. The Ratepayer Advocate contends that any over-recovery and treatment of such over-recovery should be addressed outside the context of a base rate proceeding. The NJBPU has not yet taken any action on this matter. ACE cannot predict the outcome of this matter.

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NOTE 6. PENSION AND OTHER POSTRETIREMENT BENEFITS

<TABLE>  
<CAPTION>

Assumptions	1998	1997	1996
<S>	<C>	<C>	<C>
Discount rates used to determine projected benefit obligation as of December 31.....	6.75%	7.00%	7.50%
Rates of increase in compensation levels.....	4.50%	3.50%	3.50%
Expected long-term rates of return on pension assets.....	9.00%	9.00%	8.50%
Expected long-term rates of return on other postretirement benefit assets.....	9.00%	7.00%	7.00%
Health care cost trend rate on covered charges.....	7.00%	7.50%	8.00%

</TABLE>

The health-care cost trend rate, or the expected rate of increase in health-care costs, is assumed to continue to gradually decrease to 5.0% by 2002. Increasing the health-care cost trend rates of future years by one percentage point would increase the accumulated postretirement benefit obligation by \$11.8 million and would increase annual aggregate service and interest costs by \$1.5 million. Decreasing the health-care cost trend rates of future years by one percentage point would decrease the accumulated postretirement benefit obligation by \$10.4 million and would decrease annual aggregate service and interest costs by \$1.3 million.

The following schedules reconcile the beginning and ending balances of the pension and other postretirement benefit obligations and related plan assets. Other postretirement benefits include medical benefits for retirees and their spouses and retiree life insurance.

Change in Benefit Obligation

<TABLE>  
<CAPTION>

	Pension Benefits		Other Postretirement Benefits	
	1998	1997	1998	1997
(Dollar in Thousands)	----	----	----	----
<S>	<C>	<C>	<C>	<C>
Benefit obligation at beginning of year.....	\$239,000	\$207,340	\$103,824	\$107,105
Service cost.....	7,558	6,763	3,643	2,531
Interest cost.....	20,583	15,840	8,816	6,843
Plan amendments.....	(10,622)	--	--	--
Actuarial (gain) loss.....	90,862	25,122	15,460	(7,955)

Special termination benefits.....	11,846	--	1,270	--
Curtailment (gain) loss.....	(3,883)	--	6,597	--
Settlement (gain) loss.....	318	4,475	--	--
Benefits paid.....	(54,722)	(20,540)	(4,275)	(4,700)
	-----	-----	-----	-----
Benefit obligation at end of year.....	\$300,940	\$239,000	\$135,335	\$103,824
	=====	=====	=====	=====

Change in Plan Assets  
<CAPTION>

	Pension Benefits		Other Postretirement Benefits	
	-----		-----	
	1998	1997	1998	1997
(Dollars in Thousands)	----	----	----	----
<S>	<C>	<C>	<C>	<C>
Fair value of assets at beginning of year.....	\$259,500	\$236,000	\$ 20,100	\$ 18,000
Actual return on plan assets.....	10,062	35,414	1,119	800
Employer contributions.....	--	8,626	13,261	6,000
Benefits paid.....	(54,722)	(20,540)	(4,275)	(4,700)
	-----	-----	-----	-----
Fair value of assets at end of year.....	\$214,840	\$259,500	\$ 30,205	\$ 20,100
	=====	=====	=====	=====

</TABLE>

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Reconciliation of Funded Status of the Plans

<TABLE>  
<CAPTION>

	Pension Benefits		Other Postretirement Benefits	
	-----		-----	
	1998	1997	1998	1997
(Dollars in Thousands)	----	----	----	----
<S>	<C>	<C>	<C>	<C>
Funded status at end of year.....	\$ (86,100)	\$20,500	\$ (105,130)	\$ (83,724)
Unrecognized net actuarial (gain) loss.....	86,070	(10,810)	27,886	4,727
Unrecognized prior service cost..	(10,447)	232	--	--
Unrecognized net transition (asset) obligation.....	--	(1,532)	32,637	41,521
	-----	-----	-----	-----
Net amount recognized at end of year.....	\$ (10,477)	\$ 8,390	\$ (44,607)	\$ (37,476)
	=====	=====	=====	=====

</TABLE>

Based on fair values as of December 31, 1998, the pension plan assets were comprised of publicly traded equity securities (\$143.9 million or 67%) and fixed income obligations (\$70.9 million or 33%). As of December 31, 1998, the other postretirement benefit plan assets were comprised entirely of fixed income securities.

Components of Net Periodic Benefit Cost

<TABLE>  
<CAPTION>

	Pension Benefits			Other Postretirement Benefits		
	-----			-----		
	1998	1997	1996	1998	1997	1996
(Dollars in Thousands)	----	----	----	----	----	----
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Service cost.....	\$ 7,558	\$ 6,763	\$ 6,870	\$ 3,643	\$ 2,531	\$ 2,688

Interest cost.....	20,583	15,840	14,569	8,816	6,843	7,482
Expected return on assets.....	(20,414)	(20,160)	(17,376)	(1,015)	(1,275)	(1,122)
Amortization of:						
Transition obligation (asset).....	(41)	24	24	2,404	2,768	2,768
Prior service cost.....	20	(172)	(172)	50	--	--
Actuarial loss.....	2,131	263	204	710	--	566
	-----	-----	-----	-----	-----	-----
Cost before items below.....	9,837	2,558	4,119	14,608	10,867	12,382
Special termination benefits.....	11,846	--	--	1,270	--	--
Curtailement (gain) loss..	(3,883)	5,932	--	6,597	--	--
Settlement loss.....	318	330	--	--	--	--
	-----	-----	-----	-----	-----	-----
Total net periodic benefit cost.....	\$18,118	\$ 8,820	\$ 4,119	\$22,475	\$10,867	\$12,382
	=====	=====	=====	=====	=====	=====
Portion of net periodic benefit cost included in results of operations...	\$15,514	\$ 8,162	\$ 3,040	\$19,553	\$ 3,640	\$ 3,104
	=====	=====	=====	=====	=====	=====

</TABLE>

The components of 1998 and 1997 pension and other postretirement periodic benefit costs attributed to special benefits, curtailment (gain) loss, and settlement loss resulted from the enhanced retirement offer and other employee separation programs associated with the Merger.

Other postretirement benefit costs in excess of the amount recovered in customer rates were deferred from 1993 to 1997, including \$4.9 million in 1997 and \$6.4 million in 1996. ACE began to recover these costs, through customer rates, over a 15 year period beginning in 1998. See Note 5 and Note 14 to the Consolidated Financial Statements for additional information.

Effective January 1, 1999, ACE's covered employees began participating in a "cash balance" pension plan adopted by Conectiv. Contributions, which vary based on the covered employee's age and years of service, will

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be made to individual employee accounts provided for under the plan. The "cash balance" of each employee's account increases based on employer contributions and interest income credited to the account. The aggregate of the employee's accounts will be ACE's pension obligation.

During 1998, ACE's covered employees began participating in the Conectiv 401(k) plans. Conectiv contributes to the plans, in the form of Conectiv stock, at varying levels up to \$0.50 for each dollar contributed by covered employees, for up to 6% of employee base pay. Prior to the Merger, ACE had 401(k) plans for its employees, under which ACE contributed up to \$0.50 for each dollar contributed by covered employees, for up to 6% of employee base pay. The cost of the plans for 1998, 1997, and 1996 was \$1.9 million, \$2.0 million and \$1.9 million, respectively.

#### 7. JOINTLY-OWNED GENERATING STATIONS

ACE owns jointly with other utilities several electric generating facilities. ACE is responsible for its pro-rata share of the costs of construction, operation and maintenance of each facility. ACE provides financing during the construction period for its share of the jointly-owned facilities and includes its share of direct operations and maintenance expenses in the Consolidated Statements of Income.

The amounts shown below represent ACE's share of each facility at, or for the year ended, December 31, 1998, including AFUDC as appropriate.

<TABLE>

<CAPTION>

Cone-      Peach                      Hope

(Dollars in Thousands)	Keystone	maugh	Bottom	Salem	Creek
<S>	<C>	<C>	<C>	<C>	<C>
Energy Source.....	Coal	Coal	Nuclear	Nuclear	Nuclear
Ownership Share.....	2.47%	3.83%	7.51%	7.41%	5.00%
MW Capability Owned.....	42	65	164	164	52
Electric Plant in Service....	\$13,640	\$33,956	\$135,775	\$245,628	\$241,062
Accumulated Depreciation*....	\$ 3,815	\$ 8,310	\$ 62,688	\$ 90,120	\$ 82,854
Construction Work in Progress.....	\$ 104	\$ 456	\$ 13,037	\$ 7,260	\$ 1,251

\* Excludes Nuclear Decommissioning Reserve.

#### 8. CUMULATIVE PREFERRED SECURITIES

ACE has authorized 799,979 shares of Cumulative Preferred Stock, \$100 Par Value, two million shares of No Par Preferred Stock and three million shares of Preference Stock, No Par Value. If preferred dividends are in arrears for at least a full year, preferred stockholders have the right to elect a majority of directors to the Board of Directors until all dividends in arrears have been paid.

##### Preferred Stock Subject to Mandatory Redemption

<TABLE>  
<CAPTION>

Series	1998		1997	
	Shares	(000)	Shares	(000)
<S>	<C>	<C>	<C>	<C>
\$8.20, no par value.....	--	\$ --	100,000	\$10,000
\$7.80, no par value.....	239,500	23,950	239,500	23,950
Total.....	239,500	\$23,950	339,500	\$33,950

</TABLE>

Beginning May 1, 2001, 115,000 shares of the remaining \$7.80 No Par Preferred Stock must be redeemed annually through the operation of a sinking fund at a redemption price of \$100 per share. ACE has the option to redeem up to an additional 115,000 shares without premium on any annual sinking fund date.

ACE redeemed its \$8.20 No Par Preferred Stock (\$100 per share stated value) as follows: 100,000 shares in August 1998; 200,000 shares in August 1997, and 200,000 shares in August 1996. In September 1996, ACE

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redeemed the remaining 50,000 shares of its \$8.25 Preferred Stock (\$100 per share stated value). In August 1996, ACE repurchased 460,500 shares of its \$7.80 No Par Preferred Stock (\$100 per share stated value). In February 1996, ACE redeemed the remaining 120,000 shares of its \$8.53 No Par Preferred Stock (\$100 per share stated value).

##### Preferred Stock Not Subject to Mandatory Redemption

<TABLE>  
<CAPTION>

Series	1998		1997		Current Redemption Price
	Shares	(000)	Shares	(000)	
<S>	<C>	<C>	<C>	<C>	<C>
4%, \$100 par value.....	24,268	\$2,427	77,000	\$ 7,700	\$105.50
4.1%, \$100 par value.....	20,504	2,051	72,000	7,200	101.00
4.35%, \$100 par value.....	3,102	310	15,000	1,500	101.00
4.35%, \$100 par value.....	1,680	168	36,000	3,600	101.00
4.75%, \$100 par value.....	8,631	863	50,000	5,000	101.00

5%, \$100 par value.....	4,120	412	50,000	5,000	100.00
	-----	-----	-----	-----	-----
Total.....	62,305	\$6,231	300,000	\$30,000	
	=====	=====	=====	=====	=====

</TABLE>

Cumulative Preferred Stock Not Subject to Mandatory Redemption is redeemable solely at the option of ACE. In October 1998, ACE purchased and retired 237,695 shares, or \$23.77 million of various series of mandatorily redeemable preferred stock, which had an average dividend rate of 4.4%. ACE realized a \$2.5 million gain on this preferred stock redemption which is presented as Gain on Preferred Stock Redemption within the 1998 Consolidated Statement of Income. In September 1996, ACE redeemed 100,000 shares of its 7.52% Preferred Stock \$100 Par Value.

ACE Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Solely Junior Subordinated Debentures of ACE

In November 1998, Atlantic Capital II, a wholly-owned subsidiary financing trust, issued \$25 million in aggregate liquidation amount of 7 3/8% Cumulative Trust Preferred Capital Securities (representing 1,000,000 preferred securities at \$25 per security). At the same time, \$25.8 million in aggregate principal amount of 7 3/8% Junior Subordinated Debentures, Series I, due 2028 (7 3/8% Debentures) were issued to Atlantic Capital II. For consolidated financial reporting purposes, the 7 3/8% Debentures are eliminated in consolidation against the trust's investment in the 7 3/8% Debentures. The preferred trust securities are subject to mandatory redemption upon payment of the 7 3/8% Debentures at maturity or upon redemption. The 7 3/8% Debentures are subject to redemption, in whole or in part at the option of ACE, at 100% of their principal amount plus accrued interest, after an initial period during which they may not be redeemed and at any time upon the occurrence of certain events.

The combination, of the obligations of ACE, pursuant to the 7 3/8% Debentures and ACE's guarantee of distributions with respect to trust securities, to the extent the trust has funds available therefor, constitute a full and unconditional guarantee by ACE of the obligations of the trust under the trust securities that the trust has issued. ACE is the owner of all of the common securities of the trust, which constitute approximately 3% of the liquidation amount of all of the trust securities issued by the trust.

Atlantic Capital I is a wholly-owned subsidiary financing trust which is structured similarly to Atlantic Capital II (discussed above). In October 1996, Atlantic Capital I, issued \$70 million (2,800,000 shares) of 8.25% Cumulative Quarterly Income ACE Obligated Mandatorily Redeemable Preferred Securities with a stated liquidation preference of \$25 each. Atlantic Capital I's sole investment is in ACE's 8.25% Junior Subordinated Deferrable Interest Debentures (8.25% Debentures). The 8.25% Debentures and Preferred Securities mature in 2026.

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9. DEBT

<TABLE>  
<CAPTION>

Secured debt -----	Maturity Date -----	December 31,	
		1998	1997
		----	----
		(Dollars in Thousands)	
<S>	<C>	<C>	<C>
Medium Term Notes Series B (6.28%).....	2/1/1998	\$ --	\$ 56,000
Medium Term Notes Series A (7.52%).....	1999	30,000	30,000
Medium Term Notes Series B (6.83%).....	2000	46,000	46,000
Medium Term Notes Series C (6.86%).....	2001	40,000	40,000
Medium Term Notes Series C (7.02%).....	2002	30,000	30,000
Medium Term Notes Series B (7.18%).....	2003	20,000	20,000
Medium Term Notes Series D (6.00%).....	2003	20,000	--
Medium Term Notes Series A (7.98%).....	2004	30,000	30,000

Medium Term Notes Series B (7.125%).....	2004	28,000	28,000
Medium Term Notes Series C (7.15%).....	2004	9,000	9,000
Medium Term Notes Series B (6.45%).....	2005	40,000	40,000
Medium Term Notes Series D (6.19%).....	2006	65,000	--
6 3/8% Pollution Control Series.....	12/1/2006	2,350	2,425
Medium Term Notes Series C (7.15%).....	2007	1,000	1,000
Medium Term Notes Series B (6.76%).....	2008	50,000	50,000
Medium Term Notes Series C (7.25%).....	2010	1,000	1,000
6 5/8% First Mortgage Bonds.....	8/1/2013	75,000	75,000
Medium Term Notes Series C (7.63%).....	2014	7,000	7,000
Medium Term Notes Series C (7.68%).....	2015	15,000	15,000
Medium Term Notes Series C (7.68%).....	2016	2,000	2,000
6.80% Pollution Control Series A.....	3/1/2021	38,865	38,865
7% First Mortgage Bonds.....	9/1/2023	75,000	75,000
5.60% Pollution Control Series A.....	11/1/2025	4,000	4,000
7% First Mortgage Bonds.....	8/1/2028	75,000	75,000
6.15% Pollution Control Series A.....	6/1/2029	23,150	23,150
7.20% Pollution Control Series A.....	11/1/2029	25,000	25,000
7% Pollution Control Series B.....	11/1/2029	6,500	6,500
		-----	-----
		758,865	729,940
		-----	-----
Unsecured debt			
-----			
6.46% Medium Term Notes Series A.....	4/1/2002	20,000	20,000
6.63% Medium Term Notes Series A.....	6/2/2003	30,000	30,000
7.52% Medium Term Notes Series A.....	4/2/2007	5,000	5,000
7.50% Medium Term Notes Series A.....	4/2/2007	10,000	10,000
		-----	-----
		65,000	65,000
		-----	-----
7 1/4% Debentures.....	5/1/1998	--	2,500
		-----	-----
Unamortized Premium and Discount-Net.....		(2,663)	(2,721)
		-----	-----
Total Long Term Debt.....		821,202	794,719
Add: Short Term Debt to be Refinanced.....		--	16,425
Less: Current Portion of Long-Term Debt.....		(30,075)	--
		-----	-----
Total Long Term Debt.....		791,127	811,144
		-----	-----
Variable Rate Demand Bonds, Pollution Control Series A.....	2014	18,200	18,200
Variable Rate Demand Bonds, Pollution Control Series B.....	2017	4,400	4,400
		-----	-----
Total Long Term Debt & Variable Rate Demand Bonds.....		\$813,727	\$833,744
		=====	=====

</TABLE>

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Substantially all of ACE's utility plant is subject to the lien of the Mortgage and Deed of Trust dated January 15, 1937, as amended and supplemented, collateralizing ACE's First Mortgage Bonds and Secured Medium Term Notes.

Variable Rate Demand Bonds (VRDB) are classified as current liabilities because the VRDB are due on demand by the bondholder. However, bonds submitted to ACE for purchase are remarketed by a remarketing agent on a best efforts basis. ACE expects that bonds submitted for purchase will continue to be remarketed successfully due to ACE's credit worthiness and the bonds' interest rates being set at market. ACE also may utilize one of the fixed rate/fixed term conversion options of the bonds. Thus, ACE considers the VRDB to be a source of long-term financing. Average interest rates on the VRDB were 3.2% for 1998 and 3.6% for 1997.

ACE funds its interim financing requirements by issuing commercial paper and borrowing against bank credit lines. At December 31, 1998, ACE had no outstanding short-term debt and had total bank credit lines of \$195 million,

all of which was available for borrowing. ACE's weighted daily average interest rate on short-term debt outstanding at December 31, 1997 was 5.8%.

On January 12, 1998, ACE issued \$85 million of Secured Medium Term Notes, Series D maturing in January 2003 and January 2006 (6.1% average interest rate). The net proceeds received by ACE from the issuance of the Medium Term Notes was used to repay short-term debt and long-term debt (see schedule below) and \$10 million of \$8.20 No Par Preferred Stock in 1998.

The following schedule shows debt redemptions made, at maturity in 1998.

<TABLE>  
<CAPTION>

Series	Maturity Date	Principal
-----	-----	-----
(Dollars in Thousands)		
<S>	<C>	<C>
6.35% Medium-Term Notes.....	1/26/98	\$ 4,000
6.37% Medium-Term Notes.....	1/27/98	46,000
7.25% Debentures.....	5/01/98	2,500
5.50% Medium-Term Notes.....	5/14/98	6,000
6.375% Pollution Control Bonds*.....	12/01/09	75
		-----
		\$58,575
		=====

</TABLE>  
-----

\* Annual sinking fund requirement on bonds due December 1, 2006.

Maturities and Sinking Fund Requirements for Long-Term Debt

<TABLE>  
<CAPTION>

(Dollars in thousands)	
<S>	<C>
1999.....	\$30,075
2000.....	46,075
2001.....	40,075
2002.....	50,075
2003.....	70,075

</TABLE>

10. COMMON STOCKHOLDER'S EQUITY

For information concerning changes to the common equity accounts of ACE, see the Consolidated Statements of Changes in Common Stockholder's Equity.

Effective March 1, 1998, all of the outstanding shares of ACE were acquired by Conectiv, pursuant to the Merger, as discussed in Note 4 to the Consolidated Financial Statements.

Under ACE's certificate of incorporation, ACE is subject to certain limitations on the payment of dividends to Conectiv, which is the holder of all of ACE's common stock. When full dividends have been paid on the Preferred Stock Securities of ACE for all past dividend periods, dividends may be declared and paid by ACE on

its common stock, as determined by the Board of Directors of ACE, out of funds legally available for the payment of dividends.

11. COMMITMENTS

Construction Program

Capital expenditures for 1999 are estimated to be approximately \$85.4 million.

Purchased Capacity and Energy Arrangements

ACE arranges with various providers of bulk energy to obtain sufficient supplies of capacity and energy. Terms of the arrangements vary in length to enable ACE to optimally manage its supply portfolio in response to changing market conditions. At December 31, 1998, ACE has contracted for 828 megawatts (MWs) of purchased capacity with terms remaining of 1 to 26 years. Information regarding these arrangements relative to ACE was as follows:

<TABLE>  
<CAPTION>

	1998	1997	1996
	----	----	----
<S>	<C>	<C>	<C>
Percentage of MW capacity.....	33%	29%	30%
Percentage of energy output.....	41%	54%	55%
Capacity charges (millions).....	\$173	\$180	\$179
Energy charges (millions).....	\$126	\$137	\$145

</TABLE>

Electric capacity purchased from certain nonutility suppliers is recoverable through the LEC, which amounted to \$166.9 million, \$166.8 million and \$165.3 million in 1998, 1997 and 1996, respectively. Based on existing contracts as of December 31, 1998, ACE's future commitments for capacity and energy under long-term purchased power contracts are estimated to be \$269 million in 1999; \$275 million in 2000; \$266 million in 2001; \$266 million in 2002; \$268 million in 2003. Due to uncertainties surrounding restructuring of the electric utility industry, ACE has not forecasted its long-term purchased power commitments beyond 2003.

#### Leases

ACE has a contractual obligation to obtain nuclear fuel for the Salem, Hope Creek and Peach Bottom stations. The asset and related obligation for the leased fuel are reduced as the fuel is burned and are increased as additional fuel purchases are made. ACE's obligation under the contract is generally the net book value of the nuclear fuel financed, which was \$35.0 million as of December 31, 1998. Operating expenses for 1998, 1997 and 1996 include leased nuclear fuel costs of \$11.7 million, \$9.8 million and \$8.7 million, respectively.

ACE also leases other types of property and equipment for use in its operations. Amounts charged to operating expenses for these leases were \$4.6 million in 1998, \$2.4 million in 1997 and \$2.6 million in 1996. Future minimum rental payments for all non-cancellable lease agreements, excluding nuclear fuel, are less than \$3.0 million per year for each of the next five years.

## 12. CONTINGENCIES

#### Environmental Matters

ACE is subject to regulation with respect to the environmental effects of its operations, including air and water quality control, solid and hazardous waste disposal, and limitation on land use by various federal, regional, state, and local authorities. Costs may be incurred to clean up facilities found to be contaminated due to past disposal practices. Federal and state statutes authorize governmental agencies to compel responsible parties to clean up certain abandoned or uncontrolled hazardous waste sites. ACE is a potentially responsible party at a state superfund site and has agreed, along with other responsible parties, to remediate the site pursuant to an Administrative Consent Order with the New Jersey Department of Environmental Protection. ACE is also a

defendant in an action to recover costs at a federal superfund site in Gloucester, New Jersey. There is \$1.0 million included in ACE's current liabilities as of December 31, 1998, for remediation activities at these sites. ACE does not expect such future costs to have a material effect on its financial position or results of operations.

#### Nuclear Insurance



In conjunction with ACE's ownership interests in Peach Bottom, Salem, and Hope Creek, ACE could be assessed for a portion of any third-party claims associated with an incident at any commercial nuclear power plant in the United States. Under the provisions of the Price Anderson Act, if third party claims relating to such an incident exceed \$200 million (the amount of primary insurance), ACE could be assessed up to \$30.7 million on an aggregate basis for such third-party claims. In addition, Congress could impose a revenue-raising measure on the nuclear industry to pay such claims

The co-owners of Peach Bottom, Salem, and Hope Creek maintain property insurance coverage of approximately \$2.8 billion for each unit for loss or damage to the units, including coverage for decontamination expense and premature decommissioning. In addition, ACE is a member of an industry mutual insurance company, which provides replacement power cost coverage in the event of a major accidental outage at a nuclear power plant. Under these coverages, ACE is subject to potential retrospective loss experience assessments of up to \$5.4 million.

### 13. SALEM NUCLEAR GENERATING STATION

In December 1996, the NJBPU issued an Order approving a stipulation of settlement reached among the parties settling the issues primarily regarding replacement power costs related to an extended Salem outage, which began in the second quarter of 1995. The stipulations provided for recovery through LEC rates of ACE's replacement power costs for the Salem outage, up to each Salem Unit's agreed-upon return-to-service date (June 30, 1997 for Unit 1 and December 31, 1996 for Unit 2). The Salem Units returned to service in August 1997 (Unit 2) and April 1998 (Unit 1). As a result, unrecovered purchased power costs of \$2.1 million in 1998 and \$10.2 million in 1997 were expensed.

The stipulation of settlement approved by the NJBPU in December 1996 also provided customers with a \$13 million base rate credit, primarily for resolution of issues associated with the extended Salem outage. ACE accrued the \$13 million base rate credit in 1996 as a reduction of electric revenues.

As previously reported, on February 27, 1996, the co-owners of Salem, including ACE and DPL, filed a complaint in the United States District Court for New Jersey against Westinghouse Electric Corporation (Westinghouse), the designer and manufacturer of the Salem steam generators. The complaint, which sought to recover from Westinghouse the costs associated with and resulting from the cracks discovered in Salem's steam generators and with replacing such steam generators, alleged violations of federal and New Jersey Racketeer Influenced and Corrupt Organizations Acts, fraud, negligent misrepresentation and breach of contract. On November 4, 1998, the Court granted Westinghouse's motion for summary judgment with regard to the federal Racketeer Influenced and Corrupt Organizations Act claim, and dismissed the remaining state law claims without prejudice. On November 18, 1998, the co-owners re-filed their state law claims against Westinghouse in the Superior Court of New Jersey. The co-owners also filed an appeal of the District Court's dismissal with the United States Court of Appeals for the Third Circuit.

### 14. REGULATORY ASSETS

In conformity with generally accepted accounting principles, ACE's accounting policies reflect the financial effects of rate regulation and decisions issued by the NJBPU and the FERC. In accordance with the provisions

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of SFAS No. 71, ACE defers expense recognition of certain costs and records an asset, as a result of the effects of rate regulation. Except for deferred energy costs, which are classified as a current asset or liability, these "regulatory assets" are included on ACE's Consolidated Balance Sheets under "Deferred Charges and Other Assets." The costs of these assets are either being recovered or are probable of being recovered through customer rates. Generally, the costs of these assets are recognized in operating expenses over the period the cost is recovered from customers. For information about the impact of electric utility industry restructuring on accounting for regulatory assets, see Note 5 to the Consolidated Financial Statements.

The table shown below details total regulatory assets as of December 31,

1998 and 1997.

<TABLE>  
<CAPTION>

(Dollars in Thousands)	1998	1997	Remaining Amortization/ Recovery Period*
	----	----	-----
<S>	<C>	<C>	<C>
Deferred recoverable income taxes.....	\$102,223	\$ 85,858	(A)
Unrecovered purchased power costs:			
Capacity costs.....	30,608	48,038	2 years
Contract renegotiation costs.....	17,666	18,226	16 years
Unrecovered state excise taxes.....	35,594	45,154	4 years
Deferred debt refinancing costs.....	28,043	30,002	1-28 years
Under (Over) recovered deferred energy costs.....	(15,577)	27,424	(B)
Deferred other postretirement benefit costs..	34,978	37,476	14 years
Asbestos removal costs.....	8,546	8,816	31 years
Nuclear decontamination and decommissioning of federally-owned nuclear units.....	6,217	5,032	10 years
Other.....	10,253	10,789	1-5 years
	-----	-----	
	\$258,551	\$316,815	
	=====	=====	

</TABLE>

-----

\*From December 31, 1998

(A) Amortized as temporary differences between the financial statement and tax bases of assets and liabilities reverse.

(B) Recovered from or credited to customers over annual LEC Period.

Deferred recoverable income taxes represent the portion of ACE's deferred tax liability applicable to utility operations that has not been recovered from customers and is recoverable in the future.

Unrecovered purchased power capacity costs represent prior deferrals of capacity costs which had exceeded the related cost recovery from customers.

Unrecovered purchased power contract renegotiation costs were incurred through renegotiation of a long-term capacity and energy contract with a certain independent power producer.

Unrecovered state excise taxes represent additional amounts paid as a result of prior legislative changes in the computation of state excise taxes.

Deferred debt refinancing costs represent costs incurred to refinance debt and are amortized over the life of the related new debt.

Deferred other postretirement benefit costs represent the non-cash portion of OPEB costs deferred during 1993-1997.

Asbestos removal costs were incurred to remove asbestos insulation from a wholly-owned generating station.

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Nuclear decontamination and decommissioning costs represent costs associated with decommissioning and decontaminating United States Department of Energy gaseous diffusion enrichment facilities.

Other includes certain amounts being recovered over periods of one to five years.

#### 15. NUCLEAR PLANT DECOMMISSIONING

ACE has a trust to fund the future costs of decommissioning each of the five nuclear units in which it has an ownership interest. The current annual funding amount, as authorized by the NJBPU, totals \$6.4 million and is provided for in rates charged to customers. The funding amount is based on

estimates of the future cost of decommissioning each of the units; the dates that decommissioning activities are expected to begin and the return expected to be earned by the assets of the fund. The present value of ACE's nuclear decommissioning obligation is estimated to be \$185 million based on site specific studies filed with and approved by the NJBPU. Decommissioning activities as approved by the NJBPU are expected to begin in 2006 and continue through 2032.

ACE's accrued nuclear decommissioning liability, which is reflected in the accumulated reserve for depreciation, was \$98.2 million as of December 31, 1998. The provision reflected in depreciation expense for nuclear decommissioning was \$6.4 million annually for 1998, 1997 and 1996. External trust funds established by ACE for the purpose of funding nuclear decommissioning costs had an aggregate book balance (stated at fair market value) of \$98.2 million as of December 31, 1998. Earnings on the trust funds are recorded as an increase to the accrued nuclear decommissioning liability, which, in effect, reduces the expense recorded for nuclear decommissioning.

The staff of the Securities and Exchange Commission has questioned certain of the current accounting practices of the electric utility industry, including ACE, regarding the recognition, measurement and classification of decommissioning costs for nuclear generating stations in the financial statements of electric utilities. In February 1996, the FASB issued the Exposure Draft, "Accounting for Certain Liabilities Related to Closure or Removal of Long-Lived Assets," which proposed changes in the accounting for closure and removal costs of long-lived assets, including the recognition, measurement, and classification of decommissioning costs for nuclear generating stations. If the proposed changes were adopted: (1) annual provisions for decommissioning would increase, (2) the estimated cost for decommissioning would be recorded as a liability rather than as accumulated depreciation, and (3) trust fund income from the external decommissioning trusts would be reported as investment income rather than as a reduction of decommissioning expense. The FASB expects to issue a revised Exposure Draft in the second quarter of 1999.

#### 16. FAIR VALUE OF FINANCIAL INSTRUMENTS

A number of items within Current Assets and Current Liabilities on the Consolidated Balance Sheet are considered to be financial instruments because they are cash or are to be settled in cash. Due to their short-term nature, the carrying values of these items approximate their fair market values. Accounts Receivable--Utility Service and Unbilled Revenues are subject to concentration of credit risk because they pertain to utility service conducted within a fixed geographic region.

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The year-end fair value of certain financial instruments are listed below. The fair values were based on quoted market prices of ACE's securities or securities with similar characteristics.

<TABLE>  
<CAPTION>

	1998		1997	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	-----	-----	-----	-----
	(Dollars in Millions)			
<S>	<C>	<C>	<C>	<C>
Funds Held By Trustee.....	\$102.8	\$102.8	\$88.7	\$88.7
Long Term Debt.....	791.1	832.6	811.1	836.9
Preferred Stock Subject to Mandatory Redemption.....	24.0	24.1	34.0	37.0
Preferred Securities*.....	95.0	98.3	70.0	72.3

</TABLE>

\* ACE Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Junior Subordinated Debentures of ACE

#### 17. QUARTERLY FINANCIAL RESULTS (UNAUDITED)

Quarterly financial data, reflecting all adjustments necessary in the opinion of management for a fair presentation of such amounts, are presented below. Certain prior year amounts have been reclassified, not affecting net income, to conform to the current year reporting of these items. Third quarter results generally exceed those of other quarters due to increased sales and higher residential rates.

<TABLE>  
<CAPTION>

Quarter Ended	Operating Revenues	Operating Income/(Loss)	Net Income/(Loss)	Earnings (Loss) Applicable to Common Stock
(Dollars in Thousands)				
<S>	<C>	<C>	<C>	<C>
1998				
March 31.....	\$ 237,949	\$ (17,823)	\$ (20,737)	\$ (21,737)
June 30.....	241,883	46,028	19,314	18,314
September 30.....	331,403	87,761	41,550	40,687
December 31.....	226,378	(7,098)	(9,851)	(7,879)
	-----	-----	-----	-----
	\$1,037,613	\$108,868	\$ 30,276	\$ 29,385
	=====	=====	=====	=====
1997				
March 31.....	\$ 243,422	\$ 47,378	\$ 20,371	\$ 18,961
June 30.....	242,475	45,011	18,676	17,266
September 30.....	338,162	89,580	47,541	46,541
December 31.....	260,831	8,083	(841)	(1,842)
	-----	-----	-----	-----
	\$1,084,890	\$190,052	\$ 85,747	\$ 80,926
	=====	=====	=====	=====

</TABLE>

As discussed in Note 4 to the Consolidated Financial Statements, ACE recorded an impairment loss on assets held for sale in the fourth quarter of 1998 which reduced operating income \$18.0 million and net income \$10.6 million.

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Employee separation programs and other Merger-related costs recorded in 1998 (as discussed in Note 4 to Consolidated Financial Statements) had the effects shown below on 1998 quarterly operating results.

<TABLE>  
<CAPTION>

Quarter Ended	Operating Income/(Loss)	Net Income/(Loss)	Earnings (Loss) Applicable to Common Stock
(Dollars in Thousands)			
<S>	<C>	<C>	<C>
March 31.....	\$ (51,479)	\$ (30,946)	\$ (30,946)
June 30.....	3,361	1,987	1,987
September 30.....	(1,014)	(600)	(600)
December 31.....	(11,959)	(7,074)	(7,074)
	-----	-----	-----
	\$ (61,091)	\$ (36,633)	\$ (36,633)
	=====	=====	=====

</TABLE>

Due to the Merger, various pension and compensation plans were terminated in the fourth quarter of 1997, resulting in a \$22.2 million decrease in operating income and a \$15.6 million decrease in net income.

## 18. BUSINESS SEGMENTS

Conectiv's organizational structure and management reporting information is aligned with Conectiv's business segments, irrespective of which subsidiary, or subsidiaries, a business is conducted through. Businesses are managed based

on lines of business, not based on legal entity. Business segment information is not produced, or reported, on a subsidiary by subsidiary basis. Thus, as a Conectiv subsidiary, no business segment information (as defined by SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information") is available for ACE on a stand-alone basis.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Reference is made to Item 4 of Report on Form 8-K filed March 5, 1998.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Directors Business Experience During Past 5 Years

As of December 31, 1998

Howard E. Cosgrove, 55,..... Chairman of the Board Elected 1998 as Chairman of the Board and Chief Executive Officer of Conectiv, Delmarva Power & Light Company, and Atlantic City Electric Company. Elected 1992 as Chairman of the Board, President and Chief Executive Officer and Director of Delmarva Power & Light Company.

Meredith I. Harlacher, Jr., 56,.. Director Elected 1998 as President and Chief Operating Officer of Conectiv, and President and Chief Operating Officer and Director of Delmarva Power & Light Company and Atlantic City Electric Company. Elected 1993 as Senior Vice President of Atlantic Energy, Inc.

Barry R. Elson, 57,..... Director Elected 1998 as Executive Vice President of Conectiv, and Executive Vice President and Director of Delmarva Power & Light Company and Atlantic City Electric Company. Elected 1997 as Executive Vice President, Delmarva Power & Light Company. Executive Vice President, Cox Communications, Inc., Atlanta, Georgia, from 1995 to 1996. Senior Vice President, Cox Enterprises/Cox Communications, Inc., Atlanta, Georgia, from 1984 to 1995.

Thomas S. Shaw, 51,..... Director Elected 1998 as Executive Vice President of Conectiv, and Executive Vice President and Director of Delmarva Power & Light Company and Atlantic City Electric Company. Elected 1992 as Senior Vice President, Delmarva Power & Light Company.

Barbara S. Graham, 50,..... Director Elected 1998 as Senior Vice President and Chief Financial Officer of Conectiv, and Senior Vice President and Chief Financial Officer and Director of Delmarva Power & Light Company and Atlantic City Electric Company. Elected 1994 as Senior Vice President, Treasurer and Chief Financial Officer, Delmarva Power & Light Company. Vice President and Chief Financial Officer of Delmarva Power & Light Company from 1992 to 1994.

Executives

ITEM 11. EXECUTIVE COMPENSATION

As previously noted, ACE is a wholly owned electric utility subsidiary of Conectiv. The Chief Executive Officer and the four most highly compensated executive officers of Conectiv maintain the same position at both ACE and DPL. In 1998, the salaries and other compensation awarded to the Chief Executive Officer and the four most highly compensated executive officers of ACE were paid by Conectiv for their service as executive officers of Conectiv, ACE and DPL. The Board Personnel & Compensation Committee Report was provided initially in the Conectiv Proxy Statement and is enclosed herein for the purpose of providing additional informational. The following tables show information concerning the total compensation paid or awarded to ACE's Chief Executive Officer and each of the four most highly compensated executive officers for the fiscal year ended December 31, 1998.

Board Personnel & Compensation Committee Report

Principles of Executive Compensation Program

The Personnel & Compensation Committee of the Board of Directors is comprised of four non-employee Directors. The Committee provides an independent review of the Company's performance objectives and executive compensation.

Overall Objectives

The Company's philosophy is to link compensation to business strategies and results, to align total compensation of executives with the long-term interests of stockholders, to motivate its senior executives to meet the challenging objectives established for the Company and to create an urgency for success in the newly-formed Company. The Company's executive compensation program is designed to:

- . provide total compensation that emphasizes long-term performance which creates stockholder value;
- . facilitate the rapid transition to a competitive business environment;
- . reflect the market conditions for attracting and retaining high-quality executives and ensure that such executives have a continuing stake in the long-term success of the Company; and
- . create significant levels of stock ownership.

The elements of the executive compensation program are:

- . total compensation levels that are competitive with those provided by the competitive market, defined as a blend of companies in the utility and industrial markets;
- . base compensation levels related to responsibility level and individual performance;
- . annual variable compensation that varies based on corporate, unit and individual performance; and,
- . long-term variable compensation based on long-term increases in stockholder value.

Total Compensation

Total compensation opportunities are developed for Company executives by Watson Wyatt, the firm that provides executive compensation consulting services to the Company. This is done using several published compensation survey sources and public proxy data to define the competitive market. Overall, the total compensation structure for executives is targeted at the

median for similar positions at companies of similar size, including both utilities and industrial companies (Compensation Comparison Group)/1/. Individual reward levels vary based on individual contributions and performance. Total compensation includes three components: base compensation, annual variable compensation and long-term variable compensation. The targets for each component of the executive compensation program are reviewed on an annual basis to ensure alignment with the Company's compensation philosophy and a proper balance between short-and long-term objectives.

- 
1. The Compensation Comparison Group does not include all of the same companies as the published industry indices in the Comparison of 10 Month Cumulative Total Return chart included in this Proxy Statement. However, 34 of the 85 companies included in the EEI Executive Compensation Report, which is one element of the Compensation Comparison Group, are also part of either the Dow Jones Electric Utilities Index or the S&P 500 Index.

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#### Base Compensation

Base compensation for executive officers is determined by evaluating the responsibilities of the positions held and the experience of the individuals, coupled with a review of compensation for comparable positions at other companies. Base compensation is reviewed on an annual basis and adjustments are based on the performance of the Company and each executive officer. Annual base compensation increases reflect the individual's performance and contribution over several years in addition to the results for a single year. Following the 1998 increases, the overall base compensation level for the five named executive officers was slightly below the median of the base compensation targeted levels defined by the surveys and proxies.

#### Annual Variable Compensation

The Company's annual variable compensation is designed to motivate participants to accomplish stretch financial and individual goals and to increase the sense of urgency to deliver significant results on an annual basis. Annual variable compensation target opportunities are designed to be at or above the median of the blended utility and industrial market and for the named executive officers vary from 40% to 50% of base compensation, with maximum awards of 60% to 75% of base compensation.

Annual variable compensation is paid in a combination of cash (80%) and restricted stock units (20%) and is based on the achievement of predetermined corporate and individual goals. The plan for 1998 provides that payouts will occur only after a specified earnings target is achieved.

For 1998, each individual covered by the plan was eligible to earn a variable compensation award between 0% and 150% of target. The portion of each individual award attributable to corporate, line of business, and group performance were determined and specific measures were developed at the beginning of the year. These measures were primarily financial for 1998 to accelerate the transition of the Company to a more competitive environment and included corporate measures of earnings, cash flow return on capital employed and cash flow. Each business group and line of business also developed specific financial measures to support their business plans.

The Management Stock Purchase Program (MSPP) was designed as a means to promote significant executive stock ownership in the new company and to help meet stock ownership guidelines. The program requires that 20% of the individual's earned annual variable compensation must be used to acquire restricted stock units (RSUs). Individuals may also voluntarily use up to an additional 30% (for a total of 50%) of their earned annual variable compensation to acquire RSUs. All RSUs are acquired at a 20% discount from Fair Market Value on the date paid. Each RSU is a proxy for one share of Common Stock, has a value equal to one share and earns at the rate of the Common Stock dividend. RSUs are restricted from sale or use for a 3-year period and are distributed in shares of Common Stock.

#### Long-Term Variable Compensation

The Company's long-term variable compensation reinforces the importance of providing stockholders with a competitive return on their investment. Long-term variable compensation awards also strengthen the ability of the Company to attract, motivate and retain executives of superior capability and more closely align the interests of management with those of stockholders.

Long-term grants for Conectiv executives are determined by setting a target percentage of base compensation based on median data in the Compensation Comparison Group and converting the target amounts to actual grants using the "Black-Scholes Model" for options and time and forfeiture discount methods for the other elements of the long-term grants.

Long-term awards granted in 1998 consisted of non-qualified stock options, dividend equivalent units and performance accelerated restricted stock. Non-qualified stock options and dividend equivalent units were awarded to provide approximately two-thirds of the targeted value of the grant while the other one-third of the

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targeted value was provided through performance accelerated restricted stock. This stock vests as unrestricted Common Stock seven years from the award date. However, vesting may be accelerated if the price of Common Stock reaches certain predetermined levels prior to the seven years. All stock options were granted with exercise prices equal to the fair market value of Common Stock at the time of the grant.

Performance accelerated restricted stock granted to the CEO and three other named executive officers is also subject to an additional condition tied to Total Shareholder Return over the seven year period. Failure to meet a predetermined Total Shareholder Return level over the restriction period will result in total forfeiture of their shares granted.

The CEO and three other named executive officers also were given a special grant of performance accelerated stock options to increase emphasis on creating long-term shareholder value. All performance accelerated stock options were granted with exercise prices equal to the fair market value of Common Stock at the time of grant. These options do not vest and cannot be exercised for 9-1/2 years from the date of their grant unless the stock price increases to predetermined levels. Absent accelerated vesting at these predetermined stock prices, the shares will become exercisable in 9-1/2 years with expiration occurring at 10 years. This special grant resulted in the long-term variable compensation component and total compensation exceeding the targeted median values for these four executives for 1998 using the Black-Scholes valuation methodology.

#### Stock Ownership Guidelines

To further reinforce the interests of stockholders, stock ownership guidelines have been established for the Board of Directors, Company officers, and other Company management. These guidelines require the individuals covered by the guidelines to have beneficial ownership of Common Stock, or securities convertible into Common Stock, with an aggregate value equal to certain multiples of each individual's salary (or annual retainers in the case of outside directors). Multiples range from five times to one times salary. The Chief Executive Officer's multiple is set at five times salary and outside Directors' multiples are set at three times the annual retainer.

#### Internal Revenue Code Section 162(m)

The Committee considers the tax deductibility of compensation paid to executive officers and the impact of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), on the Company. This provision limits the amount of compensation that the Company may deduct from its taxable income for any year to \$1 million for any of its five most highly compensated executive officers, unless certain requirements are met.

The Committee has taken actions to limit the impact of the Code in the event that compensation paid to a named executive officer might otherwise not be deductible. The Committee will continue to seek ways to limit the impact of the Code; however, the Committee believes that the tax deduction limitation



should not compromise the Company's ability to create incentive programs that support the business strategy and also attract and retain the executive talent required to compete successfully. Accordingly, achieving the desired flexibility in the design and delivery of compensation may periodically result in some compensation that is not deductible for federal income tax purposes.

#### Summary of Actions Taken by the Personnel & Compensation Committee

The Personnel & Compensation Committee, consisting entirely of outside directors, provides direction and oversight to the Company's executive compensation plans, establishes the Company's compensation philosophy and assesses the effectiveness of the program as a whole. This includes activities such as reviewing the design of various plans and assessing the reasonableness of the total program consistent with the total compensation philosophy.

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The Committee also assists in administering key aspects of the Company's annual compensation program and variable compensation plan, such as reviewing annual compensation budgets and setting targets and corporate performance measures for the annual and long-term variable compensation plans.

Finally, the Committee specifically implements the Company's executive compensation program as it directly pertains to the Chief Executive Officer and the Company's four other most highly compensated executives, i.e., the five "named executive officers."

The Committee has determined that in an environment where competition is increasing, it is essential that the Company have the ability to attract, motivate and retain high quality executives from within and outside the utility industry.

Because of the extremely competitive market for executive talent, the Personnel & Compensation Committee has adopted a compensation structure based on a blend of utility and general competitive industry markets. The structure is also flexible to allow setting salaries at pure general industry levels where that may be necessary to attract certain specific skills and experience.

Consistent with this approach, the total compensation program relies on competitive base compensation generally at or below the median of the market with annual and long-term variable compensation opportunities generally above the median of the market. This places a much greater emphasis on variable compensation that aligns executive and stockholder interests.

This total compensation philosophy is important to the success of the Company because the Company is facing increasing competition and related risks. The Company is not simply a utility anymore, but is rapidly becoming part of the general competitive industry market and, therefore, just as strategies for success must change, the compensation to drive success must also change. Prior to the merger involving Atlantic Energy and Delmarva and during 1998, this compensation philosophy enabled the Company to attract several key executives with experience and skills critical to the emerging competitive environment. These executives would not have been available under a traditional utility compensation philosophy.

Significant actions by the Committee for fiscal year 1998 included adoption of the new Conectiv executive plans (Conectiv Variable Compensation Plan, Deferred Compensation Plan, Supplemental Executive Retirement Plan [SERP], and Change In Control Agreements) and other compensation and benefit plans for Conectiv employees. The Committee also sets base compensation, annual variable targets and performance measures and long-term grants under the various executive programs, including special awards of performance accelerated stock options to the CEO and the three other named executive officers described above.

#### Chief Executive Officer Compensation

Mr. Cosgrove's compensation reflects Conectiv's compensation philosophy. His base compensation, annual and regular long-term variable compensation place him at total compensation levels consistent with the median level of other CEO's at similarly-sized utility and manufacturing companies represented in

the Compensation Comparison Group. Additional emphasis on achieving increased stockholder value has been created with a special grant of performance accelerated stock options. This special grant will cause his long term compensation and total compensation to exceed the median targets for 1998.

#### Base Compensation Action

Conectiv was formed by a merger involving Delmarva and Atlantic Energy in early 1998. Mr. Cosgrove's base compensation was set during the merger process to reflect the size of Conectiv and the increasing competitive environment in which Conectiv does business. His 1998 base compensation is at the median target level developed through a comparison of other Chief Executive Officers of similarly-sized corporations using a blend of utilities and general industry. His salary for 1999 will remain the same as in 1998.

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#### Annual Variable Compensation

To provide clear focus on increasing stockholder value through the successful completion of the merger and growing the new Conectiv businesses, Mr. Cosgrove received additional levels of long-term awards in place of an annual variable opportunity for 1997. Therefore, there is no annual variable pay for 1997 reflected in 1998 compensation.

Mr. Cosgrove's annual variable compensation target opportunity for 1998 was set at 50% of base compensation, with a minimum payout of 0% and a maximum payout of 75% of base compensation. Payment of any award requires achieving a predetermined level of 1998 earnings established by this Committee. Performance measures for 1998, predetermined by this Committee, included earnings available for common stock, cash flow return on capital employed and cash flow. Awards for 1998 for Mr. Cosgrove and the four other named executive officers have not been determined.

#### Long-Term Variable Compensation

Long-term incentive grants are a critical component of the Conectiv executive compensation philosophy, since they align executive interests very clearly with increased stockholder value. For 1998, Mr. Cosgrove received grants of non-qualified stock options, dividend equivalent units, performance accelerated restricted stock, and performance accelerated stock options (reflected in the Compensation Tables). The regular grants of non-qualified stock options, dividend equivalent units and performance accelerated restricted stock provided a long-term variable compensation opportunity approximately at the median of the defined competitive market.

The special, non-recurring grant of performance accelerated stock options was awarded to create additional emphasis on achieving higher levels of stockholder value. In order for Mr. Cosgrove to receive any value from this grant prior to vesting at nine and one-half years, there must be a significant increase in stockholder value. Such increases prior to nine and one-half years will result in accelerated vesting of this grant in increments of one-third. The first third would vest when stockholder value increases by \$400,000,000, at which time Mr. Cosgrove's options would vest at a value of \$1,200,000, or .3% of the increase in stockholder value. The entire grant would vest if stockholder value increases by \$800,000,000, at which time Mr. Cosgrove's options would vest at a value of \$2,400,000 or .3% of the increase in stockholder value. Only under results that yield increases in stockholder value and trigger accelerated vesting of this grant would Mr. Cosgrove's 1998 compensation exceed the median target compensation level.

#### Personnel & Compensation Committee

S.I. Gore, Chairperson	R.B. McGlynn
M.B. Emery	B.J. Morgan

#### Personnel & Compensation Committee Interlocks and Insider Participation

The Personnel & Compensation Committee is comprised solely of non-officer directors. Logical Business Solutions, which is owned by Mr. Emery's son-in-law, Paul Kleiman, had contracts with Conectiv Resource Partners, Inc., a

subsidiary of the Company, with a gross value of \$227,000 during 1998 for information technology consulting services. Except as described in the preceding sentence, there are no Personnel & Compensation Committee interlocks.

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Summary Compensation Table

Table 1--SUMMARY COMPENSATION TABLE

<TABLE>  
<CAPTION>

Name and Principal Position	Year(1)	Long-Term Compensation							
		Annual Compensation				Awards Payouts			
		Annualized Salary	Variable Compensation (Bonus) (2)	Other Annual Compensation	Restricted Stock(5)	Securities Underlying Options	LTIP Payouts (3)	All Other Compensation (4, 6)	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
H.E. Cosgrove,..... Chairman of the Board and Chief Executive Officer	1998	\$600,000	--	--	--	360,000	572,134	\$ 12,329	
M.I. Harlacher,..... President	1998	\$340,000	--	--	--	--	--	\$ 3,742	
	1997	\$224,525	\$96,800	\$814,696	--	--	--	\$3,208,196	
	1996	\$215,317	\$27,500	\$ 8,527	\$305,138	15,800	10,429	\$ 7,413	
B.R. Elson,..... Executive Vice President	1998	\$325,000	--	--	--	170,000	21,560	\$ 4,074	
T.S. Shaw,..... Executive Vice President	1998	\$325,000	--	--	--	170,000	155,267	\$ 9,478	
B.S. Graham,..... Senior Vice President	1998	\$250,000	--	--	--	170,000	155,267	\$ 5,308	

</TABLE>

- 
- (1) Base salary is shown as an annualized amount. Other items of compensation reflect the full calendar 1998 compensation received from Conectiv and either Delmarva or Atlantic City Electric Company.
  - (2) The 1998 bonus, which is an annual variable award, has not yet been determined. The target award is 50% of annualized salary for Mr. Cosgrove and 40% for Messrs. Harlacher, Elson and Shaw and Mrs. Graham.
  - (3) During 1998 all restrictions lapsed on the performance-based restricted stock granted in 1995 and 1996 under the Delmarva LTIP due to the merger involving Delmarva and Atlantic Energy. Under the "change in control" provisions, the awards fully vested resulting in a payout to Mr. Cosgrove of 21,160 shares (11,570 for 1995 and 9,590 for 1996) valued at \$454,940; to Mr. Shaw of 5,450 shares (2,870 for 1995 and 2,580 for 1996) valued at \$117,175; and to Mrs. Graham of 5,450 shares (2,870 for 1995 and 2,580 for 1996) valued at \$117,175. Shares were valued at \$21.50 at the time of payout. Dividends on shares of restricted stock and dividend equivalents are accrued at the same rate as that paid to all holders of Common Stock. As of December 31, 1998; Mr. Cosgrove held 45,520 shares of restricted stock (35,520 for 1997 and 10,000 for 1998) and 30,000 Dividend Equivalent Units ("DEU's"); Mr. Elson held 4,000 shares of restricted stock for 1998 and 10,000 DEU's; Mr. Shaw held 12,010 shares of restricted stock (8,010 for 1997 and 4,000 for 1998) and 10,000 DEU's; Mrs. Graham held 12,010 shares of restricted stock (8,010 for 1997 and 4,000 for 1998) and 10,000 DEU's. Holders of restricted stock are entitled to receive dividends as declared.
  - (4) The amount of All Other Compensation for each of the named executive officers for fiscal year 1998 include the following: Mr. Cosgrove, \$2,125 in Company matching contributions to the Company's Savings and Investment Plan, \$10,000 in Company matching contributions to the Company's Deferred

Compensation Plan and \$204 in term life insurance premiums paid by the Company; for Mr. Shaw, \$2,630 in Company matching contributions to the Company's Savings and Investment Plan, \$6,644 in Company matching contributions to the Company's Deferred Compensation Plan and \$204 in term life insurance premiums paid by the Company; for Mrs. Graham, \$2,604 in Company matching contributions to the Company's Savings and Investment Plan, \$2,500 in Company matching contributions to the Company's Deferred Compensation Plan and \$204 in term life insurance premiums paid by the Company; for Mr. Elson, \$2,969 in Company matching contributions to the Company's Savings and Investment Plan and \$1,105 in term life insurance premiums paid by the Company; and for Mr. Harlacher, \$3,300 in Company matching contributions to the Company's Savings and Investment Plan and \$442 in term life insurance premiums paid by the Company.

- (5) Pursuant to the change-of-control provisions of Atlantic Energy's equity based long term incentive plan for executives ("EIP"), Mr. Harlacher elected to receive the cash equivalent of the restricted stock which had been awarded under the plan.
- (6) The amount of All Other Compensation for Mr. Harlacher for the fiscal year ended 1997 include the following: \$4,750 in Company matching contributions to the Atlantic City Electric Company 401(k) Savings and Investment Plan; \$1,986 in Company matching contributions to the Atlantic City Electric Company Deferred Compensation Plan; \$1,065 in term life insurance premiums paid by Atlantic City Electric Company; \$996,238 in payouts under the Atlantic City Electric Company supplemental executive retirement plan; \$674,340 cash payout for restricted stock awarded under the Atlantic Energy EIP which vested due to change-in-control; \$1,358,817 in excess retirement benefits from the Atlantic City Electric Company Retirement Plan; \$171,000 adjustment to compensate Mr. Harlacher for certain economic disadvantages associated with the payout of benefits in 1997 rather than in 1998.

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Table 2 -- Option Grants in Last Fiscal Year (1)

<TABLE>  
<CAPTION>

Name	Number	% of	Exercise Price (\$/Sh)	Expiration Date	Grant Date Present Value(4)
	of Securities Underlying Options Granted (#)	Total Options Granted to Employees in Fiscal Year			
<S>	<C>	<C>	<C>	<C>	<C>
H.E. Cosgrove.....	300,000 (2) 60,000 (3)	29% 6%	\$22.84375	1/2/08	\$385,831 \$137,063
M.I. Harlacher.....	-- --	0% 0%	--	--	--
B.R. Elson.....	150,000 (2) 20,000 (3)	14% 2%	\$22.84375	1/2/08	\$192,915 \$ 45,688
T.S. Shaw.....	150,000 (2) 20,000 (3)	14% 2%	\$22.84375	1/2/08	\$192,915 \$ 45,688
B.S. Graham.....	150,000 (2) 20,000 (3)	14% 2%	\$22.84375	1/2/08	\$192,915 \$ 45,688

</TABLE>

- (1) Currently, Delmarva does not grant stock appreciation rights. The options reflected in this table are for payouts in shares of Conectiv Common Stock.
- (2) Denotes Performance Accelerated Stock Options ("PASO's") which were granted on a one-time basis. PASO's have a ten-year term and vest and are first exercisable 9 and 1/2 years from date of grant without regard to stock price performance. Exercise date will accelerate for favorable stock price performance (i.e., first 1/3, second 1/3 and third 1/3 of PASO's vest after stock trades at \$26, \$28 or \$30 per share, respectively, for ten consecutive trading days). There is a minimum holding period of three years from date of grant during which these options are not exercisable.
- (3) Denotes Nonqualified Stock Options. One-half of such Options vest and are exercisable at end of second year from date of grant. Second one-half vest and are exercisable at end of third year from date of grant.
- (4) Determined using the Black-Scholes model, incorporating the following

material assumptions and adjustments: (a) exercise price of \$22.84375, equal to the Fair Market Value ("FMV") as of date of grant; (b) an option term of ten years; (c) risk-free rate of return of 6.00%; (d) volatility of 20.00%; and (e) dividend yield of 7.00%. For valuation purposes, PASO's are valued as a premium-priced stock option as of the date of grant with an exercise price of \$30 on a FMV of \$22.84375.

Table 3 -- Aggregated Option Exercises in Last Fiscal Year and FY-End Option Values

<TABLE>  
<CAPTION>

Name	Shares Acquired on Exercise	Value Realized (\$)(1)	Number of Securities Underlying Unexercised Options at FY-End(2) Exercisable/Unexercisable	Value of Unexercised In-the-Money Options at FY-End(1) Exercisable/Unexercisable
<S>	<C>	<C>	<C>	<C>
H. E. Cosgrove.....	0	0	14,400/360,000	\$51,225/\$596,250
M. I. Harlacher.....	0	0	--	\$ --
B. R. Elson.....	0	0	0/170,000	\$ 0/\$281,563
T. S. Shaw.....	0	0	0/170,000	\$ 0/\$281,563
B. S. Graham.....	0	0	0/170,000	\$ 0/\$281,563

</TABLE>

- (1) The closing price for Conectiv's common stock as reported by the New York Stock Exchange on December 31, 1998 was \$24.50. Any value in the options would be based on the difference between the exercise price of the options and the value at the time of the exercise (e.g., \$24.50 as of close of business on 12/31/98), which difference would be multiplied by the number of options exercised.
- (2) Only 14,400 stock options of Mr. Cosgrove are currently exercisable. None of the remaining options may be exercised earlier than two years from date of grant for regular, non-performance based options and nine and one half years from date of grant for performance based options (subject to accelerated vesting for favorable stock price performance).

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Table 4 -- Long-Term Incentive Plans--Awards in Last Fiscal Year Name

<TABLE>  
<CAPTION>

Name	Number of Restricted Shares/Dividend Equivalent Units (#)(1)	Performance Period Until Maturity or Payout(2)
<S>	<C>	<C>
H. E. Cosgrove.....	10,000 shs/30,000 units	3/2/05
M. I. Harlacher.....	--	--
B. R. Elson.....	4,000 shs/10,000 units	3/2/05
T. S. Shaw.....	4,000 shs/10,000 units	3/2/05
B. S. Graham.....	4,000 shs/10,000 units	3/2/05

</TABLE>

- (1) In addition, Mr. Cosgrove held 35,520 performance shares (valued at \$870,240) and Mr. Shaw and Mrs. Graham held 8,010 performance shares (valued at \$196,245) from a 1997 award with a four year performance cycle under the Delmarva Power Long Term Incentive Plan.
- (2) Awards of Restricted Shares (Performance Accelerated Restricted Stock or "PARS") and Dividend Equivalent Units ("DEU's") were made to four of the named executive officers. The payout of shares of PARS may potentially be "performance accelerated." Restrictions may lapse any time after 3 years (i.e., after March 1, 2001) upon on achievement of favorable stock price performance goals. In the absence of such favorable performance, restrictions lapse after 7 years (i.e., March 2, 2005) provided that at least a defined level of average, total return to shareholders is achieved. As of December 31, 1998, Mr. Cosgrove's 10,000 Restricted Shares were valued at \$245,000 and Messrs. Elson and Shaw and Mrs. Graham's 4,000

PARS were valued at \$98,000. These values for both Restricted Shares and performance shares are based on the December 31, 1998 closing stock price of \$24.50. For Dividend Equivalent Units, one DEU is equal in value to the regular quarterly dividend paid on one share of Conectiv common stock. The Dividend Equivalent Units shown are payable in cash for twelve quarters over a three year period ending with the quarterly dividend equivalent payable January 31, 2001. At that point, the 1998 DEU award lapses.

Pension Plan

The Conectiv Retirement Plan includes the Cash Balance Pension Plan and grandfathered provisions relating to the Delmarva Retirement Plan and the Atlantic Retirement Plan that apply to employees who had either 20 years of service or were age 50 on the effective date of the Cash Balance Pension Plan (January 1, 1999). Certain executives whose benefits from the Conectiv Retirement Plan are limited by the application of Federal tax laws also receive benefits from the Supplemental Executive Retirement Plan.

Cash Balance Pension Plan

The named executive officers participate in the Conectiv Retirement Plan and earn benefits that generally become vested after five years of service. On an annual basis, a recordkeeping account in a participant's name is credited with an amount equal to a percentage of the participant's total pay, including base salary, overtime and bonuses, depending on the employee's age at the end of the plan year, as follows:

<TABLE>  
<CAPTION>

Age at end of Plan Year -----	% of Pay ----
<S>	<C>
Under 30.....	5
30 to 34.....	6
35 to 39.....	7
40 to 44.....	8
45 to 49.....	9
50 and over.....	10

</TABLE>

These accounts also receive interest credits based on average U.S. Treasury Bill rates for the year. In addition, certain annuity benefits earned by participants under the former Delmarva and Atlantic Retirement Plans are fully protected as of December 31, 1998, and will be converted to an equivalent cash amount and included in each employee's initial cash balance account. When an employee terminates employment, the amount credited to his or her account is converted into an annuity or paid in a lump sum.

Supplemental Retirement Benefits

Supplemental retirement benefits are provided to certain employees, including each executive officer, whose benefits under the Conectiv Retirement Plan are limited by type of compensation or amount under applicable Federal tax laws and regulations. Designated employees may also receive an annual benefit at retirement equal to a percentage of final average compensation multiplied by years of service reduced by the amount of all benefits received under the Conectiv Retirement Plan and other nonqualified arrangements.

Estimated Retirement Benefits Payable to Named Executive Officers

The following table shows the estimated retirement benefits, including supplemental retirement benefits under the plans applicable to the named executive officers, which would be payable if he or she were to retire at normal retirement age, which is age 65, at 1998 compensation, expressed in the form of a lump sum payment. Years of service credited to each named executive officer as of his or her normal retirement date are as follows: Mr. Cosgove, 42; Ms. Graham, 30; Mr. Shaw, 40; Mr. Elson, 16 (8 of which are additional years of service for purposes of the supplemental retirement benefits), and

Estimated Retirement Benefits

<TABLE>

<CAPTION>

Name	Year of 65th Birthday	Lump Sum Value
H. E. Cosgrove.....	2008	\$2,993,000 (2)
B. S. Graham.....	2013	1,540,000 (1)
T. S. Shaw.....	2012	1,789,000 (2)
B. R. Elson.....	2006	1,213,000 (2)
M. I. Harlacher.....	2007	2,323,000 (2)

</TABLE>

- (1) Amounts include (i) interest credits for cash balances projected to be 5.01% per annum on annual salary credits and prior service balances, if any, and (ii) accrued benefits as of December 31, 1998 under retirement plans then applicable to the named executive officer. Benefits are not subject to any offset for Social Security payments or other offset amounts and assume no future increases in base salary or total pay.
- (2) Under the Conectiv Retirement Plan's grandfather provisions, employees who participated in the Delmarva or Atlantic Retirement Plans and who met certain age and service requirements as of December 31, 1998, will have retirement benefits for all years of service up to retirement calculated according to their original final pay formula benefit. This benefit will be compared to the cash balance account and the employee will receive whichever is greater. Estimated benefits are based on the Delmarva Retirement Plan for Messrs. Cosgrove, Shaw and Elson, the Cash Balance Pension Plan for Mrs. Graham and the Atlantic Retirement Plan for Mr. Harlacher. The amount of benefit under such grandfathering is illustrated in the following tables applicable to the Delmarva and Atlantic Retirement Plans, respectively:

Delmarva Retirement Plan  
PENSION PLAN TABLE

Annual Retirement Benefits in Specified Remuneration and Years of Service Classifications

<TABLE>

<CAPTION>

Average Annual Earnings for the 5  
Consecutive Years of Earnings that  
Result in the Highest Average

	15 Yrs.	20 Yrs.	25 Yrs.	30 Yrs.	35 Yrs.
\$125,000.....	28,599	38,132	47,665	57,198	66,732
200,000 (1).....	46,599	62,132	77,665	93,198	108,732
300,000 (1).....	70,599	94,132	117,665	141,198 (2)	164,732 (2)
400,000 (1).....	94,599	126,132	157,665 (2)	189,198 (2)	220,732 (2)
500,000 (1).....	118,599	158,132 (2)	197,665 (2)	237,198 (2)	276,732 (2)

</TABLE>

- (1) Effective January 1, 1998, annual compensation recognized may not exceed \$160,000.
- (2) For 1998, the limit on annual benefits is \$130,000.

Benefits are payable in the form of a 50% joint and surviving spouse annuity or lump sum and earnings include base salary, overtime and bonus.

Atlantic Retirement Plan PENSION PLAN TABLE

Annual Retirement Benefits in Specified Remuneration and Years of Service Classifications

<TABLE>

<CAPTION>

Average Annual Earnings for the 5

Consecutive Years of Earnings that result in the Highest Average	15 Yrs.	20 Yrs.	25 Yrs.	30 Yrs.	35 Yrs.
<S>	<C>	<C>	<C>	<C>	<C>
\$125,000.....	30,000	40,000	50,000	60,000	70,000
200,000 (1).....	48,000	64,000	80,000	96,000	112,000
300,000 (1).....	72,000	96,000	120,000	144,000 (2)	168,000 (2)
400,000 (1).....	96,000	128,000	160,000 (2)	192,000 (2)	224,000 (2)
500,000 (1).....	120,000	160,000 (2)	200,000 (2)	240,000 (2)	280,000 (2)

</TABLE>

- (1) Effective January 1, 1998, annual compensation recognized may not exceed \$160,000.
- (2) For 1998, the limit on annual benefits is \$130,000.

Benefits are paid in the form of a life annuity or lump sum and earnings include base salary and bonus.

Change in Control Severance Agreements And Other Provisions Relating to Possible Change in Control

Conectiv has entered into change in control severance agreements with Messrs. Cosgrove, Elson and Shaw and Mrs. Graham and two other senior executives. The agreements are intended to encourage the continued dedication of members of Conectiv's senior management team. These agreements provide potential benefits for such executives upon actual or constructive termination of employment (other than for cause) following a change in control of Conectiv, as defined in such agreements. Each affected executive would receive a severance payment equal to three times Base Salary and Bonus and Conectiv-paid medical, dental, vision, group life and disability benefits during the three years after termination of employment, and a cash payment equal to the actuarial equivalent of accrued retirement pension credits equal to 36 months of additional service.

In the event of a change in control, the Variable Compensation Plan provides that outstanding options become exercisable in full immediately, all conditions to the vesting of PARS are deemed satisfied and shares will be fully vested and nonforfeitable, DEU's will become fully vested and be immediately payable, variable compensation deferred under the Management Stock Purchase Program will be immediately distributed, and payment of variable compensation, if any, for the current year will be decided by the Board's Personnel & Compensation Committee. For the Deferred Compensation Plan, the Committee may decide to distribute all deferrals in cash immediately or continue the deferral elections of participants in which event Conectiv will fully fund a "springing rabbi trust" to satisfy the obligations. An independent institutional trustee will maintain any such trust established by reason of this provision.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

All shares of ACE's common stock are owned by Conectiv, ACE's parent company.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None

III-11

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this report.

1. Financial Statements--The following financial statements are contained in Item 8 of Part II.

<TABLE>  
<CAPTION>



<S>	<C>
Report of Independent Accountants.....	II-12, 13
Consolidated Statements of Income for the years ended December 31, 1998, 1997, and 1996.....	II-14
Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1997, and 1996.....	II-15
Consolidated Balance Sheets as of December 31, 1998 and 1997.....	II-16,17
Consolidated Statements of Changes in Common Stockholder's Equity for the years ended December 31, 1998, 1997, and 1996.....	II-18
Notes to Consolidated Financial Statements.....	II-19

&lt;/TABLE&gt;

## 2. Financial Statement Schedules

Schedule II--Valuation and Qualifying Accounts for each of the three years in the period ended December 31, 1998, is presented below. No other financial statement schedules have been filed since the required information is not present in amounts sufficient to require submission of the schedule or because the information required is included in the respective financial statements or the notes thereto.

Schedule II--Valuation and Qualifying Accounts  
Years Ended December 31, 1998, 1997, 1996  
(Dollars in thousands)

Description	Column B	Column C		Column D	Column E
	-----	-----	-----	-----	-----
		Additions			
	Balance at	Charged to	Charged to	Deductions	Balance at
	beginning	cost and	other accounts		end of
	of period	expenses			period
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
1998					
Allowance for doubtful accounts.....	\$3,500	\$ 5,003	--	\$5,003 (A)	\$ 3,500
Merger-related impairment loss on assets held for sale...	--	\$18,000	--	--	\$18,000
1997					
Allowance for doubtful accounts.....	\$3,500	\$ 3,935	--	\$3,935 (A)	\$ 3,500
1996					
Allowance for doubtful accounts.....	\$3,300	\$ 5,359	--	\$5,159 (A)	\$ 3,500

&lt;/TABLE&gt;

(A) Accounts receivable written off.

3. Schedule of Operating Statistics for the three years ended December 31, 1997 can be found on page IV-4 of this report.

IV-1

## 4. Exhibits

<TABLE>	
<CAPTION>	
Exhibit Number	-----
<C>	<S>
2	Amended and Restated Agreement and Plan of Merger, dated as of December 26, 1996, between DPL, Atlantic Energy, Inc., Conectiv, Inc. and DS Sub, Inc. (Filed with Registration Statement No. 333-18843)
3-A	A Restated Certificate of Incorporation of Atlantic Energy, Inc. (File

- No. 1-9760, Form 10-Q for quarter ended September 30, 1987--Exhibit 4(a)); Certificate of Amendment to restated Certificate of Incorporation of Atlantic Energy, Inc. dated April 15, 1992. File No. 33-53511, Form S-8 dated May 6, 1994--Exhibit No. 3(ii).
- 3-B By Laws of Atlantic Energy, Inc. as amended July 13, 1995 (File No. 1-9760, Form 10-Q for the quarter ended June 30, 1995--Exhibit 3b(1).
- 3-C Agreement of Merger between Atlantic City Electric Company and South Jersey Power & Light Company filed June 30, 1949, and Amendments through May 3, 1991 (File No. 2-71312--Exhibit No. 3(a); File No. 1-3559, Form 10-Q for quarter ended June 30, 1982-- Exhibit No. 3(b); Form 10-Q for quarter ended March 31, 1985-- Exhibit No. 3(a); Form 10-Q for quarter ended March 31, 1987-- Exhibit No. 3(a); Form 8-K dated October 12, 1988--Exhibit No. 3(a); Form 10-K for fiscal year ended December 31, 1990--Exhibit No. 3c; and Form 10-Q for quarter ended September 30, 1991-- Exhibit No. 3c).
- 3-D Certificate of Merger of Atlantic Energy, Inc. with and into Conectiv, Inc. filed with Delaware Secretary of State, effective as of March 1, 1998, filed herewith.
- 3-E Certificate of Merger of Atlantic Energy, Inc. with and into Conectiv, Inc. filed with New Jersey Department of State, effective as of March 1, 1998, filed herewith.
- 3-F Certificate to change name from Conectiv, Inc., to Conectiv filed with the Delaware Secretary of State pursuant to Section 102(a) of the Delaware General Corporation Law, filed herewith.
- 3-G By-Laws of Atlantic City Electric Company, as amended April 24, 1989 (File No. 1-3559, Form 10-Q for the quarter ended September 31, 1989--Exhibit No. 3).
- 4-A Mortgage and Deed of Trust, dated January 15, 1937, between Atlantic City Electric Company and The Bank of New York (formerly Irving Trust Company) and Supplemental Indentures through November 1, 1994 (File No. 2-66280--Exhibit No. 2(b); File No. 1- 3559, Form 10-K for year ended December 31, 1980--Exhibit No. 4(d); Form 10-Q for quarter ended June 30, 1981--Exhibit No. 4(a); Form 10-K for year ended December 31, 1983--Exhibit No. 4(d); Form 10-Q for quarter ended March 31, 1984--Exhibit No. 4(a); Form 10-Q for quarter ended June 30, 1984--Exhibit 4(a); Form 10-Q for quarter ended September 30, 1985--Exhibit 4; Form 10-Q for quarter ended March 31, 1986--Exhibit No. 4; Form 10-K for year ended December 31, 1987--Exhibit No. 4(d); Form 10-Q for quarter ended September 30, 1989--Exhibit No. 4(a); Form 10-K for year ended December 31, 1990--Exhibit No. 4(c); File No. 33-49279--Exhibit No. 4(b); File No. 1-3559, Form 10-Q for the quarter ended September 30, 1993--Exhibits 4(a) & 4(b); Form 10-K for the year ended December 31, 1993--Exhibit 4c(i); File no. 1-3559, Form 10-Q for the quarter ended June 30, 1994-Exhibit 4(a); File No. 1-3559, Form 10-Q for the quarter ended September 30, 1994--Exhibit 4(a); Form 10-K for year ended December 31, 1994--Exhibit 4(c) (1).
- 4-B Indenture dated as of March 1, 1997 between Atlantic City Electric Company and The Bank of New York filed on Form 8-K, dated March 24, 1997, File No. 1-3559--Exhibit 4(e).
- 4-C Indenture Supplemental dated as of March 1, 1997 to Mortgage and Deed of Trust dated January 15, 1937 between Atlantic City Electric Company and The Bank of New York filed on Form 8-K dated March 24, 1997, File No 1-3559, Exhibit 4(b).

</TABLE>

IV-2

<TABLE>

<C> <S>

- 4-D Amended and Restated Trust Agreement, dated as of October 1, 1996, by and among Atlantic City Electric Company, as Depositor, The Bank of New York, as Property Trustee, The Bank of New York (Delaware) as Delaware Trustee and the Administrative Trustees Named Therein, (File No. 1-9760, Form 10-K for year ended December 31, 1996--Exhibit No. 4f(7)).
- 4-E Junior Subordinated Indenture, dated as of October 1, 1996, by and between Atlantic City Electric Company and The Bank of New York, as Trustee, (File No. 1-9760, Form 10-K for year ended December 31, 1996--Exhibit No. 4f(8)).
- 4-F Guarantee Agreement, dated as of October 1, 1996, by and between Atlantic City Electric Company as Guarantor, and The Bank of New York as Guarantee Trustee, (File No. 1-9760, Form 10-K for year ended December 31, 1996--

- Exhibit No. 4f(9)).
- 4-G Amended and Restated Trust Agreement, dated as of October 1, 1998, by and among Atlantic City Electric Company, as Depositor, The Bank of New York, as Property Trustee, The Bank of New York (Delaware) as Delaware Trustee and the Administrative Trustees Named Therein, filed herewith.
  - 4-H Junior Subordinated Indenture, dated as of October 1, 1998, by and between Atlantic City Electric Company and The Bank of New York, as Trustee, filed herewith.
  - 4-I Guarantee Agreement, dated as of October 1, 1998, by and between Atlantic City Electric Company as Guarantor, and The Bank of New York as Guarantee Trustee, filed herewith.
  - 10-A Termination Agreement dated August 14, 1997 between Atlantic Energy, Inc. and Michael J. Chesser. (Filed with Form 10-K for the year ended December 31, 1997, File No. 1-3559).
  - 10-B Agreement as to ownership as tenants in common of the Salem Nuclear Generating Station Units 1, 2, and 3, dated November 24, 1971, and of Supplements, dated as of September 1, 1975, and as of January 26, 1977 (File No. 2-43137--Exhibit No. 5(p); File No. 2-60966--Exhibit No. 5(m); and File No. 2-58430--Exhibit No. 5(o)).
  - 10-C Agreement as to ownership as tenants in common of the Peach Bottom Atomic Power Station Units 2 and 3, dated November 24, 1971 and of Supplements dated as of September 1, 1975 and as of January 26, 1977 (File No. 2-43137--Exhibit No. 5(o); File No. 2-60966--Exhibit No. 5(j); File No. 2-58430--Exhibit No. 5(m)).
  - 10-D Owners Agreement, dated April 28, 1977 between Atlantic City Electric Company and Public Service Electric & Gas Company for the Hope Creek Generating Station Units No. 1 and 2 (File No. 2-60966--Exhibit No. 5(v)).
  - 10-E Amendment to Owners Agreement for Hope Creek Nuclear Generating Station, dated as of December 23, 1981, between Atlantic City Electric Company and Public Service Electric & Gas Company (File No. 1-3559, Form 10-K for year ended December 31, 1983--Exhibit No. 10b(3-2)).
  - 12-A Computation of ratio of earnings to fixed charges.
  - 12-B Computation of ratio of earnings to fixed charges and preferred dividends.
  - 23 Consent Independent Accountants.
  - 27 Financial Data Schedules.

</TABLE>

(b) Reports on Form 8-K:

On December 7, 1998, ACE filed a report on Form 8-K under Item 5, Other Events, regarding proposed legislation for restructuring the electric utility industry in New Jersey.

On February 17, 1999, ACE filed a report on Form 8-K under Item 5, Other Events, regarding the New Jersey Electric Discount and Energy Competition Act.

IV-3

ATLANTIC CITY ELECTRIC COMPANY

SCHEDULE OF OPERATING STATISTICS  
FOR THE THREE YEARS ENDED DECEMBER 31, 1998

The table below sets forth selected financial and operating statistics for ACE's electric business for the years ended December 31, 1998, 1997, and 1996.

<TABLE>  
<CAPTION>

	1998	1997	1996
	----	----	----
<S>	<C>	<C>	<C>
Electricity generated and purchased (MWH):			
Generated.....	5,499,473	4,664,548	4,775,306
Purchased.....	3,881,906	5,409,378	5,905,566
Interchange deliveries.....	(86,432)	(793,102)	(1,006,516)
	-----	-----	-----
Total system output for load.....	9,294,947	9,280,824	9,674,356
	=====	=====	=====
Electric sales (MWH):			

Residential.....	3,544,048	3,454,705	3,587,352
Commercial.....	3,724,853	3,538,414	3,493,694
Industrial.....	1,308,826	1,253,347	1,214,005
Resale.....	404,883	317,824	811,467
Other sales, losses and miscellaneous system uses (1).....	312,337	716,534	567,838
	-----	-----	-----
Total disposition of energy.....	9,294,947	9,280,824	9,674,356
	=====	=====	=====

Electric operating revenue (thousands):

Residential.....	\$ 435,710	\$ 446,917	\$ 448,738
Commercial.....	378,777	382,812	369,364
Industrial.....	108,042	110,469	105,734
Resale.....	4,513	7,949	19,052
Miscellaneous revenues (2).....	7,053	24,685	12,065
	-----	-----	-----
Total service territory.....	934,095	972,832	954,953
Interchange deliveries.....	69,161	23,657	27,539
Merchant revenues (3).....	31,638	72,045	1,868
	-----	-----	-----
Total electric revenues.....	\$1,034,894	\$1,068,534	\$ 984,360
	=====	=====	=====

Number of customers (end of period):

Residential.....	429,720	425,036	420,499
Commercial.....	57,499	56,816	55,580
Industrial.....	1,003	1,023	1,013
Resale.....	--	--	--
Other.....	522	523	519
	-----	-----	-----
Total customers (4).....	488,744	483,398	477,611
	=====	=====	=====

</TABLE>

- (1) Includes unbilled sales.
- (2) Includes unbilled revenues and other miscellaneous revenues.
- (3) Offsystem and competitive sales.
- (4) Service territory only.

IV-4

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934 the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 26, 1999.

Atlantic City Electric Company  
(Registrant)

/s/ John C. van Roden

By: \_\_\_\_\_  
(John C. van Roden, Senior Vice  
President and Chief Financial  
Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated, on March 26, 1999.

Signature

Title

/s/ Howard E. Cosgrove

Chairman of the Board and  
Chief Executive Officer

\_\_\_\_\_  
(Howard E. Cosgrove)

/s/ John C. van Roden

Senior Vice President and  
Chief Financial Officer

\_\_\_\_\_  
(John C. van Roden)

/s/ James P. Lavin

Controller and Chief

Accounting Officer

---

(James P. Lavin)

/s/ Meredith I. Harlacher, Jr.

Director

---

(Meredith I. Harlacher, Jr.)

/s/ Thomas S. Shaw

Director

---

(Thomas S. Shaw)

/s/ Barry R. Elson

Director

---

(Barry R. Elson)

/s/ Barbara S. Graham

Director

---

(Barbara S. Graham)

IV-5

-----

Certificate of Merger of Atlantic Energy, Inc. with and into Conectiv, Inc.  
filed with Delaware Secretary of State, effective as of March 1, 1998

CERTIFICATE OF MERGER

OF

ATLANTIC ENERGY, INC.  
A NEW JERSEY CORPORATION,

with and into

CONECTIV, INC.,

-----  
A DELAWARE CORPORATION

CONECTIV, INC., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, DOES HEREBY CERTIFY:

FIRST: That the name and state of incorporation of each of the constituent corporations of the merger are as follows:

NAME	STATE OF INCORPORATION
----	-----
Atlantic Energy, Inc.	New Jersey
Conectiv, Inc.	Delaware

SECOND: That an agreement of merger among the parties to the merger has been approved, adopted, certified, executed and acknowledged by each of the constituent corporations and their respective stockholders in accordance with the requirements of subsection (c) of Section 252 of the General Corporation Law of the State of Delaware.

THIRD: That the surviving corporation shall be Conectiv, Inc., a Delaware corporation (the "Surviving Corporation"), and the name of the Surviving Corporation shall be changed to "Conectiv" pursuant hereto.

FOURTH: That the certificate of incorporation and bylaws of

Conectiv, Inc., a Delaware corporation, in effect immediately prior to the effective time of the merger shall be the certificate of incorporation and bylaws of the Surviving Corporation, except that, pursuant to this Certificate of Merger, ARTICLE I of the certificate of incorporation of the Surviving Corporation shall be amended to read as follows:

ARTICLE I

The name of the Corporation shall be Conectiv.

FIFTH: That the executed agreement of merger is on file at an office of the Surviving Corporation. The office of the Surviving Corporation at which the executed agreement of merger will be on file is 800 King Street, Wilmington, Delaware, 19899.

SIXTH: That a copy of the agreement of merger will be furnished by the Surviving Corporation, on request and without cost, to any stockholder of any constituent corporation.

SEVENTH: That the authorized capital stock and par value of Atlantic Energy, Inc., a New Jersey corporation, is 75,000,000 shares of Common Stock without par value.

EIGHTH: That the effective date and time of the merger shall be 12:01 a.m. on March 1, 1998.

2

Dated: February 27, 1998

CONNECTIV, INC.

By: /s/ B. S. Graham

-----  
Barbara S. Graham  
President

3

EXHIBIT 3-E

CERTIFICATE OF MERGER OF ATLANTIC ENERGY, INC. WITH AND INTO CONECTIV, INC.  
FILED WITH NEW JERSEY DEPARTMENT OF STATE, EFFECTIVE MARCH 1, 1998

CERTIFICATE OF MERGER OF

ATLANTIC ENERGY, INC.,  
A NEW JERSEY CORPORATION,

with and into

CONECTIV, INC.,  
A DELAWARE CORPORATION

-----

TO: Secretary of State  
State of New Jersey

Pursuant to the pertinent provisions of Chapter 10 of the New Jersey Business Corporation Act (hereinafter referred to as the "Act"), the undersigned corporations hereby execute the following Certificate of Merger.

ARTICLE I

-----

Atlantic Energy, Inc. ("Atlantic"), a corporation organized and

-----

existing under the laws of the State of New Jersey, shall be merged with and into Conectiv, Inc., a corporation organized and existing under the laws of the State of Delaware and qualified to do business in the State of New Jersey, which is designated as the surviving corporation (hereinafter referred to as the "Surviving Corporation"). The name of the Surviving Corporation shall be changed to "Conectiv" in Delaware pursuant to Sections 102(a) and 252 of the Delaware General Corporation Law (the "Delaware GCL"), and shall continue to use the name "Conectiv, Inc." in New Jersey pursuant to the requirements of the Act, in particular, Section 14A:2-2 of the Act.

1

ARTICLE II

-----

The Agreement and Plan of Merger set forth in Exhibit A hereto (the

"Plan") was approved by the Board of Directors of Atlantic on August 9, 1996.

-----

The Plan was amended and restated and such amendment and restatement was approved by the Board of Directors of Atlantic on December 8, 1996 in accordance with the requirements of Sections 14A:10-1 and 14A:10-7 of the Act. The Plan was approved by the Shareholders of Atlantic on January 30, 1997. The Plan was approved by the Board of Directors of Conectiv, Inc. on August 9, 1996. The Plan was amended and restated and such amendment and restatement was approved by the Board of Directors of Conectiv, Inc. on December 8, 1996. The Plan was unanimously approved by the stockholders of Conectiv, Inc. on December 8, 1996. The Plan was amended by the Boards of Directors of Atlantic and Conectiv, Inc. by amendment dated August 12, 1997.

ARTICLE III

-----



As to Atlantic, the number of shares entitled to vote was as follows:

<TABLE>  
<CAPTION>

Name of Corporation - Class of Stock	Total Number of Shares Entitled to Vote	Total Number of Shares Voting in Favor	Total Number of Shares Voting Against
<S> Atlantic Energy, Inc. - Common Stock	<C> 52,704,052	<C> 37,843,067	<C> 1,539,886
Conectiv, Inc. - Common Stock	500	500	0

</TABLE>

2

ARTICLE IV  
-----

The merger shall take effect at 12:01 a.m. on March 1, 1998.

ARTICLE V  
-----

Such Merger shall be in compliance with all of the applicable provisions of the Delaware GCL with respect to such Merger as well as the applicable filing and recording requirements under the Delaware GCL.

ARTICLE VI  
-----

The Surviving Corporation does hereby agree that it may be served with process in the State of New Jersey in any proceeding for enforcement of any obligation of Atlantic in New Jersey, as well as for enforcement of any obligation of the Surviving Corporation arising from the Merger provided for herein. The Surviving Corporation does hereby irrevocably appoint the Secretary of State of the State of New Jersey as its agent to accept service of process in any such proceeding and does hereby specify the following address without the State of New Jersey to which a copy of such process shall be mailed by the Secretary of State of the State of New Jersey:

Conectiv  
800 King Street  
Wilmington, Delaware 19801

ARTICLE VII  
-----

The Surviving Corporation does hereby agree that it will promptly pay to the dissenting shareholders of Atlantic, if any, the amount, if any, to

3

which they shall be entitled under the provisions of the Act with respect to the rights of dissenting shareholders.

4

IN WITNESS WHEREOF, each of the undersigned corporations has caused this Certificate of Merger to be executed in its name by its duly authorized

officer, as of the 27th day of February, 1998.

CONNECTIV, INC.

By: /s/ Barbara S. Graham

-----  
Barbara S. Graham  
President

ATLANTIC ENERGY, INC.

By: /s/ Jerrold L. Jacobs

-----  
Jerrold L. Jacobs  
Chairman and Chief Executive  
Officer

EXHIBIT 3-F

Certificate to change name from Conectiv, Inc. to Conectiv filed with the Delaware Secretary of State pursuant to Section 102(a) of the Delaware General Corporation Law

CONNECTIV, INC.

ACKNOWLEDGMENT AND REQUEST

PURSUANT TO SECTION 102(A)  
OF THE  
DELAWARE GENERAL CORPORATION LAW

CONNECTIV, INC. (the "Corporation"), a corporation duly organized under  
-----  
the laws of the State of Delaware, DOES HEREBY CERTIFY AND ACKNOWLEDGE that:

(1) The Certificate of Merger of Atlantic Energy, Inc., a New Jersey corporation, with and into the Corporation (the "Certificate of Merger") is being filed contemporaneously herewith. The Corporation will be the surviving corporation of the merger to be effected pursuant to the Certificate of Merger. Pursuant to the Certificate of Merger, the certificate of incorporation of the Corporation will be amended to change the name of the Corporation to "Conectiv".

(2) As of the effective time set forth in the Certificate of Merger, the total assets (as that term is defined in subsection (i) of Section 503 of the Delaware General Corporation Law) of the Corporation will be not less than \$10,000,000.

Pursuant to Section 102(a)(1) of the Delaware General Corporation Law, the Corporation hereby requests a waiver from the Division of Corporations of the Secretary of State of the State of Delaware of the requirement set forth in Section 102(a) of the Delaware General Corporation Law that the name of a corporation shall contain one of the following

words "association," "company," "corporation," "club," "foundation," "fund," "incorporated," "institute," "society," "union," "syndicate," or "limited," or such other appropriate abbreviation, and that the name of the Corporation be permitted to be changed to "Conectiv".

Dated: February 27, 1998

CONNECTIV, INC.

By: /s/ B. S. Graham  
-----

Barbara S. Graham  
President

EXHIBIT 4-G

-----

AMENDED AND RESTATED TRUST AGREEMENT, DATED AS OF OCTOBER 1, 1998, BY AND AMONG ATLANTIC CITY ELECTRIC COMPANY, AS DEPOSITOR, THE BANK OF NEW YORK, AS PROPERTY TRUSTEE, THE BANK OF NEW YORK (DELAWARE) AS DELAWARE TRUSTEE AND THE ADMINISTRATIVE TRUSTEES NAMED THEREIN

AMENDED AND RESTATED

TRUST AGREEMENT

among

ATLANTIC CITY ELECTRIC COMPANY, as Depositor

and

THE BANK OF NEW YORK,  
as Property Trustee,  
and THE BANK OF NEW YORK (DELAWARE),  
as Delaware Trustee

Louis M. Walters

and

Stephanie M. Scola, as Trustees  
and the several Holders  
Dated as of October 1, 1998

ATLANTIC CAPITAL II

Atlantic Capital II

Certain Sections of this Trust Agreement relating to  
Sections 310 through 318 of the  
Trust Indenture Act of 1939:

Trust Indenture  
Act Section

Trust Agreement  
Section

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Section 310 (a) (1) .....	8.07
(a) (2) .....	8.07
(a) (3) .....	8.09

	(a) (4) .....	Not Applicable
	(b) .....	8.08
Section 311	(a) .....	8.13
	(b) .....	8.13
Section 312	(a) .....	5.07
	(b) .....	5.07
	(c) .....	5.07
Section 313	(a) .....	8.14 (a)
	(a) (4) .....	8.14 (b)
	(b) .....	8.14 (b)
	(c) .....	8.14 (a)
	(d) .....	8.14 (a), 8.14 (b)
Section 314	(a) .....	8.15
	(a) (4) .....	Not Applicable
	(c) .....	8.16
	(d) .....	Not Applicable
	(e) .....	1.01
Section 315	(a) .....	8.01
	(b) .....	8.02
	(c) .....	8.01 (a)
	(d) .....	8.01, 8.03
	(e) .....	Not Applicable
Section 316	(a) .....	Not Applicable
	(a) (1) (A) .....	Not Applicable
	(a) (1) (B) .....	Not Applicable
	(a) (2) .....	Not Applicable
	(b) .....	Not Applicable
	(c) .....	Not Applicable
Section 317	(a) (1) .....	Not Applicable
	(a) (2) .....	Not Applicable
	(b) .....	5.09
Section 318	(a) .....	10.09

Note: This reconciliation and tie shall not, for any purpose, be deemed to be a part of the Trust Agreement.

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AMENDED AND RESTATED TRUST AGREEMENT, dated as of October 1, 1998, among (i) Atlantic City Electric Company, a New Jersey corporation (the "Depositor"), (ii) The Bank of New York, a New York banking corporation duly organized and existing under the laws of New York, as trustee (the "Property Trustee"), (iii) The Bank of New York (Delaware), a Delaware banking corporation duly organized and existing under the laws of Delaware, as Delaware trustee (the "Delaware Trustee"), and (iv) Louis M. Walters and Stephanie M. Scola, each an individual, as trustee, and each of whose address is c/o Atlantic City Electric Company, 800 King Street, Wilmington, Delaware 19899 (each, an "Administrative Trustee" and, collectively, the "Administrative Trustees") (the Property Trustee, the Delaware Trustee and the Administrative Trustees being hereinafter referred to collectively as the "Trustees") and the several Holders, as hereinafter defined.

W I T N E S S E T H:  
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WHEREAS, the Depositor, the Property Trustee, the Delaware Trustee and Louis M. Walters, as Administrative Trustee, have heretofore duly declared and established a business trust pursuant to the Delaware Business Trust Act by the entering into of that certain Trust Agreement, dated as of September 10, 1998 (the "Original Trust Agreement"), and by the execution by the Delaware Trustee, the Property Trustee and Louis M. Walters, as Administrative Trustee and filing with the Secretary of State of the State of Delaware of the Certificate of Trust, dated September 10, 1998 (the "Certificate of Trust"), a copy of which is attached as Exhibit A; and

WHEREAS, the Depositor, the Property Trustee, the Delaware Trustee and Louis M. Walters, as Administrative Trustee, desire to amend and restate the Original Trust Agreement in its entirety as set forth herein to provide for, among other things, (i) the acquisition by the Trust from the Depositor of all of the right, title and interest in the Debentures, (ii) the issuance of the Common Securities by the Trust to the Depositor, (iii) the issuance of the Preferred Securities by the Trust and (iv) the appointment of an additional Administrative Trustee of the Trust;

NOW THEREFORE, in consideration of the agreements and obligations set forth herein and for other good and valuable consideration, the sufficiency of which is hereby acknowledged, each party, for the benefit of the other parties and for the benefit of the Securityholders, hereby amends and restates the Original Trust Agreement in its entirety and agrees as follows:

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## ARTICLE I.

### Defined Terms

SECTION I.01. DEFINITIONS. For all purposes of this Trust Agreement, except as otherwise expressly provided or unless the context otherwise requires:

(a) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular;

(b) all other terms used herein that are defined in the Trust Indenture Act, either directly or by reference therein, have the meanings assigned to them therein;

(c) unless the context otherwise requires, any reference to an "Article" or a "Section" refers to an Article or a Section, as the case may be, of this Trust Agreement; and

(d) the words "herein", "hereof" and "hereunder" and other words of similar import refer to this Trust Agreement as a whole and not to any particular Article, Section or other subdivision.

"Act" has the meaning specified in Section 6.08.

"Administrative Trustee" means each of the individuals identified as an "Administrative Trustee" in the preamble to this Trust Agreement, solely in their capacities as Administrative Trustees of the Trust created hereunder and not in their individual capacities, or any successor trustee appointed as herein provided.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

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"Bankruptcy Event" means, with respect to any Person:

(i) the entry of a decree or order by a court having jurisdiction in the premises judging such Person a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjudication or composition of or in respect of such Person under Federal bankruptcy law or any other applicable Federal or State law, or appointing a receiver, liquidator, assignee, trustee sequestrator or other similar official of such Person or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of 60 consecutive days; or

(ii) the institution by such Person of proceedings to be adjudicated a bankrupt or insolvent, or of the consent by it to the institution of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under Federal bankruptcy law or any other applicable Federal or State law, or the consent by it to the filing of such petition or to the appointment of a receiver, liquidator, assignee, trustee, sequestrator or similar official of such Person or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due.

"Bankruptcy Laws" has the meaning specified in Section 10.08.

"Board Resolution" means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Depositor to have been duly adopted by the Depositor's Board of Directors or a duly authorized committee thereof and to be in full force and effect on the date of such certification, and delivered to the appropriate Trustee.

"Business Day" means a day other than (a) a Saturday or a Sunday, (b) a day on which banks in New York, New York are authorized or obligated by law or executive order to remain closed and (c) a day on which either the Corporate Trust Office or the Debenture Trustee's principal corporate trust office is closed for business.

"Certificate of Trust" has the meaning specified in the preamble to this Trust Agreement.

"Clearing Agency" means an organization registered as a "clearing agency" pursuant to Section 17A of the Exchange Act.

"Closing Date" means the date of delivery of this Trust Agreement.

"Code" means the Internal Revenue Code of 1986, as amended.

"Commission" means the Securities and Exchange Commission, as from time to time constituted, created under the Exchange Act, or, if at any time after the execution of this instrument such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

"Common Security" means an undivided beneficial ownership interest in the assets of the Trust having a Liquidation Amount of \$25 and having the rights provided therefor in this Trust Agreement, including the right to receive Distributions and a Liquidation Distribution as provided herein.

"Common Securities Certificate" means a certificate evidencing ownership of Common Securities, substantially in the form attached as Exhibit B.

"Corporate Trust Office" means the principal corporate trust office of the Property Trustee located in New York, New York, which at the date hereof is 101 Barclay Street - 21 West, New York, New York 10286.

"Covered Person" means: (a) any officer, director, shareholder, partner, beneficial owner, member, representative, employee or agent of the Trust or the Trust's Affiliates; and (b) any Securityholder.

"Debenture Event of Default" means an "Event of Default" as defined in the Subordinated Indenture.

"Debenture Issuer" means Atlantic City Electric Company, a New Jersey corporation, in its capacity as issuer of the Debentures.

"Debenture Redemption Date" means "Redemption Date" as defined in the Subordinated Indenture.

"Debenture Trustee" means Wilmington Trust Company, as trustee under the Subordinated Indenture.

"Debentures" means the \$25,773,200 aggregate principal amount of the Debenture Issuer's 7% Junior Subordinated Debentures, Series I, Due 2028, issued pursuant to the Subordinated Indenture.

"Delaware Business Trust Act" means Chapter 38 of Title 12 of the Delaware Code, 12 Del. Code Section 3801 et seq., as it may be amended from time to time.

"Delaware Trustee" means the banking corporation identified as the "Delaware Trustee" in the preamble to this Trust Agreement solely in its capacity as Delaware Trustee of the Trust and not in its individual capacity, or its successor in interest in such capacity, or any successor trustee appointed as herein provided.

"Depositor" has the meaning specified in the preamble to this Trust Agreement.

"Distribution Date" has the meaning specified in Section 4.01(a).

"Distributions" means amounts payable in respect of the Trust Securities as provided in Section 4.01.

"Early Termination Event" has the meaning specified in Section 9.02.

"Event of Default" means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(i) the occurrence of a Debenture Event of Default; or

(ii) default by the Trust or the Property Trustee in the payment of any Distribution when it becomes due and payable, and continuation of such default for a period of 30 days; or

(iii) default by the Trust or the Property Trustee in the payment of any Redemption Price when it becomes due and payable; or

(iv) default in the performance, or breach, in any material respect, of any covenant or warranty of the Trustees in this Trust Agreement (other than a covenant or warranty a default in whose performance or breach is specifically dealt with in clause (ii) or (iii), above) and continuation of such default or breach for a period of 60 days after there has been given, by registered or certified mail, to the Property Trustee by the Holders of at least 25% in Liquidation Amount of the Outstanding Preferred Securities a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; or

(v) the occurrence of a Bankruptcy Event with respect to the Trust or the Property Trustee if a successor Property Trustee has not been appointed within 90 days thereof.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Expiration Date" means December 31, 2043.

"Guarantee" means the Guarantee Agreement executed and delivered by the Depositor and The Bank of New York, a New York banking corporation, as trustee, contemporaneously with the execution and delivery of this Trust Agreement, for the benefit of the Holders of the Preferred Securities, as amended from time to time.

"Holder" has the meaning specified in the definition of "Securityholder."

"Indemnified Person" means any Trustee, any Affiliate of any Trustee, any officer, director, shareholder, member, partner, employee, representative or agent of any Trustee, or any employee or agent of the Trust or its Affiliates.

"Investment Company Act" means the Investment Company Act of 1940, as amended.

"Investment Company Event" means the occurrence of a change in law or regulation or a change in interpretation or application of law or regulation by any legislative body, court, governmental agency or regulatory authority to the effect that the Trust is or will be considered an "investment company" that is required to be registered under the Investment Company Act, which change in law becomes effective on or after the date of original issuance of the Preferred Securities.

"Lien" means any lien, pledge, charge, encumbrance, mortgage, deed of trust, adverse ownership interest, hypothecation, assignment, security interest or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever.

"Like Amount" means, as the context requires, (i) Trust Securities having a Liquidation Amount equal to the principal amount of Debentures at any time to be repaid, whether at stated maturity or upon maturity by earlier acceleration, redemption or otherwise and (ii) Debentures having a principal amount equal to the Liquidation Amount of the Trust Securities with respect to which such Debentures are to be distributed.

"Liquidation Amount" means the stated amount of \$25 per Trust Security.

"Liquidation Date" means the date on which Debentures are to be distributed to Securityholders in connection with a termination and liquidation of the Trust pursuant to Section 9.04(a).

"Liquidation Distribution" has the meaning specified in Section 9.04(e).

"No Recognition Opinion" means an opinion of nationally recognized independent tax counsel experienced in such matters, which opinion may rely on any then applicable published revenue rulings of the Internal Revenue Service, to the effect that the Holders of the Preferred Securities will not recognize any gain or loss for United States federal income tax purposes as a result of the termination of the Trust and distribution of the Debentures.

"Officer's Certificate" means a certificate signed by the Chairman of the Board, the President, a Vice President, the Treasurer or an Assistant Treasurer of the Depositor, and delivered to the appropriate Trustee. Any Officer's Certificate delivered with respect to compliance with a condition or covenant provided for in this Trust Agreement shall include:

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(a) a statement that the officer signing the Officer's Certificate has read the covenant or condition and the definitions relating thereto;

(b) a brief statement of the nature and scope of the examination or investigation undertaken by such officer in rendering the Officer's Certificate;

(c) a statement that such officer has made such examination or investigation as, in such officer's opinion, is necessary to enable such officer to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(d) a statement as to whether, in the opinion of such officer, such condition or covenant has been complied with.

"Opinion of Counsel" means a written opinion of counsel, who may be counsel for the Trust, the Property Trustee or the Depositor, but not an employee of the Trust, the Property Trustee or the Depositor, and who shall be reasonably acceptable to the Property Trustee. Any Opinion of Counsel delivered with respect to compliance with a condition or covenant provided for in this Trust Agreement shall include statements comparable to the statements referred to in the definition of "Officers' Certificate" herein.

"Original Trust Agreement" has the meaning specified in the recitals to this Trust Agreement.

"Outstanding," when used with respect to Preferred Securities, means, as of the date of determination, all Preferred Securities theretofore delivered under this Trust Agreement, except:

(i) Preferred Securities theretofore canceled by the Administrative Trustees or delivered to the Administrative Trustees for cancellation;

(ii) Preferred Securities for whose payment or redemption money in the necessary amount has been theretofore deposited with the Property Trustee or any Paying Agent for the Holders of such Preferred Securities; provided, however, that, if such Preferred Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Trust Agreement; and

(iii) Preferred Securities in exchange for or in lieu of which

other Preferred Securities have been delivered pursuant to this Trust Agreement, including pursuant to Sections 5.03 or 5.04;

provided, however, that in determining whether the Holders of the requisite Liquidation Amount of the Outstanding Preferred Securities have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Preferred Securities owned by the Depositor, any Trustee or any Affiliate of the Depositor or any Trustee shall be disregarded and deemed not to be

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Outstanding, except that (a) in determining whether any Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Preferred Securities which such Trustee knows to be so owned shall be so disregarded and (b) the foregoing shall not apply at any time when all of the outstanding Preferred Securities are owned by the Depositor, one or more of the Trustees and/or any such Affiliate. Preferred Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Administrative Trustees the pledgee's right so to act with respect to such Preferred Securities and that the pledgee is not the Depositor or any Affiliate of the Depositor.

"Paying Agent" means any paying agent or co-paying agent appointed pursuant to Section 5.09 and initially shall be The Bank of New York.

"Payment Account" means a segregated non-interest-bearing corporate trust account maintained by the Property Trustee at The Bank of New York, or such other banking institution as the Depositor shall select, for the benefit of the Securityholders in which all amounts paid in respect of the Debentures will be held and from which the Paying Agent, pursuant to Section 5.09, shall make payments to the Securityholders in accordance with Sections 4.01 and 4.02.

"Person" means any individual, corporation, partnership, joint venture, trust, limited liability company or corporation, unincorporated organization or government or any agency or political subdivision thereof.

"Preferred Security" means an undivided beneficial ownership interest in the assets of the Trust designated as a "7% Cumulative Trust Preferred Capital Security" having a Liquidation Amount of \$25 and having rights provided therefor in this Trust Agreement, including the right to receive Distributions and a Liquidation Distribution as provided herein.

"Preferred Securities Certificate" means a certificate evidencing ownership of Preferred Securities, substantially in the form attached as Exhibit C.

"Property Trustee" means the commercial bank or trust company identified as the "Property Trustee" in the preamble to this Trust Agreement solely in its capacity as Property Trustee of the Trust formed and continued hereunder and not in its individual capacity, or its successor in interest in



such capacity, or any successor trustee appointed as herein provided.

"Redemption Date" means, with respect to any Trust Security to be redeemed, the date fixed for such redemption by or pursuant to this Trust Agreement; provided, however, that each Debenture Redemption Date and Maturity (as defined in the Subordinated Indenture) of the Debentures shall be a Redemption Date for a Like Amount of Trust Securities.

"Redemption Price" means, with respect to any Redemption Date of any Trust Security, the Liquidation Amount of such Trust Security, plus accumulated and unpaid Distributions thereon to the Redemption Date.

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"Registrar" shall mean the registrar for the Preferred Securities appointed by the Trust and shall be initially The Bank of New York.

"Responsible Officer," when used with respect to the Property Trustee means an officer of the Property Trustee assigned by the Property Trustee to administer its corporate trust matters.

"Securities Depository" shall be The Depository Trust Company, or a successor thereto.

"Securities Register" shall mean the Securities Register described in Section 5.03.

"Securityholder" or "Holder" means a Person in whose name a Trust Security or Securities is registered in the Securities Register; any such Person shall be deemed to be a beneficial owner within the meaning of the Delaware Business Trust Act.

"Special Event" means either a Tax Event or an Investment Company Event.

"Subordinated Indenture" means the Indenture, dated as of October 1, 1998, between the Depositor and the Debenture Trustee, as amended or supplemented from time to time.

"Tax Event" means the receipt by the Trust of an Opinion of Counsel experienced in such matters to the effect that, as a result of any amendment to, or change (including any announced prospective change) in, the laws (or any regulations thereunder) of the United States or any political subdivision or taxing authority thereof or therein or as a result of any administrative pronouncement or action or judicial decision interpreting or applying such laws or regulations, which amendment or change is effective or which pronouncement, action or decision is announced on or after the date of issuance of the Preferred Securities under this Trust Agreement, there is more than an insubstantial risk that at such time or within 90 days of the date thereof (i) the Trust is, or will be, subject to United States federal income tax with

respect to income received or accrued on the Debentures, (ii) interest payable by the Depositor on the Debentures is not, or will not be, fully deductible by the Depositor for United States federal income tax purposes, or (iii) the Trust is, or will be, subject to more than a de minimis amount of other taxes, duties or other governmental charges.

"Transfer Agent" shall mean one or more transfer agents for the Preferred Securities appointed by the Administrative Trustees on behalf of the Trust and shall be initially The Bank of New York.

"Trust" means the Delaware business trust created by the Original Trust Agreement and continued hereby and identified on the cover page to this Trust Agreement.

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"Trust Agreement" means this Amended and Restated Trust Agreement, as the same may be modified, amended or supplemented in accordance with the applicable provisions hereof, including all exhibits hereto and the provisions of the Trust Indenture Act that are deemed to be a part of and govern this Amended and Restated Trust Agreement and any such modification, amendment or supplement, respectively.

"Trust Indenture Act" means the Trust Indenture Act of 1939 as in force at the date as of which this instrument was executed; provided, however, that in the event the Trust Indenture Act of 1939 is amended after such date, "Trust Indenture Act" means, to the extent required by any such amendment, the Trust Indenture Act of 1939 as so amended.

"Trust Property" means (i) the Debentures, (ii) any cash on deposit in, or owing to, the Payment Account and (iii) all proceeds and rights in respect of the foregoing and any other property and assets for the time being held by the Property Trustee pursuant to the trusts of this Trust Agreement.

"Trust Security" means any one of the Common Securities or the Preferred Securities.

"Trust Securities Certificate" means any one of the Common Securities Certificates or the Preferred Securities Certificates.

"Underwriting Agreement" means the Underwriting Agreement, dated as of October 28, 1998, among the Trust, the Depositor and the underwriters named therein.

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## ARTICLE II.

### Establishment of the Trust; Issuance of TRUST SECURITIES; RIGHTS OF SECURITYHOLDERS

SECTION II.01. NAME. The Trust created hereby shall be known as "Atlantic Capital II" in which name the Trustees may conduct the business of the Trust, make and execute contracts and other instruments on behalf of the Trust and sue and be sued.

SECTION II.02. OFFICE OF THE DELAWARE TRUSTEE; PRINCIPAL PLACE OF BUSINESS. The office of the Delaware Trustee in the State of Delaware is c/o The Bank of New York (Delaware), White Clay Center, Route 273, Newark, Delaware 19711, or at such other address in Delaware as the Delaware Trustee may designate by written notice to the Securityholders and the Depositor. The principal place of business of the Trust is c/o Atlantic City Electric Company, 800 King Street, Wilmington, Delaware 19899.

SECTION II.03. INITIAL CONTRIBUTION OF TRUST PROPERTY; INITIAL OWNERSHIP; ORGANIZATIONAL EXPENSES. The Property Trustee acknowledges receipt in trust from the Depositor in connection with the Original Trust Agreement of the sum of \$10, which constituted the initial Trust Property. Upon the creation of the Trust by such contribution and until the issuance of the Trust Securities, and at any time during which no Trust Securities are outstanding, the Depositor shall be the sole beneficial owner of the Trust. Pursuant to the Subordinated Indenture, the Debenture Issuer, as borrower, shall pay organizational expenses of the Trust as they arise or shall, upon request of any Trustee, promptly reimburse such Trustee for any such expenses paid by such Trustee. The Depositor shall make no claim upon the Trust Property for the payment of such expenses.

SECTION II.04. ISSUANCE OF THE PREFERRED SECURITIES. The Depositor and an Administrative Trustee, on behalf of the Trust, executed and delivered the Underwriting Agreement. Contemporaneously with the execution and delivery of this Trust Agreement, one of the Administrative Trustees, on behalf of the Trust in accordance with Section 5.01, executed manually and delivered a Preferred Securities Certificate, registered in the name of the nominee of the Securities Depository, evidencing 1,000,000 Preferred Securities having an aggregate Liquidation Amount of \$25,000,000, against receipt of the purchase price of such Preferred Securities of \$25,000,000, which amount such Administrative Trustee shall promptly deliver to the Property Trustee.

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SECTION II.05. SUBSCRIPTION AND PURCHASE OF DEBENTURES; ISSUANCE OF THE COMMON SECURITIES. Contemporaneously with the execution and delivery of this Trust Agreement, one of the Administrative Trustees, on behalf of the Trust, shall execute and deliver to the Depositor a Common Securities Certificate, registered in the name of the Depositor, evidencing 30,928 Common Securities having an aggregate Liquidation Amount of \$773,200, against receipt of the purchase price of such Common Securities of \$773,200. The Administrative Trustees, on behalf of the Trust, shall subscribe to and purchase from the Depositor Debentures, registered in the name of the Property Trustee, in an aggregate principal amount of \$25,773,200, and, in satisfaction of the purchase price for such Debentures,

the Property Trustee, on behalf of the Trust, shall deliver to the Depositor the sum of \$25,773,200, representing the proceeds from the sale of the Trust Securities.

SECTION II.06. DECLARATION OF TRUST; APPOINTMENT OF ADDITIONAL ADMINISTRATIVE TRUSTEES. The exclusive purposes and functions of the Trust are (i) to issue Trust Securities and invest the proceeds thereof in Debentures, and (ii) to receive payments to be made with respect to the Debentures and disburse such payments in accordance with the terms hereof, and (iii) to engage in those activities necessary or incidental thereto. The Depositor hereby appoints the Trustees as trustees of the Trust, to have all the rights, powers and duties to the extent set forth herein. The Property Trustee hereby declares that it will hold the Trust Property in trust upon and subject to the conditions set forth herein for the benefit of the Securityholders. The Trustees shall have all rights, powers and duties set forth herein and in accordance with applicable law with respect to accomplishing the purposes of the Trust.

SECTION II.07. AUTHORIZATION TO ENTER INTO CERTAIN TRANSACTIONS. (a) The Trustees shall conduct the affairs of the Trust in accordance with the terms of this Trust Agreement. Subject to the limitations set forth in paragraph (b) of this Section 2.07 and Article VIII and in accordance with the following provisions (i) and (ii), the Trustees shall have the authority to enter into all transactions and agreements determined by the Trustees to be appropriate in exercising the authority, express or implied, otherwise granted to the Trustees under this Trust Agreement, and to perform all acts in furtherance thereof, including without limitation, the following:

(i) As among the Trustees, the Administrative Trustees, acting singly or jointly, shall have the power, duty and authority to act on behalf of the Trust with respect to the following matters:

(A) the issuance and sale of the Trust Securities;

(B) without the consent of any Person, the causing of the Trust to enter into and to execute, deliver and perform on behalf of the Trust such agreements or other documents as may be necessary or desirable in connection with the consummation of the Underwriting Agreement;

(C) the collection of interest, principal and any other payments made in respect of the Debentures in the Payment Account;

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(D) the registration of the Preferred Securities under the Securities Act of 1933, as amended, and under state securities or blue sky laws, and the qualification of this Trust Agreement as a trust indenture under the Trust Indenture Act;

(E) the listing of the Preferred Securities upon such securities

exchange or exchanges as shall be determined by the Depositor and the registration of the Preferred Securities under the Exchange Act, and the preparation and filing of all periodic and other reports and other documents pursuant to the foregoing;

(F) the appointment of a Paying Agent, a Transfer Agent and a Registrar in accordance with this Trust Agreement;

(G) the registration of transfers of the Trust Securities in accordance with this Trust Agreement; and

(H) the taking of any action incidental to the foregoing as the Administrative Trustees may from time to time determine is necessary or advisable to protect and conserve the Trust Property for the benefit of the Securityholders (without consideration of the effect of any such action on any particular Securityholder).

(ii) As among the Trustees, the Property Trustee shall have the power, duty and authority to act on behalf of the Trust with respect to the following ministerial matters:

(A) the establishment of the Payment Account;

(B) the receipt of the Debentures;

(C) the deposit of interest, principal and any other payments made in respect of the Debentures in the Payment Account;

(D) the distribution of amounts owed to the Securityholders in respect of the Trust Securities in accordance with the terms of this Trust Agreement;

(E) the sending of notices of default and other information regarding the Trust Securities and the Debentures to the Securityholders in accordance with the terms of this Trust Agreement;

(F) the distribution of the Trust Property in accordance with the terms of this Trust Agreement;

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(G) to the extent provided in this Trust Agreement, the winding up of the affairs of and liquidation of the Trust and the execution of the certificate of cancellation to be prepared and filed by the Administrative Trustees with the Secretary of State of the State of Delaware; and

(H) the taking of any ministerial action incidental to the foregoing as the Property Trustee may from time to time determine is necessary or advisable to protect and conserve the Trust Property for

the benefit of the Securityholders (without consideration of the effect of any such action on any particular Securityholder).

Subject to this Section 2.07(a)(ii), the Property Trustee shall have none of the duties, liabilities, powers or authority of the Administrative Trustees set forth in Section 2.07(a)(i) or the Depositor set forth in Section 2.07(c). The Property Trustee shall have the power and authority to exercise all of the rights, powers and privileges of a holder of Debentures under the Subordinated Indenture and, if an Event of Default occurs and is continuing, the Property Trustee may, for the benefit of Holders of the Trust Securities, in its discretion proceed to protect and enforce its rights as holder of the Debentures subject to the rights of the Holders pursuant to the terms of this Trust Agreement.

(b) The Trust (or the Trustees acting on behalf of the Trust) shall not undertake any business, activities or transaction except as expressly provided herein or contemplated hereby. In particular, the Trustees shall not (i) acquire any investments or engage in any activities not authorized by this Trust Agreement, (ii) sell, assign, transfer, exchange, pledge, set-off or otherwise dispose of any of the Trust Property or interests therein, including to Securityholders, except as expressly provided herein, (iii) take any action that would cause the Trust to fail or cease to qualify as a "grantor trust" for United States federal income tax purposes, (iv) incur any indebtedness for borrowed money or (v) take or consent to any action that would result in the placement of a Lien on any of the Trust Property. The Trustees shall defend all claims and demands of all Persons at any time claiming any Lien on any of the Trust Property adverse to the interest of the Trust or the Securityholders in their capacity as Securityholders.

(c) In connection with the issuance of the Preferred Securities, the Depositor shall have the right and responsibility to assist the Trust with respect to, or effect on behalf of the Trust, the following (and any actions taken by the Depositor in furtherance of the following prior to the date of this Trust Agreement are hereby ratified and confirmed in all respects):

(i) to prepare for filing by the Trust with the Commission and to execute a registration statement on Form S-3 in relation to the Preferred Securities, including any amendments thereto;

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(ii) to determine the states in which to take appropriate action to qualify or register for sale all or part of the Preferred Securities and to do any and all such acts, other than actions which must be taken by or on behalf of the Trust, and advise the Trustees of actions they must take on behalf of the Trust, and prepare for execution and filing any documents to be executed and filed by the Trust or on behalf of the Trust, as the Depositor deems necessary or advisable in order to comply with the applicable laws of any such states;

(iii) to prepare for filing by the Trust an application to the New York Stock Exchange, any other national stock exchange or the Nasdaq National Market for listing upon notice of issuance of any Preferred Securities and to file or cause the Administrative Trustees to file thereafter with such exchange such notifications and documents as may be necessary from time to time to maintain such listing;

(iv) to prepare for filing by the Trust with the Commission and to execute a registration statement on Form 8-A relating to the registration of the Preferred Securities under Section 12(b) of the Exchange Act, including any amendments thereto;

(v) to execute and deliver on behalf of the Trust the Underwriting Agreement and such other agreements as may be necessary or desirable in connection with the consummation thereof;

(vi) to select the investment banker or bankers to act as underwriters with respect to the offer and sale by the Trust of Preferred Securities and negotiate the terms of an Underwriting Agreement and pricing agreement providing for such offer; and

(vii) to take any other actions necessary or desirable to carry out any of the foregoing activities.

(d) Notwithstanding anything herein to the contrary, the Administrative Trustees are authorized and directed to conduct the affairs of the Trust and to operate the Trust so that the Trust will not be deemed to be an "investment company" required to be registered under the Investment Company Act of 1940, as amended, or classified other than as a "grantor trust" for United States federal income tax purposes and so that the Debentures will be treated as indebtedness of the Depositor for United States federal income tax purposes. In this connection, subject to the provisions of Section 10.03, the Depositor and the Administrative Trustees are authorized to take any action, not inconsistent with applicable law or this Trust Agreement, that each of the Depositor and the Administrative Trustees determines in its discretion to be necessary or desirable for such purposes, as long as such action does not materially and adversely affect the interests of the Holders of the Preferred Securities.

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(e) Anything in this Trust Agreement to the contrary notwithstanding, the Delaware Trustee shall not be entitled to exercise any powers, nor shall the Delaware Trustee have any of the duties, liabilities or responsibilities, of the Property Trustee or the Administrative Trustees set forth herein. The Delaware Trustee shall be one of the Trustees of the Trust for the sole and limited purpose of fulfilling the requirements of Section 3807 of the Delaware Business Trust Act that the Trust have at least one trustee that has its principal place of business in the State of Delaware. The duties of the Delaware Trustee shall be limited to (a) accepting legal process served on the Trust in the State of Delaware and (b) the execution of any certificates required to be filed with the



Delaware Secretary of State which the Delaware Trustee is required to execute under Section 3811 of the Delaware Business Trust Act.

SECTION II.08. ASSETS OF TRUST. The assets of the Trust shall consist of the Trust Property.

SECTION II.09. TITLE TO TRUST PROPERTY. Legal title to all Trust Property shall be vested at all times in the Property Trustee (in its capacity as such) and shall be held and administered by the Property Trustee for the benefit of the Securityholders in accordance with this Trust Agreement.

SECTION 2.10. RIGHTS OF SECURITYHOLDERS . The legal title to the Trust Property is vested exclusively in the Property Trustee (in its capacity as such) in accordance with Section 2.09, and the Securityholders shall not have any right or title therein other than an undivided beneficial ownership interest in the assets of the Trust conferred by their Trust Securities and they shall have no right to call for any partition or division of property, profits or rights of the Trust except as described below. The Trust Securities shall be personal property giving only the rights specifically set forth therein and in this Trust Agreement. By acceptance of a beneficial interest in the Trust Securities, Securityholders agree to treat the Debentures as indebtedness for all United States tax purposes. The Preferred Securities shall have no preemptive or similar rights and when issued and delivered to Securityholders against payment of the purchase price therefor will be fully paid and nonassessable interests in the Trust.

### ARTICLE III.

#### Payment Account

SECTION III.01. PAYMENT ACCOUNT. (a) On or prior to the Closing Date, the Property Trustee shall establish the Payment Account. The Property Trustee and the Paying Agent appointed by the Administrative Trustees shall have exclusive control with respect to the Payment Account for the purpose of making deposits in and withdrawals from the Payment Account in accordance with this Trust Agreement. All monies and other property deposited or held from time to time in the Payment Account shall be held by the Property Trustee in the Payment Account for the exclusive benefit of the Holders of Trust Securities and for distribution as herein provided.

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(b) The Property Trustee shall deposit in the Payment Account, promptly upon receipt, all payments of principal or interest on, and any other payments or proceeds with respect to, the Debentures. Amounts held in the Payment Account shall not be invested by the Property Trustee pending distribution thereof.

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## ARTICLE IV.

### Distributions; Redemption

SECTION IV.01. DISTRIBUTIONS. (a) Distributions on the Trust Securities shall be cumulative, and will accumulate whether or not there are funds of the Trust available for the payment of Distributions. Distributions shall accumulate from the Closing Date, and, except in the event that the Depositor exercises its right to extend the interest payment period for the Debentures pursuant to Section 311 of the Subordinated Indenture, shall be payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year, commencing on December 31, 1998. If any date on which Distributions are otherwise payable on the Trust Securities is not a Business Day, then the payment of such Distribution shall be made on the next succeeding day that is a Business Day except that, if such Business Day is in the next succeeding calendar year, payment of such distribution shall be made on the immediately preceding Business Day, in each case, with the same force and effect as if made on such date (each date on which distributions are payable in accordance with this Section 4.01(a) a "Distribution Date").

(b) Distributions payable on the Trust Securities shall be fixed at a rate of 7-3/8% per annum of the Liquidation Amount of the Trust Securities. The amount of Distributions payable on December 31, 1998 will be computed on the basis of 57 days in a 360-day year. The amount of Distributions payable for any full quarterly period shall be computed on the basis of twelve 30-day months and a 360-day year and for any period shorter than a full month, on the basis of the actual number of days elapsed. If the interest payment period for the Debentures is extended pursuant to Section 311 of the Subordinated Indenture, then Distributions on the Preferred Securities will be deferred for the period equal to the extension of the interest payment period for the Debentures and additional Distributions on the Trust Securities shall accumulate by the aggregate amount of interest (including, to the extent permitted by law, interest payable on unpaid interest at the percentage rate per annum set forth above, compounded quarterly) that accrues during any such extended interest payment period on the Debentures.

(c) Distributions on the Trust Securities shall be made and shall be deemed payable on each Distribution Date only to the extent that the Trust has funds immediately available in the Payment Account for the payment of such Distributions.

(d) Distributions on the Trust Securities with respect to a Distribution Date shall be payable to the Holders thereof as they appear on the Securities Register for the Trust Securities on the relevant record date, which shall be 15 days prior to such Distribution Date.

SECTION IV.02. REDEMPTION. (a) On each Debenture Redemption Date and at Maturity for the Debentures, the Property Trustee will be required to redeem a Like Amount of Trust Securities at the Redemption Price.

(b) Notice of redemption shall be given by the Property Trustee by first-class mail, postage prepaid, mailed not less than 30 nor more than 60 days prior to the Redemption Date to each Holder of Trust Securities to be redeemed, at such Holder's address appearing in the Security Register. All notices of redemption shall state:

(i) the Redemption Date;

(ii) the Redemption Price;

(iii) the CUSIP number;

(iv) if less than all the Outstanding Trust Securities are to be redeemed, the identification and the total Liquidation Amount of the particular Trust Securities to be redeemed;

(v) that on the Redemption Date the Redemption Price will become due and payable upon each such Trust Security to be redeemed and that Distributions thereon will cease to accrue on and after said date;

(vi) the place or places where such Trust Securities are to be surrendered for payment of the Redemption Price; and

(vii) such other matters as the Property Trustee shall deem desirable or appropriate.

(c) The Trust Securities redeemed on each Redemption Date shall be redeemed at the Redemption Price with the proceeds from the contemporaneous redemption of Debentures. Redemptions of the Trust Securities shall be made and the Redemption Price shall be deemed payable on each Redemption Date only if the Trust has funds immediately available in the Payment Account for such payment.

(d) If the Property Trustee gives a notice of redemption in respect of any Preferred Securities, then, by 12:00 noon, New York time, on the Redemption Date, subject to Section 4.02(c), the Property Trustee shall irrevocably deposit with the Paying Agent funds sufficient to pay the applicable Redemption Price and will give the Paying Agent irrevocable instructions to pay the Redemption Price to the Holders thereof upon surrender of their Trust Securities Certificates. Notwithstanding the foregoing, Distributions payable on or prior to the Redemption Date for any Trust Securities called for redemption shall be payable to the Holders of such Trust Securities as they appear on the Securities Register for the Trust Securities on the relevant record dates for the related Distribution Dates. If notice of redemption shall have been given and funds deposited as required, then on the Redemption Date all rights of Securityholders holding Trust Securities so called for redemption will cease, except the right of such Securityholders to receive the Redemption Price, and such Trust Securities will cease to be outstanding. In the event that any

Redemption Date is not a Business Day, then payment of the

Redemption Price payable on such date shall be made on the next succeeding day that is a Business Day (and without any interest or other payment in respect of any such delay). In the event that payment of the Redemption Price in respect of any Trust Securities called for redemption is not paid either by the Trust or by the Depositor pursuant to the Guarantee, Distributions on such Trust Securities will continue to accrue, at the then applicable rate, from the Redemption Date originally established to the date on which such Redemption Price shall actually be paid.

(e) If less than all the Outstanding Trust Securities are to be redeemed on a Redemption Date, then the aggregate Liquidation Amount of Trust Securities to be redeemed shall be allocated pro rata to the Common Securities and the Preferred Securities. The particular Preferred Securities to be redeemed shall be selected pro rata not more than 60 days prior to the Redemption Date by the Property Trustee from the Outstanding Preferred Securities not previously called for redemption which may provide for the selection for redemption of portions (equal to \$25 or integral multiples thereof) of the Liquidation Amount of Preferred Securities of a denomination larger than \$25. The Property Trustee shall promptly notify the Transfer Agent and Registrar in writing of the Preferred Securities selected for redemption and, in the case of any Preferred Securities selected for partial redemption, the Liquidation Amount thereof to be redeemed. For all purposes of this Trust Agreement, unless the context otherwise requires, all provisions relating to the redemption of Preferred Securities shall relate, in the case of any Preferred Securities redeemed or to be redeemed only in part, to the portion of the Liquidation Amount of Preferred Securities which has been or is to be redeemed.

SECTION IV.03. SUBORDINATION OF COMMON SECURITIES. (a) If on any Distribution Date or Redemption Date any Event of Default resulting from a Debenture Event of Default shall have occurred and be continuing, no payment of any Distribution on, or Redemption Price of, any Common Security, and no other payment on account of the redemption, liquidation or other acquisition of Common Securities, shall be made unless payment in full in cash of all accumulated and unpaid Distributions on all Outstanding Preferred Securities for all distribution periods terminating on or prior thereto, or in the case of payment of the Redemption Price, payment in full of such Redemption Price on all Outstanding Preferred Securities, shall have been made or provided for.

(b) In the case of the occurrence of an Event of Default resulting from a Debenture Event of Default, the Holder of Common Securities will be deemed to have waived such Event of Default until the effect of all such Events of Default with respect to the Preferred Securities shall have been cured, waived or otherwise eliminated. Until all Events of Default with respect to the Preferred Securities shall have been so cured, waived or otherwise eliminated, the Property Trustee shall act solely on behalf of the Holders of the Preferred Securities, and only the Holders of the Preferred Securities will have the right

to direct the Property Trustee to act.

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SECTION IV.04. PAYMENT PROCEDURES. Payments in respect of the Preferred Securities shall be made by check mailed to the address of the Person entitled thereto as such address shall appear on the Securities Register. Payments in respect of the Common Securities shall be made in such manner as shall be mutually agreed between the Administrative Trustees and the Holder of the Common Securities.

SECTION IV.05. TAX RETURNS AND REPORTS. The Administrative Trustees shall prepare (or cause to be prepared), at the Depositor's expense and direction, and file all United States federal, state and local tax and information returns and reports required to be filed by or in respect of the Trust. In this regard, the Administrative Trustees shall (a) prepare and file (or cause to be prepared and filed) the Internal Revenue Service Form 1041 (or any successor form) required to be filed in respect of the Trust in each taxable year of the Trust and (b) prepare and furnish (or cause to be prepared and furnished) to each Securityholder the related Internal Revenue Service Form 1099, or any successor form or the information required to be provided on such form. The Administrative Trustees shall provide the Depositor and the Property Trustee with a copy of all such returns, reports and schedules promptly after such filing or furnishing. The Trustees shall comply with United States federal withholding and backup withholding tax laws and information reporting requirements with respect to any payments to Securityholders under the Trust Securities.

SECTION IV.06. PAYMENTS UNDER SUBORDINATED INDENTURE. Any amount payable hereunder to any Holder of Preferred Securities shall be reduced by the amount of any corresponding payment such Holder has directly received pursuant to Section 808 of the Subordinated Indenture. Notwithstanding the provisions hereunder to the contrary, Securityholders acknowledge that any Holder of Preferred Securities that receives payment under Section 808 of the Subordinated Indenture may receive amounts greater than the amount such Holder may be entitled to receive pursuant to the other provisions of this Trust Agreement.

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## ARTICLE V.

### Trust Securities Certificates

SECTION V.01. THE TRUST SECURITIES CERTIFICATES. The Trust Securities Certificates shall be issued in denominations of \$25 Liquidation Amount and integral multiples thereof. Subject to Section 2.04 relating to the original issuance of the Preferred Securities Certificate registered in the name of the nominee of the Securities Depository, the Trust Securities Certificates shall be executed on behalf of the Trust by manual or facsimile signature of at least one Administrative Trustee and, if executed on behalf of the Trust by

facsimile signature, countersigned by a Transfer Agent or its agent. Trust Securities Certificates bearing the signatures of individuals who were, at the time when such signatures shall have been affixed, authorized to sign on behalf of the Trust and, if executed on behalf of the Trust by facsimile signature and countersigned by a Transfer Agent or its agent, shall be validly issued and entitled to the benefits of this Trust Agreement, notwithstanding that such individuals or any of them shall have ceased to be so authorized prior to the delivery of such Trust Securities Certificates or did not hold such offices at the date of delivery of such Trust Securities Certificates. Trust Securities Certificates may be typewritten, printed, lithographed or engraved or may be produced in any other manner as is reasonably acceptable to the Administrative Trustees, as evidenced by the execution thereof by the Administrative Trustees, or any one of them.

SECTION V.02. OWNERSHIP OF COMMON SECURITIES BY DEPOSITOR. On the Closing Date, the Depositor shall acquire, and thereafter retain, beneficial and record ownership of the Common Securities. Any attempted transfer of the Common Securities (other than a transfer in connection with a merger or consolidation of the Depositor with or into another corporation pursuant to Section 1101 of the Subordinated Indenture) shall be void. The Administrative Trustees shall cause each Common Securities Certificate issued to the Depositor to contain a legend stating "THIS CERTIFICATE IS NOT TRANSFERABLE." A single Common Securities Certificate representing the Common Securities shall be issued to the Depositor in the form of a typewritten or definitive Common Securities Certificate.

SECTION V.03. REGISTRATION OF TRANSFER AND EXCHANGE OF PREFERRED SECURITIES CERTIFICATES. (a) The Registrar shall keep or cause to be kept, at its principal corporate office, a Securities Register in which, subject to such reasonable regulations as it may prescribe, the Registrar shall provide for the registration of Preferred Securities Certificates and the registration of transfers and exchanges of Preferred Securities Certificates as herein provided.

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(b) Upon surrender for registration of transfer of any Preferred Securities Certificate at the office or agency maintained pursuant to Section 5.08, the Administrative Trustees, or any one of them, shall execute on behalf of the Trust by manual or facsimile signature and, if executed on behalf of the Trust by facsimile signature, cause a Transfer Agent or its agent to countersign and deliver, in the name of the designated transferee or transferees, one or more new Preferred Securities Certificates in authorized denominations of a like aggregate Liquidation Amount. At the option of a Holder, Preferred Securities Certificates may be exchanged for other Preferred Securities Certificates in authorized denominations of the same class and of a like aggregate Liquidation Amount upon surrender of the Preferred Securities Certificates to be exchanged at the office or agency maintained pursuant to Section 5.08.

(c) Every Preferred Securities Certificate presented or surrendered for registration of transfer or exchange shall be accompanied by a written

instrument of transfer in form satisfactory to the Administrative Trustees and a Transfer Agent duly executed by the Holder or such Holder's attorney duly authorized in writing. The Trust shall not be required to (i) issue, register the transfer of, or exchange any Preferred Securities during a period beginning at the opening of business 15 calendar days before the day of mailing of a notice of redemption of any Preferred Securities called for redemption and ending at the close of business on the day of such mailing or (ii) register the transfer of or exchange any Preferred Securities so selected for redemption, in whole or in part, except the unredeemed portion of any such Preferred Securities being redeemed in part.

(d) No service charge shall be made for any registration of transfer or exchange of Preferred Securities Certificates, but a Transfer Agent may require payment of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any transfer or exchange of Preferred Securities Certificates.

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SECTION V.04. MUTILATED, DESTROYED, LOST OR STOLEN TRUST SECURITIES CERTIFICATES. If (i) any mutilated Trust Securities Certificate shall be surrendered to a Transfer Agent, or if a Transfer Agent shall receive evidence to its satisfaction of the destruction, loss or theft of any Trust Securities Certificate and (ii) there shall be delivered to the Transfer Agent and the Administrative Trustees such security or indemnity as may be required by them to save each of them and the Depositor harmless, then in the absence of notice that such Trust Securities Certificate shall have been acquired by a bona fide purchaser, the Administrative Trustees, or any one of them, on behalf of the Trust, shall execute by manual or facsimile signature such Trust Securities Certificate and, if execution on behalf of the Trust is by facsimile signature, such Certificate shall be countersigned by a Transfer Agent; and the Administrative Trustees, or any one of them, shall make available for delivery, in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Trust Securities Certificate, a new Trust Securities Certificate of like class, tenor and denomination. In connection with the issuance of any new Trust Securities Certificate under this Section 5.04, the Administrative Trustees or the Transfer Agent may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith. Any duplicate Trust Securities Certificate issued pursuant to this Section 5.04 shall constitute conclusive evidence of an ownership interest in the Trust, as if originally issued, whether or not the lost, stolen or destroyed Trust Securities Certificate shall be found at any time.

SECTION V.05. CANCELLATION BY REGISTRAR. All Trust Securities Certificates surrendered for payment, redemption, registration of transfer or exchange shall, if surrendered to any Person other than the Registrar, be delivered to the Registrar and, if not theretofore canceled, shall promptly be canceled by the Registrar. No Trust Securities Certificates shall be issued in lieu of or in exchange for any Trust Securities Certificates canceled as provided in this Section, except as expressly permitted by this Trust Agreement.



All canceled Trust Securities Certificates held by the Registrar shall be disposed of in accordance with customary practices.

SECTION V.06. PERSONS DEEMED SECURITYHOLDERS. Prior to due presentation of a Preferred Securities Certificate for registration of transfer, the Trustees and the Registrar shall be entitled to treat the Person in whose name any Preferred Securities Certificate shall be registered in the Securities Register as the Holder of such Preferred Securities Certificate for the purpose of receiving Distributions and for all other purposes whatsoever, and neither the Trustees nor the Registrar shall be bound by any notice to the contrary.

SECTION V.07. LISTS OF HOLDERS. Semiannually, not later than January 15 and July 15 in each year, commencing January 15, 1999, and at such other times as the Property Trustee may request in writing, the Administrative Trustees shall furnish or cause to be furnished to the Property Trustee information as to the names and addresses of the Holders, and the Property Trustee shall preserve such information and similar information received by it in any other capacity and afford to the Holders access to information so preserved by it, all to such extent, if any, and in such manner as shall be required by the Trust Indenture Act; provided, however, that no such list need be furnished so long as the Property Trustee shall be the Registrar.

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SECTION V.08. MAINTENANCE OF OFFICE OR AGENCY. The Administrative Trustees shall or shall cause the Transfer Agent to maintain, in the Borough of Manhattan, the City of New York, an office or offices or agency or agencies where Preferred Securities Certificates may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Trustees or the Transfer Agent in respect of the Trust Securities Certificates may be served. The Administrative Trustees shall or shall cause the Transfer Agent to give prompt written notice to the Property Trustee and to the Securityholders of any change in any such office or agency.

SECTION V.09. APPOINTMENT OF PAYING AGENT. The Paying Agent shall make Distributions to Securityholders from the Payment Account and shall report the amounts of such Distributions to the Administrative Trustees and the Property Trustee. Any Paying Agent shall have the revocable power to withdraw funds from the Payment Account for the purpose of making the Distributions. The Property Trustee shall be entitled to rely upon a certificate of the Paying Agent stating in effect the amount of such funds so to be withdrawn and that same are to be applied by the Paying Agent in accordance with this Section 5.09. The Administrative Trustees or any one of them may revoke such power and remove the Paying Agent if the Administrative Trustees or any one of them determines in its sole discretion that the Paying Agent shall have failed to perform its obligations under this Trust Agreement in any material respect. The Paying Agent may choose any co-paying agent that is acceptable to the Administrative Trustees and the Depositor. The Paying Agent shall be permitted to resign upon 30 days' written notice to the Administrative Trustees and the Depositor. In the event of the removal or resignation of the Paying Agent, the Administrative

Trustees shall appoint a successor that is reasonably acceptable to the Property Trustee and the Depositor to act as Paying Agent (which shall be a bank, trust company or an Affiliate of the Depositor). The Administrative Trustees shall cause such successor Paying Agent or any additional Paying Agent appointed by the Administrative Trustees to execute and deliver to the Trustees an instrument in which such successor Paying Agent or additional Paying Agent shall agree with the Trustees that as Paying Agent, such successor Paying Agent or additional Paying Agent will hold all sums, if any, held by it for payment to the Securityholders in trust for the benefit of the Securityholders entitled thereto until such sums shall be paid to such Securityholders. The Paying Agent shall return all unclaimed funds to the Property Trustee and upon resignation or removal of a Paying Agent such Paying Agent also shall return all other funds in its possession to the Property Trustee. The provisions of Sections 8.01 through 8.06 shall apply to the Paying Agent appointed hereunder, and the Paying Agent shall be bound by the requirements with respect to paying agents of securities issued pursuant to the Trust Indenture Act. Any reference in this Trust Agreement to the Paying Agent shall include any co-paying agent unless the context requires otherwise.

SECTION V.10. BOOK-ENTRY SYSTEM . (a) The Administrative Trustees, at the direction and expense of the Debenture Issuer, as borrower, may from time to time appoint a Securities Depository or a successor thereto and enter into a letter of representations or other agreement with such Securities Depository to establish procedures with respect to the Preferred Securities. Any Securities Depository shall be a Clearing Agency.

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(b) The Depositor and the Trustees covenant and agree to meet the requirements of a Securities Depository for the Preferred Securities with respect to required notices and other provisions of the letter of representations or agreement executed with respect to such Preferred Securities.

(c) Whenever the beneficial ownership of any Preferred Securities is determined through the books of a Securities Depository, the requirements in this Trust Agreement of holding, delivering or transferring, and making payments in respect of, such Preferred Securities shall be deemed modified with respect to such Preferred Securities to meet the requirements of the Securities Depository with respect to actions of the Trustees, the Depositor and the Paying Agent. Any provisions hereof permitting or requiring delivery of such Preferred Securities shall, while such Preferred Securities are in a book-entry system, be satisfied by the notation on the books of the Securities Depository in accordance with applicable state law.

## ARTICLE VI.

### Acts of Securityholders; Meetings; Voting

SECTION VI.01. LIMITATIONS ON VOTING RIGHTS . (a) Except as



provided in this Section 6.01, in Section 10.02 and as otherwise required by law, no Holder of Preferred Securities shall have any right to vote or in any manner otherwise control the administration, operation and management of the Trust or the obligations of the parties hereto, nor shall anything herein set forth, or contained in the terms of the Trust Securities Certificates, be construed so as to constitute the Securityholders from time to time as partners or members of an association. If the Property Trustee fails to enforce its rights under the Debentures or this Trust Agreement, a Holder of Preferred Securities may institute a legal proceeding directly against the Depositor to enforce the Property Trustee's rights under the Debentures or this Trust Agreement, to the fullest extent permitted by law, without first instituting any legal proceeding against the Property Trustee or any other person. Notwithstanding the foregoing, a Holder of Preferred Securities may directly institute a proceeding for enforcement of payment to such Holder directly of principal of or interest on the Debentures having a principal amount equal to the aggregate Liquidation Amount of the Preferred Securities of such Holder on or after the due dates specified in the Debentures. In connection with any such proceeding, the Depositor will be subrogated to the rights of any Holder of Preferred Securities to the extent of any payment made by the Depositor to such Holder.

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(b) So long as any Debentures are held by the Property Trustee, the Trustees shall not (i) direct the time, method and place of conducting any proceeding for any remedy available to the Debenture Trustee, or executing any trust or power conferred on the Debenture Trustee with respect to such Debentures, (ii) waive any past default which is waivable under Section 813 of the Subordinated Indenture, (iii) exercise any right to rescind or annul a declaration that the principal of all the Debentures shall be due and payable or (iv) consent to any amendment, modification or termination of the Subordinated Indenture or the Debentures, where such consent shall be required, without, in each case, obtaining the prior approval of the Holders of at least 66 2/3% of the aggregate Liquidation Amount of the Outstanding Preferred Securities; provided, however, that where a consent under the Subordinated Indenture would require the consent of each holder of Debentures affected thereby, no such consent shall be given by any Trustee without the prior written consent of each holder of Preferred Securities. The Trustees shall not revoke any action previously authorized or approved by a vote of the Preferred Securities, except pursuant to a subsequent vote of the Preferred Securities.

SECTION VI.02. NOTICE OF MEETINGS . Notice of all meetings of the Holders of a Preferred Securities, stating the time, place and purpose of the meeting, shall be given by the Administrative Trustees pursuant to Section 10.07 to each Holder of a Preferred Security, at his registered address, at least 15 days and not more than 90 days before the meeting. At any such meeting, any business properly before the meeting may be so considered whether or not stated in the notice of the meeting. Any adjourned meeting may be held as adjourned without further notice.

SECTION VI.03. MEETINGS OF HOLDERS OF PREFERRED SECURITIES . (a) No annual meeting of Securityholders is required to be held. The Administrative Trustees, however, shall call a meeting of Securityholders to vote on any matter upon the written request of the Holders of at least 25% of the aggregate Liquidation Amount of the Outstanding Preferred Securities and may, at any time in their discretion, call a meeting of Holders of Preferred Securities to vote on any matters as to which the Holders of Preferred Securities are entitled to vote.

(b) Holders of at least 50% of the aggregate Liquidation Amount of the Outstanding Preferred Securities, present in person or by proxy, shall constitute a quorum at any meeting of Securityholders.

(c) If a quorum is present at a meeting, an affirmative vote by the Holders of a majority of the aggregate Liquidation Amount of the Outstanding Preferred Securities shall constitute the action of the Securityholders, unless this Trust Agreement shall require a greater affirmative vote.

SECTION VI.04. VOTING RIGHTS . Securityholders shall be entitled to one vote for each \$25 of Liquidation Amount represented by their Trust Securities in respect of any matter as to which such Securityholders are entitled to vote.

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SECTION VI.05. PROXIES, ETC. At any meeting of Securityholders, any Securityholder entitled to vote thereat may vote by proxy, provided that no proxy shall be voted at any meeting unless it shall have been placed on file with the Administrative Trustees, or with such other officer or agent of the Trust as the Administrative Trustees may direct, for verification prior to the time at which such vote shall be taken. Only Securityholders of record shall be entitled to vote. When Trust Securities are held jointly by several Persons, any one of them may vote at any meeting in person or by proxy in respect of such Trust Securities, but if more than one of them shall be present at such meeting in person or by proxy, and such joint owners or their proxies so present disagree as to any vote to be cast, such vote shall not be received in respect of such Trust Securities. A proxy purporting to be executed by or on behalf of a Securityholder shall be deemed valid unless challenged at or prior to its exercise, and the burden of proving invalidity shall rest on the challenger.

SECTION VI.06. SECURITYHOLDER ACTION BY WRITTEN CONSENT . Any action which may be taken by Securityholders at a meeting may be taken without a meeting if Holders of at least a majority of the aggregate Liquidation Amount of the Outstanding Trust Securities entitled to vote in respect of such action (or such larger proportion thereof as shall be required by any express provision of this Trust Agreement) shall consent to the action in writing.

SECTION VI.07. RECORD DATE FOR VOTING . For the purposes of determining the Securityholders who are entitled to notice of and to vote at any meeting or by written consent, or for the purpose of any other action, the

Administrative Trustees may from time to time fix a date, not more than 90 days prior to the date of any meeting of Securityholders or other action, as the case may be, as a record date for the determination of the identity of the Securityholders of record for such purposes.

SECTION VI.08. ACTS OF SECURITYHOLDERS . (a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided or permitted by this Trust Agreement to be given, made or taken by Securityholders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Securityholders in person or by an agent duly appointed in writing; and, except as otherwise expressly provided herein, such action shall become effective when such instrument or instruments are delivered to the Administrative Trustees. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Securityholders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Trust Agreement and (subject to Section 8.01) conclusive in favor of the Trustees, if made in the manner provided in this Section 6.08.

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(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by a signer acting in a capacity other than his individual capacity, such certificate or affidavit shall also constitute sufficient proof of his authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner which any Trustee deems sufficient.

(c) The ownership of Preferred Securities shall be proved by the Securities Register.

(d) Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder of any Trust Security shall bind every future Holder of the same Trust Security and the Holder of every Trust Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustees or the Trust in reliance thereon, whether or not notation of such action is made upon such Trust Security.

(e) Without limiting the foregoing, a Securityholder entitled hereunder to take any action hereunder with regard to any particular Trust Security may do so with regard to all or any part of the Liquidation Amount of such Trust Security or by one or more duly appointed agents each of which may do so pursuant to such appointment with regard to all or any part of such Liquidation Amount.

(f) If any dispute shall arise between or among the Securityholders and the Administrative Trustees with respect to the authenticity, validity or binding nature of any request, demand, authorization, direction, consent, waiver or other Act of such Securityholder or Trustee under this Article VI, then the determination of such matter by the Property Trustee shall be conclusive with respect to such matter.

SECTION VI.09. INSPECTION OF RECORDS . Subject to Section 5.07 concerning access to the list of Securityholders, upon reasonable notice to the Administrative Trustees and the Property Trustee, the records of the Trust shall be open to inspection by Securityholders during normal business hours for any purpose reasonably related to such Securityholder's interest as a Securityholder.

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## ARTICLE VII.

### Representations and Warranties OF THE PROPERTY TRUSTEE AND THE DELAWARE TRUSTEE

SECTION VII.01. PROPERTY TRUSTEE . The Property Trustee hereby represents and warrants for the benefit of the Depositor and the Securityholders that:

(i) the Property Trustee is a banking corporation or trust company duly organized, validly existing and in good standing under the laws of the State of New York;

(ii) the Property Trustee has full corporate power, authority and legal right to execute, deliver and perform its obligations under this Trust Agreement and has taken all necessary action to authorize the execution, delivery and performance by it of this Trust Agreement;

(iii) this Trust Agreement has been duly authorized, executed and delivered by the Property Trustee and constitutes the valid and legally binding agreement of the Property Trustee enforceable against it in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles;

(iv) the execution, delivery and performance by the Property Trustee of this Trust Agreement will not violate, conflict with or constitute a breach of the Property Trustee's charter or by-laws; and

(v) neither the authorization, execution or delivery by the Property Trustee of this Trust Agreement nor the consummation of any of the

transactions by the Property Trustee contemplated herein require the consent or approval of, the giving of notice to, the registration with or the taking of any other action with respect to any governmental authority or agency under any existing Federal or New York law governing the banking or trust powers of the Property Trustee.

SECTION VII.02. DELAWARE TRUSTEE . The Delaware Trustee hereby represents and warrants for the benefit of the Depositor and the Securityholders that:

(i) the Delaware Trustee is a banking corporation or trust company duly organized, validly existing and in good standing under the laws of the State of Delaware;

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(ii) the Delaware Trustee has full corporate power, authority and legal right to execute, deliver and perform its obligations under this Trust Agreement and has taken all necessary action to authorize the execution, delivery and performance by it of this Trust Agreement;

(iii) this Trust Agreement has been duly authorized, executed and delivered by the Delaware Trustee and constitutes the valid and legally binding agreement of the Delaware Trustee enforceable against it in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles;

(iv) the execution, delivery and performance by the Delaware Trustee of this Trust Agreement will not violate, conflict with or constitute a breach of the Delaware Trustee's charter or by-laws; and

(v) neither the authorization, execution or delivery by the Delaware Trustee of this Trust Agreement nor the consummation of any of the transactions by the Delaware Trustee contemplated herein require the consent or approval of, the giving of notice to, the registration with or the taking of any other action with respect to any governmental authority or agency under any existing Federal or Delaware law governing the banking or trust powers of the Delaware Trustee.

## ARTICLE VIII.

### The Trustees

SECTION VIII.01. CERTAIN DUTIES AND RESPONSIBILITIES . (a) The Property Trustee, before the occurrence of any Event of Default and after the curing of all Events of Default that may have occurred, shall undertake to perform such duties and only such duties as are specifically set forth in this

Trust Agreement and no implied covenants or obligations shall be read into this Trust Agreement against the Property Trustee. In case an Event of Default has occurred (that has not been cured or waived), the Property Trustee shall exercise such of the rights and powers vesting in it by this Trust Agreement, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

(b) No provision of this Trust Agreement shall be construed to relieve the Property Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(i) prior to the occurrence of an Event of Default and after the curing or waiving of all such Events of Default that may have occurred:

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(A) the duties and obligations of the Property Trustee shall be determined solely by the express provisions of this Trust Agreement and the Property Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Trust Agreement, and no implied covenants or obligations shall be read into this Trust Agreement against the Property Trustee; and

(B) in the absence of bad faith on the part of the Property Trustee, the Property Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or opinions furnished to the Property Trustee and conforming to the requirements of this Trust Agreement; provided, however, that in the case of any such certificates or opinions that by any provision hereof are specifically required to be furnished to the Property Trustee, the Property Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Trust Agreement.

(ii) the Property Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer of the Property Trustee, unless it shall be proved that the Property Trustee was negligent in ascertaining the pertinent facts;

(iii) the Property Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of at least a majority of the aggregate Liquidation Amount of the Outstanding Preferred Securities relating to the time, method and place of conducting any proceeding for any remedy available to the Property Trustee, or exercising any trust or power conferred upon the Property Trustee under this Trust Agreement;

(iv) no provision of this Trust Agreement shall require any of

the Trustees to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(v) the Property Trustee's sole duty with respect to the custody, safe keeping and physical preservation of the Trust Property shall be to deal with such property in a similar manner as the Property Trustee deals with similar property for its own account, subject to the protections, exculpations and limitations on liability afforded to the Property Trustee under this Trust Agreement, the Trust Indenture Act, the Delaware Business Trust Act and, to the extent applicable, Rule 3a-7 under the Investment Company Act of 1940, as amended;

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(vi) the Property Trustee shall have no duty or liability for, or with respect to the value, genuineness, existence or sufficiency of, the Trust Property or the payment of any taxes or assessments levied thereon or in connection therewith;

(vii) the Property Trustee shall not be liable for any interest on any money received by it except as it may otherwise agree with the Depositor. Money held by the Property Trustee need not be segregated from other funds held by it except in relation to the Payment Account established by the Property Trustee pursuant to this Trust Agreement and except to the extent otherwise required by law; and

(viii) the Property Trustee shall not be responsible for monitoring the compliance by the Administrative Trustees or the Depositor with their respective duties under this Trust Agreement, nor shall the Property Trustee be liable for the default or misconduct of the Administrative Trustees or the Depositor.

(C) all payments made by the Property Trustee or a Paying Agent in respect of the Trust Securities shall be made only from the income and proceeds from the Trust Property and only to the extent that there shall be sufficient income or proceeds from the Trust Property to enable the Property Trustee or Paying Agent to make payments in accordance with the terms hereof. Each Securityholder, by its acceptance of a Trust Security, agrees that it will look solely to the income and proceeds from the Trust Property to the extent available for distribution to it as herein provided and that the Trustees are not personally liable to it for any amount distributable in respect of any Trust Security or for any other liability in respect of any Trust Security. This Section 8.01(c) does not limit the liability of the Trustees expressly set forth elsewhere in this Trust Agreement or, in the case of the Property Trustee, in the Trust Indenture Act.



(D) Neither the Delaware Trustee nor any Administrative Trustee shall be liable for any act or omission to act hereunder, except for its own gross negligence or wilful misconduct.

SECTION VIII.02. CERTAIN NOTICES . (a) Within five Business Days after the occurrence of any Event of Default actually known to the Property Trustee, the Property Trustee shall transmit, in the manner and to the extent provided in Section 10.08, notice of any Event of Default known to the Property Trustee to the Securityholders, the Administrative Trustees and the Depositor, unless such Event of Default shall have been cured or waived.

(b) Within five Business Days after receipt of notice of the Depositor's exercise of its right to defer the payment of interest on the Debentures pursuant to the Subordinated Indenture, an Administrative Trustee shall transmit, in the manner and to the extent provided in Section 10.08, notice of such exercise to the Securityholders and the Property Trustee.

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SECTION VIII.03. CERTAIN RIGHTS OF PROPERTY TRUSTEE . Subject to the provisions of Section 8.01 and except as provided by law:

(i) the Property Trustee may rely and shall be protected in acting or refraining from acting in good faith upon any resolution, Opinion of Counsel, certificate, written representation of a Holder or transferee, certificate of auditors or any other certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, appraisal, bond, debenture, note, other evidence of indebtedness or other paper or document reasonably believed by it to be genuine and to have been signed or presented by the proper party or parties;

(ii) if (A) in performing its duties under this Trust Agreement the Property Trustee is required to decide between alternative courses of action or (B) in construing any of the provisions in this Trust Agreement the Property Trustee finds the same ambiguous or inconsistent with any other provisions contained herein or (C) the Property Trustee is unsure of the application of any provision of this Trust Agreement, then, except as to any matter as to which the Preferred Securityholders are entitled to vote under the terms of this Trust Agreement, the Property Trustee shall be entitled to deliver a notice to the Depositor requesting written instructions of the Depositor as to the course of action to be taken. The Property Trustee may, but shall be under no duty to, take such action, or refrain from taking such action, as the Property Trustee shall be instructed in writing to take, or to refrain from taking, by the Depositor in which event the Property Trustee shall have no liability except for its own bad faith, negligence or wilful misconduct; provided, however, that if the Property Trustee does not receive such instructions of the Depositor within ten Business Days after it has delivered such notice, or such reasonably shorter period of time set forth in such notice (which to the extent practicable shall not be less than two Business Days), it may, but



shall be under no duty to, take or refrain from taking such action not inconsistent with this Trust Agreement as it shall deem advisable and in the best interests of the Securityholders, in which event the Property Trustee shall have no liability except for its own bad faith, negligence or willful misconduct;

(iii) whenever in the administration of this Trust Agreement the Property Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Property Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, request and rely upon an Officer's Certificate which, upon receipt of any such requests, shall be promptly delivered by the Depositor or the Administrative Trustees;

(iv the Property Trustee may consult with counsel of its selection and the advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

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(v the Property Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Trust Agreement at the request or direction of any of the Securityholders pursuant to this Trust Agreement, unless such Securityholders shall have offered to the Property Trustee reasonable security or indemnity against the costs, expenses (including reasonable attorneys' fees and expenses) and liabilities which might be incurred by it in complying with such request or direction;

(vi the Property Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture, note or other evidence of indebtedness or other paper or document reasonably believed by it to be genuine, but the Property Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit;

(vii the Property Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through its agents or attorneys, and the Property Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder;

(viii the Property Trustee shall not be liable for any action taken, suffered, or omitted to be taken by it in good faith and reasonably believed by it to be authorized or within the discretion or rights or

powers conferred upon it by this Trust Agreement;

(ix the Property Trustee shall not be charged with knowledge of any default or Event of Default with respect to the Trust Securities unless either (A) a Responsible Officer of the Property Trustee shall have actual knowledge of the default or Event of Default or (B) written notice of such default or Event of Default shall have been given to the Property Trustee by the Depositor, the Administrative Trustees or by any Securityholder;

(x no provision of this Trust Agreement shall be deemed to impose any duty or obligation on the Property Trustee to perform any act or acts or exercise any right, power, duty or obligation conferred or imposed on it in any jurisdiction in which it shall be illegal, or in which the Property Trustee shall be unqualified or incompetent in accordance with applicable law, to perform any such act or acts or to exercise any such right, power, duty or obligation; and no permissive or discretionary power or authority available to the Property Trustee shall be construed to be a duty;

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(xi no provision of this Trust Agreement shall require the Property Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if the Property Trustee shall have reasonable grounds for believing that the repayment of such funds or liability is not reasonably assured to it under the terms of this Trust Agreement or adequate indemnity against such risk or liability is not reasonably assured to it;

(xii the Property Trustee shall have no duty to see to any recording, filing or registration of any instrument (including any financing or continuation statement or any tax form or securities) (or any rerecording, refiling or reregistration thereof);

(xiii the Property Trustee shall have the right at any time to seek instructions concerning the administration of this Trust Agreement from any court of competent jurisdiction; and

(xiv whenever in the administration of this Trust Agreement the Property Trustee shall deem it desirable to receive instructions with respect to enforcing any remedy or right or taking any other action hereunder, the Property Trustee (A) may request instructions from the Securityholders, which instructions may only be given by the Holders of the same Liquidation Amount of the Trust Securities as would be entitled to direct the Property Trustee under the terms of this Trust Agreement in respect of such remedies, rights or actions, (B) may refrain from enforcing such remedy or right or taking such other action until such instructions are received, and (C) shall be protected in acting in accordance with such

instructions.

SECTION VIII.04. NOT RESPONSIBLE FOR RECITALS OR ISSUANCE OF SECURITIES . The recitals contained herein and in the Trust Securities Certificates shall be taken as the statements of the Depositor, and the Trustees do not assume any responsibility for their correctness. The Trustees make no representations as to the value or condition of the property of the Trust or any part thereof or as to the title of the Trust thereto or as to the security afforded thereby or hereby, or as to the validity or genuineness of any securities at any time pledged and deposited with any Trustees hereunder, nor as to the validity or sufficiency of this Trust Agreement or the Trust Securities. The Trustees shall not be accountable for the use or application by the Trust of the proceeds of the sale of the Trust Securities in accordance with Section 2.05.

SECTION VIII.05. MAY HOLD SECURITIES . Except as provided in the definition of the term "Outstanding" in Article I, any Trustee or any agent of any Trustee or the Trust, in its individual or any other capacity, may become the owner or pledgee of Trust Securities and may otherwise deal with the Trust with the same rights it would have if it were not a Trustee or such agent.

SECTION VIII.06. COMPENSATION; FEES; INDEMNITY. (a) Pursuant to the Indenture, the Debenture Issuer, as borrower, agrees:

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(i to pay to the Trustees from time to time reasonable compensation for all services rendered by the Trustees hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(ii except as otherwise expressly provided herein, to reimburse the Trustees upon request for all reasonable expenses, disbursements and advances reasonably incurred or made by the Trustees in accordance with any provision of this Trust Agreement (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its negligence (gross negligence, in the case of any Administrative Trustee), bad faith or willful misconduct; and

(iii to indemnify each Indemnified Person for, and to hold each Indemnified Person harmless against, any and all loss, damage, claims, liability or expense incurred without negligence (gross negligence, in the case of the Delaware Trustee or any Administrative Trustee), bad faith or willful misconduct on its part, arising out of or in connection with the acceptance of the trusts created by, or the administration of, this Trust Agreement, including the reasonable costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

(b) As security for the performance of the obligations of the Depositor Issuer under this Section, each of the Trustees shall have a lien prior to the Trust Securities upon all property and funds held or collected by such Trustee as such.

(c) In addition to the rights provided to each Trustee to the provisions of the immediately preceding paragraph of this Section 8.06, when a Trustee incurs expenses or renders services in connection with an Event of Default resulting from a Bankruptcy Event with respect to the Trust, the expenses (including the reasonable charges and expenses of its counsel) and the compensation for the services are intended to constitute expenses of administration under any applicable Federal or State bankruptcy, insolvency or other similar law.

(d) The provisions of this Section 8.06 shall survive the termination of this Trust Agreement.

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SECTION VIII.07. CERTAIN TRUSTEES REQUIRED; ELIGIBILITY . (a) There shall at all times be a Property Trustee hereunder with respect to the Trust Securities. The Property Trustee shall be a Person that has a combined capital and surplus of at least \$50,000,000. If any such Person publishes reports of condition at least annually, pursuant to law or to the requirements of its supervising or examining authority, then for the purposes of this Section 8.07(a), the combined capital and surplus of such Person shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Property Trustee with respect to the Trust Securities shall cease to be eligible in accordance with the provisions of this Section 8.07(a), it shall resign immediately in the manner and with the effect hereinafter specified in this Article VIII.

(b) There shall at all times be one or more Administrative Trustees hereunder with respect to the Trust Securities. Each Administrative Trustee shall be either a natural person who is at least 21 years of age or a legal entity that shall act through one or more persons authorized to bind such entity.

(c) There shall at all times be a Delaware Trustee with respect to the Trust Securities. The Delaware Trustee shall either be (i) a natural person who is at least 21 years of age and a resident of the State of Delaware or (ii) a legal entity with its principal place of business in the State of Delaware that otherwise meets the requirements of applicable Delaware law and that shall act through one or more persons authorized to bind such entity.

SECTION VIII.08. CONFLICTING INTERESTS. If the Property Trustee has or shall acquire a conflicting interest within the meaning of the Trust Indenture Act, the Property Trustee shall either eliminate such interest or resign, to the extent and in the manner provided by, and subject to the provisions of, the Trust Indenture Act and this Trust Agreement. The

Subordinated Indenture and the Guarantee Agreement shall be deemed to be specifically described in this Trust Agreement for the purposes of clause (i) of the first proviso contained in Section 310(b) of the Trust Indenture Act. For purposes of Section 310(b)(1) of the Trust Indenture Act and to the extent permitted thereby, the Property Trustee, shall not be deemed to have a conflicting interest arising from its capacity as indenture trustee under the Junior Subordinated Indenture dated October 1, 1996 relating to the Depositor's 8.25% Junior Subordinated Deferrable Interest Debentures, under the Amended and Restated Trust Agreement dated October 1, 1996, under the Guarantee dated October 1, 1996 and under the Guarantee.

SECTION VIII.09. CO-TRUSTEES AND SEPARATE TRUSTEE . (a) Unless an Event of Default shall have occurred and be continuing, at any time or times, for the purpose of meeting the legal requirements of the Trust Indenture Act or of any jurisdiction in which any part of the Trust Property may at the time be located, the Depositor and the Property Trustee shall have power to appoint, and upon the written request of the Property Trustee, the Depositor shall for such purpose join with the Property Trustee in the execution, delivery, and performance of all instruments and agreements necessary or proper to appoint, one or more Persons approved by the Property Trustee either to act as co-trustee, jointly with the Property Trustee, of all or any part of such Trust Property, or to act as separate trustee of any such property, in either case with such powers as may be provided in the instrument of appointment, and to vest in such Person or Persons in the capacity aforesaid, any property, title, right or power deemed necessary or desirable, subject to the other provisions of this Section 8.09. If the Depositor does not join in such appointment within 15 days after the receipt by it of a request so to do, or in case a Debenture Event of Default has occurred and is continuing, the Property Trustee alone shall have power to make such appointment.

(b) Should any written instrument from the Depositor be required by any co-trustee or separate trustee so appointed for more fully confirming to such co-trustee or separate trustee such property, title, right, or power, any and all such instruments shall, on request, be executed, acknowledged, and delivered by the Depositor.

(c) Every co-trustee or separate trustee shall, to the extent permitted by law, but to such extent only, be appointed subject to the following terms, namely:

(i) The Trust Securities shall be executed and delivered and all rights, powers, duties, and obligations hereunder in respect of the custody of securities, cash and other personal property held by, or required to be deposited or pledged with, the Trustees designated for such purpose hereunder, shall be exercised, solely by such Trustees.

(ii) The rights, powers, duties, and obligations hereby conferred or imposed upon the Property Trustee in respect of any property

covered by such appointment shall be conferred or imposed upon and exercised or performed by the Property Trustee or by the Property Trustee and such co-trustee or separate trustee jointly, as shall be provided in the instrument appointing such co-trustee or separate trustee, except to the extent that under any law of any jurisdiction in which any particular act is to be performed, the Property Trustee shall be incompetent or unqualified to perform such act, in which event such rights, powers, duties, and obligations shall be exercised and performed by such co-trustee or separate trustee.

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(iii The Property Trustee at any time, by an instrument in writing executed by it, with the written concurrence of the Depositor, may accept the resignation of or remove any co-trustee or separate trustee appointed under this Section 8.09, and, in case a Debenture Event of Default has occurred and is continuing, the Property Trustee shall have power to accept the resignation of, or remove, any such co-trustee or separate trustee without the concurrence of the Depositor. Upon the written request of the Property Trustee, the Depositor shall join with the Property Trustee in the execution, delivery, and performance of all instruments and agreements necessary or proper to effectuate such resignation or removal. A successor to any co-trustee or separate trustee so resigned or removed may be appointed in the manner provided in this Section 8.09.

(iv No co-trustee or separate trustee hereunder shall be personally liable by reason of any act or omission of the Trustee, or any other such trustee hereunder.

(v The Property Trustee shall not be liable by reason of any act of a co-trustee or separate trustee.

(vi Any Act of Holders delivered to the Property Trustee shall be deemed to have been delivered to each such co-trustee and separate trustee.

#### SECTION VIII.10. RESIGNATION AND REMOVAL; APPOINTMENT OF SUCCESSOR .

(a) No resignation or removal of any Trustee (as the case may be, the "Relevant Trustee") and no appointment of a successor Relevant Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Relevant Trustee in accordance with the requirements of Section 8.11.

(b) The Relevant Trustee may resign at any time by giving written notice thereof to the Depositor and the Securityholders. If the instrument of acceptance by a successor Relevant Trustee required by Section 8.11 shall not have been delivered to the resigning Relevant Trustee within 30 days after the giving of such notice of resignation, the resigning Relevant Trustee may petition any court of competent jurisdiction for the appointment of a successor Relevant Trustee.

(c) Unless a Debenture Event of Default shall have occurred and be continuing, any Trustee may be removed at any time by Act of the Common Securityholder. If a Debenture Event of Default shall have occurred and be continuing, the Property Trustee or the Delaware Trustee, or both of them, may be removed at such time by Act of the Securityholders of a majority of the aggregate Liquidation Amount of the Outstanding Preferred Securities, delivered to such Relevant Trustee (in its individual capacity and on behalf of the Trust).

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(d) If the Relevant Trustee shall resign, be removed or become incapable of continuing to act as the Relevant Trustee at a time when no Debenture Event of Default shall have occurred and be continuing, the Common Securityholder, by Act of the Common Securityholder delivered to the retiring Relevant Trustee, shall promptly appoint a successor Relevant Trustee, and the retiring Relevant Trustee so succeeded shall comply with the requirements of Section 8.11. If the Relevant Trustee shall resign, be removed or become incapable of continuing to act as the Relevant Trustee at a time when a Debenture Event of Default shall have occurred and be continuing, the Preferred Securityholders, by Act of the Holders of at least a majority of the aggregate Liquidation Amount of the Outstanding Preferred Securities delivered to the retiring Relevant Trustee, shall promptly appoint a successor Relevant Trustee or Trustees, and the Relevant Trustee so succeeded shall comply with the requirements of Section 8.11. If no successor Relevant Trustee shall have been so appointed by the Common Securityholders or the Preferred Securityholders and accepted appointment in the manner required by Section 8.11, any Securityholder who has been a Securityholder for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Relevant Trustee.

(e) A retiring Relevant Trustee shall give notice of each resignation and each removal of such Relevant Trustee and of the appointment of its successor Trustee to all Securityholders in the manner provided in Section 10.08 and shall give notice to the Depositor. Each notice shall include the name and address of the successor Relevant Trustee and in the case of the Property Trustee, the address of its Corporate Trust Office.

(f) Notwithstanding the foregoing or any other provision of this Trust Agreement, in the event any Administrative Trustee or a Delaware Trustee who is a natural person dies or becomes incompetent or incapacitated, the vacancy created by such death, incompetence or incapacity may be filled by (i) the unanimous act of remaining Administrative Trustees if there are at least two of them or (ii) otherwise by the Depositor (with the successor in each case being an individual who satisfies the eligibility requirements for Administrative Trustees or Delaware Trustee, as the case may be, set forth in Section 8.07). Additionally, notwithstanding the foregoing or any other provision of this Trust Agreement, in the event the Depositor reasonably believes that any Administrative Trustee who is a natural person has become



incompetent or incapacitated, the Depositor, by notice to the remaining Trustees, may terminate the status of such Person as an Administrative Trustee (in which case the vacancy so created will be filled in accordance with the preceding sentence).

(g) No Property Trustee or Delaware Trustee shall be liable for the acts or omissions to act of any successor Property Trustee or Delaware Trustee.

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SECTION VIII.11. ACCEPTANCE OF APPOINTMENT BY SUCCESSOR . (a) In case of the appointment hereunder of a successor Relevant Trustee, the retiring Relevant Trustee and each successor Trustee shall execute and deliver an amendment hereto wherein each successor Relevant Trustee shall accept such appointment and which (i) shall contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, each successor Relevant Trustee all the rights, powers, trusts and duties of the retiring Relevant Trustee with respect to the Trust Securities and the Trust and (ii) shall add to or change any of the provisions of this Trust Agreements as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Relevant Trustee, it being understood that nothing herein or in such amendment shall constitute such Relevant Trustee co-trustees of the same trust and that each such Relevant Trustee shall be trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered by any other such Relevant Trustee and upon the execution and delivery of such amendment the resignation or removal of the retiring Relevant Trustee shall become effective to the extent provided therein and each such successor Relevant Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Relevant Trustee; but, on request of the Trust or any successor Relevant Trustee such retiring Relevant Trustee shall duly assign, transfer and deliver to such successor Relevant Trustee all Trust Property, all proceeds thereof and money held by such retiring Relevant Trustee hereunder with respect to the Trust Securities.

(b) Upon request of any such successor Relevant Trustee, the retiring Relevant Trustee shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Relevant Trustee all such rights, powers and trusts referred to in the preceding paragraph.

No successor Relevant Trustee shall accept its appointment unless at the time of such acceptance the successor Relevant Trustee shall be qualified and eligible under this Article VIII.

SECTION VIII.12. MERGER, CONVERSION, CONSOLIDATION OR SUCCESSION TO BUSINESS . Any Person into which the Property Trustee or the Delaware Trustee or any Trustee that is not a natural person may be merged or converted or with which it may be consolidated, or any Person resulting from any merger, conversion or consolidation to which such Relevant Trustee shall be a party, or any Person succeeding to all or substantially all the corporate trust business of such Relevant Trustee, shall be the successor of such Relevant Trustee



hereunder, provided such Person shall be otherwise qualified and eligible under this Article VIII, without the execution or filing of any paper, the giving of any notice or the taking of any further act on the part of any of the parties hereto.

SECTION VIII.13. PREFERENTIAL COLLECTION OF CLAIMS AGAINST DEPOSITOR OR TRUST . If and when the Property Trustee shall be or become a creditor of the Depositor or the Trust (or any other obligor upon the Debentures or the Trust Securities), the Property Trustee shall be subject to the provisions of the Trust Indenture Act regarding the collection of claims against the Depositor or Trust (or any such other obligor).

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SECTION VIII.14. REPORTS BY PROPERTY TRUSTEE . (a) The Property Trustee shall transmit to Securityholders such reports concerning the Property Trustee and its actions under this Trust Agreement as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant thereto. Such of those reports as are required to be transmitted by the Property Trustee pursuant to Section 313(a) of the Trust Indenture Act shall be so transmitted within 60 days after July 1 of each year, commencing July 1, 1999.

(b) A copy of each such report shall, at the time of such transmission to Securityholders, be filed by the Property Trustee with each stock exchange upon which the Preferred Securities are listed, with the Commission and with the Depositor. The Depositor will notify the Property Trustee when any Preferred Securities shall have been listed on any stock exchange.

SECTION VIII.15. REPORTS TO THE PROPERTY TRUSTEE . The Depositor and the Administrative Trustees on behalf of the Trust shall provide to the Property Trustee such documents, reports, compliance certificates and information as may be required by Section 314 of the Trust Indenture Act, in the form, in the manner and at the times required thereby. Delivery of such reports, information and documents by the Company to the Trustee is for informational purposes only and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officer's Certificates).

SECTION VIII.16. EVIDENCE OF COMPLIANCE WITH CONDITIONS PRECEDENT . Each of the Depositor and the Administrative Trustees on behalf of the Trust shall provide to the Property Trustee such evidence of compliance with any conditions precedent, if any, provided for in this Trust Agreement (including any covenants compliance with which constitutes a condition precedent) that relate to any of the matters set forth in Section 314(c) of the Trust Indenture Act. Any certificate or opinion required to be given by an officer pursuant to Section 314(c) (1) of the Trust Indenture Act shall be given in the form of an

Officer's Certificate. Any opinion of counsel required to be given pursuant to Section 314(c)(2) of the Trust Indenture Act shall be given in the form of an Opinion of Counsel.

SECTION VIII.17. NUMBER OF TRUSTEES. (a) The number of Trustees shall be four, provided that the Depositor, by written instrument, may increase or decrease the number of Administrative Trustees so long as there is at least one.

(b) If a Trustee ceases to hold office for any reason and the number of Administrative Trustees is not reduced pursuant to Section 8.17(a), or if the number of Trustees is increased pursuant to Section 8.17(a), the vacancy created thereby shall be filled with a Trustee appointed in accordance with Section 8.10.

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(c) The death, resignation, retirement, removal, bankruptcy, incompetence or incapacity to perform the duties of a Trustee shall not operate to annul the Trust. Whenever a vacancy in the number of Administrative Trustees shall occur, until such vacancy is filled by the appointment of an Administrative Trustee in accordance with Section 8.10, the Administrative Trustees in office, regardless of their number (and notwithstanding any other provision of this Agreement), shall have all the powers granted to the Administrative Trustees and shall discharge all the duties imposed upon the Administrative Trustees by this Trust Agreement.

SECTION VIII.18. DELEGATION OF POWER. (a) Any Administrative Trustee may, by power of attorney consistent with applicable law, delegate to any other natural person over the age of 21 his or her power for the purpose of executing any documents contemplated in Section 2.07(a), including any registration statement or amendment thereto filed with the Commission, or making any other governmental filing; and

(b) the Administrative Trustees shall have power to delegate from time to time to such of their number the doing of such things and the execution of such instruments either in the name of the Trust or the names of the Administrative Trustees or otherwise as the Administrative Trustees may deem expedient, to the extent such delegation is not prohibited by applicable law or contrary to the provisions of the Trust, as set forth herein.

SECTION VIII.19. FIDUCIARY DUTY . (a) To the extent that, at law or in equity, an Indemnified Person has duties (including fiduciary duties) and liabilities relating thereto to the Trust or to any other Covered Person, an Indemnified Person acting under this Trust Agreement shall not be liable to the Trust or to any other Covered Person for its good faith reliance on the provisions of this Trust Agreement; provided, however, that an Indemnified Person shall be liable for any loss, damage or claim incurred by reason of such Indemnified Person's gross negligence or willful misconduct, (subject, with respect to the Property Trustee, to Section 8.01). The provisions of this Trust

Agreement, to the extent that they restrict the duties and liabilities of an Indemnified Person otherwise existing at law or in equity (other than the duties imposed on the Property Trustee under the Trust Indenture Act), are agreed by the parties hereto to replace such other duties and liabilities of such Indemnified Person.

(b) Unless otherwise expressly provided herein and subject to the provisions of the Trust Indenture Act:

(i) whenever a conflict of interest exists or arises between an Indemnified Person and the Trust or any Covered Person; or

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(ii) whenever this Trust Agreement or any other agreement contemplated herein provides that an Indemnified Person shall act in a manner that is, or provides terms that are, fair and reasonable to the Trust or any Securityholder, the Indemnified Person shall resolve such conflict of interest, take such action or provide such terms, considering in each case the relative interest of each party (including its own interest) to such conflict, agreement, transaction or situation and the benefits and burdens relating to such interests, any customary or accepted industry practices, and any applicable generally accepted accounting practices or principles. In the absence of bad faith by the Indemnified Person, the resolution, action or terms so made, taken or provided by the Indemnified Person shall not constitute a breach of this Trust Agreement or any other agreement contemplated herein or of any duty or obligation of the Indemnified Person at law or in equity or otherwise; and

(c) Unless otherwise expressly provided herein and subject to the provisions of the Trust Indenture Act, whenever in this Trust Agreement an Indemnified Person is permitted or required to make a decision

(i) in its "discretion" or under a grant of similar authority, the Indemnified Person shall be entitled to consider such interests and factors as it reasonably desires, including its own interests, and shall have no duty or obligation to give any consideration to any interest of or factors affecting the Trust or any other Person; or

(ii) in its "good faith" or under another express standard, the Indemnified Person shall act under such express standard and, to the extent permitted by applicable law, shall not be subject to any other or different standard imposed by this Trust Agreement or by applicable law.

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## ARTICLE IX.

### Termination and Liquidation

SECTION IX.01. TERMINATION UPON EXPIRATION DATE . The Trust shall automatically terminate on the Expiration Date and the Trust Property shall be distributed in accordance with Section 9.04.

SECTION IX.02. EARLY TERMINATION . Upon the first to occur of (such first occurrence, an "Early Termination Event"):

(i a Bankruptcy Event in respect of, or the dissolution or liquidation of, the Depositor;

(ii the redemption of all of the Preferred Securities;

(iii the occurrence of a Special Event and the election by the Depositor to terminate that Trust pursuant to Section 9.04(d);

(iv the entrance by a court of competent jurisdiction of an order for judicial termination of the Trust;

the Trust shall terminate and the Trustees shall take such action as is required by Section 9.04.

SECTION IX.03. TERMINATION . The respective obligations and responsibilities of the Trust and the Trustees created hereby shall terminate upon the latest to occur of the following: (i) the distribution by the Property Trustee to Securityholders upon the liquidation of the Trust pursuant to Section 9.04, or upon the redemption of all of the Trust Securities pursuant to Section 4.02 or 9.04(d), of all amounts required to be distributed hereunder upon the final payment of the Trust Securities; (ii) the payment of all amounts due to creditors of the Trust; (iii) the discharge of all administrative duties of the Administrative Trustees, including the performance of any tax reporting obligations with respect to the Trust or the Securityholders and (iv) the filing of a certificate of cancellation with the Delaware Secretary of State.

SECTION IX.04. LIQUIDATION . (a) On the Expiration Date or earlier if an Early Termination Event specified in clause (i), (iii) or (iv) of Section 9.02 shall occur, subject to Section 9.04(e), after satisfaction of all amounts due to creditors of the Trust, if any, as provided by applicable law, the Trust shall be liquidated by the Property Trustee by distributing to each Securityholder a Like Amount of Debentures. Notice of liquidation shall be given by the Administrative Trustees by first-class mail, postage prepaid, mailed not later than 30 nor more than 60 days prior to the Liquidation Date to each Securityholder at such Holder's address appearing in the Securities Register. All notices of liquidation shall:

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(i state the Liquidation Date, which, in the case of an Early Termination Event specified in clause (iii) of Section 9.02 shall be no later than the 90th day following the occurrence of the Special Event;

(ii) state that from and after the Liquidation Date, the Trust Securities will no longer be deemed to be outstanding and any Trust Securities Certificates not surrendered for exchange will be deemed to represent a Like Amount of Debentures; and

(iii) provide such information with respect to the mechanics by which Holders may exchange Trust Securities Certificates for Debentures, or in the case of a Section 9.04(e) liquidation, receive a Liquidation Distribution, as the Administrative Trustees or the Property Trustee shall deem appropriate.

(b) In order to effect the distribution of the Debentures to Securityholders, the Property Trustee shall establish a record date for such distribution (which shall be not more than 45 days prior to the Liquidation Date) and, either itself acting as exchange agent or through the appointment of a separate exchange agent, shall establish such procedures as it shall deem appropriate to effect the distribution of Debentures in exchange for the outstanding Trust Securities Certificates.

(c) After the Liquidation Date, (i) the Trust Securities will no longer be deemed to be Outstanding, (ii) certificates representing a Like Amount of Debentures will be issued to Holders of Trust Securities Certificates, upon surrender of such Trust Securities Certificates to the Property Trustee or its agent for exchange, (iii) the Depositor shall use its best efforts to have the Debentures listed on the New York Stock Exchange or on such other stock exchange or other organization as the Preferred Securities are then listed or traded, (iv) any Trust Securities Certificate not so surrendered for exchange will be deemed to represent a Like Amount of Debentures, accruing interest at the rate provided for in the Debentures from the last Distribution Date on which a Distribution was made on such Trust Securities Certificate until such Trust Securities Certificate shall be so surrendered (and until such Trust Securities Certificates shall be so surrendered, no payments of interest or principal will be made to Holders of such Trust Securities Certificates) and (v) all rights of Securityholders will cease, except the right to receive Debentures and payments of interest and principal received by the Trustee with respect to the Debentures represented by Trust Security Certificates not surrendered for exchange upon surrender of Trust Securities Certificates.

(d) If at any time a Special Event shall occur and be continuing, the Depositor may elect to (i) redeem the Debentures in whole but not in part and therefore cause a mandatory redemption of all the Preferred Securities at the Redemption Price within 90 days following the occurrence of such Special Event, or (ii) cause the termination of the Trust; provided, however, that, in the case of a Tax Event, any such termination shall be conditioned upon receipt by the Administrative Trustees of a No Recognition Opinion.

(e) In the event that, notwithstanding the other provisions of this Section 9.04, whether because of an order for termination entered by a court of

competent jurisdiction or otherwise, distribution of the Debentures in the manner provided herein is determined by the Property Trustee not to be practical, the Trust Property shall be liquidated, and the Trust shall be dissolved, wound-up or terminated by the Property Trustee in such manner as the Property Trustee determines. In such event, on the date of the dissolution, winding-up or other termination of the Trust, Securityholders will be entitled to receive out of the assets of the Trust available for distribution to Securityholders, after satisfaction of all amounts due to creditors of the Trust, if any, as provided by applicable law, an amount equal to the Liquidation Amount per Trust Security plus accumulated and unpaid Distributions thereon to the date of payment (such amount being the "Liquidation Distribution"). If, upon any such dissolution, winding up or termination, the Liquidation Distribution can be paid only in part because the Trust has insufficient assets available to pay in full the aggregate Liquidation Distribution, then, subject to the next succeeding sentence, the amounts payable by the Trust on the Trust Securities shall be paid on a pro rata basis (based upon Liquidation Amounts). The Holder of Common Securities will be entitled to receive Liquidation Distributions upon any such dissolution, winding-up or termination pro rata (determined as aforesaid) with Holders of Preferred Securities, except that, if a Debenture Event of Default has occurred and is continuing or if a Debenture Event of Default has not occurred solely by reason of a requirement that time lapse or notice be given, the Liquidation Distribution with respect to the Preferred Securities shall be paid in full prior to the making of any Liquidation Distribution with respect to the Common Securities.

SECTION IX.05. MERGERS, CONSOLIDATIONS, AMALGAMATIONS OR REPLACEMENTS OF THE TRUST . The Trust may not merge with or into, consolidate, amalgamate, or be replaced by, or convey, transfer or lease its properties and assets substantially as an entirety to any corporation or other Person, except pursuant to this Section 9.05. At the request of the Depositor, with the consent of the Administrative Trustees and without the consent of the Property Trustee, the Delaware Trustee or the Holders of the Preferred Securities, the Trust may merge with or into, consolidate, amalgamate, be replaced by or convey, transfer or lease its properties and assets substantially as an entirety to a trust organized as such under the laws of any state; provided, however, that (i) such successor entity either (a) expressly assumes all of the obligations of the Trust with respect to the Preferred Securities or (b) substitutes for the Preferred Securities other securities having substantially the same terms as the Preferred Securities (the "Successor Securities") so long as the Successor Securities rank the same as the Preferred Securities rank in priority with respect to distributions and payments upon liquidation, redemption and otherwise, (ii) the Depositor expressly appoints a trustee of such successor entity possessing substantially the same powers and duties as the Property Trustee as the holder of the Debentures, (iii) the Successor Securities are listed or traded, or any Successor Securities will be listed or traded upon notification of issuance, on any national securities exchange or other organization on which the Preferred Securities are then listed, if any, (iv) such merger, consolidation, amalgamation, replacement, conveyance, transfer or



lease does not cause the Preferred Securities (including any Successor Securities) to be downgraded by any nationally recognized statistical rating organization, (v) such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease does not adversely affect the rights, preferences and privileges of the Holders of Preferred Securities (including any Successor Securities) in any material respect, (vi) such successor entity has a purpose substantially identical to that of the Trust, (vii) prior to such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease, the Depositor has received an Opinion of Counsel to the effect that (a) such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease does not adversely affect the rights, preferences and privileges of the Holders of the Preferred Securities (including any Successor Securities) in any material respect, and (b) following such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease, neither the Trust nor any successor entity will be required to register as an investment company under the Investment Company Act and (viii) the Depositor owns all of the Common Securities of such successor entity and guarantees the obligations of such successor entity under the Successor Securities at least to the extent provided by the Guarantee. Notwithstanding the foregoing, the Trust shall not, except with the consent of Holders of 100% of the aggregate Liquidation Amount of the Outstanding Preferred Securities, consolidate, amalgamate, merge with or into, or be replaced by or convey, transfer or lease its properties and assets substantially as an entirety to any other Person or permit any other Person to consolidate, amalgamate, merge with or into, or replace it if such consolidation, amalgamation, merger, replacement, conveyance, transfer or lease would cause the Trust or the successor entity to be classified as other than a grantor trust for United States Federal income tax purposes.

## ARTICLE X.

### Miscellaneous Provisions

SECTION X.01. LIMITATION OF RIGHTS OF SECURITYHOLDERS . The death or incapacity of any person having an interest, beneficial or otherwise, in a Trust Security shall not operate to terminate this Trust Agreement, nor entitle the legal representatives or heirs of such person or any Securityholder for such person, to claim an accounting, take any action or bring any proceeding in any court for a partition or winding up of the arrangements contemplated hereby, nor otherwise affect the rights, obligations and liabilities of the parties hereto or any of them.

SECTION X.02. AMENDMENT . (a) This Trust Agreement may be amended from time to time by the Trustees and the Depositor, without the consent of any Securityholders, (i) to cure any ambiguity, correct or supplement any provision herein or therein which may be inconsistent with any other provision herein or therein, or to make any other provisions with respect to matters or questions arising under this Trust Agreement, which shall not be inconsistent with the other provisions of this Trust Agreement; provided, however, that such action

shall not adversely affect in any material respect the interests of any Securityholder, (ii) to modify, eliminate or add to any provisions of this Trust Agreement to such extent as shall be necessary to ensure that the Trust will not be classified for United States federal income tax purposes other than as a "grantor trust" at any time that any Trust Securities are Outstanding or to ensure the Trust's exemption from the status of an "investment company" under the Investment Company Act of 1940, as amended, or (iii) to effect the acceptance of a successor Trustee's appointment. Any amendment of this Trust Agreement pursuant to clause (i) above shall become effective only when notice thereof shall have been given to the Securityholders.

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(b) Except as provided in Sections 6.01(c) and 10.02(c), any provision of this Trust Agreement may be amended by the Trustees and the Depositor with (i) the approval of the Holders of at least a majority of the aggregate Liquidation Amount of the Outstanding Trust Securities and (ii) receipt by the Trustees of an Opinion of Counsel to the effect that such amendment or the exercise of any power granted to the Trustees in accordance with such amendment will not affect the Trust's status as a grantor trust for United States federal income tax purposes or the Trust's exemption from status of an "investment company" under the Investment Company Act of 1940, as amended; provided, however, that, subject to Section 10.02(c), if any proposed amendment to the Trust Agreement provides for, or the Trustees otherwise propose to effect, (A) any action that would materially adversely affect the powers, preferences or special rights of the Preferred Securities, whether by way of amendment to the Trust Agreement or otherwise, or (B) the dissolution, winding-up or termination of the Trust, other than pursuant to the terms of this Trust Agreement, then such amendment or proposal shall not be effective except with the approval of the Holders of at least 66 2/3% of the aggregate Liquidation Amount of the Outstanding Preferred Securities.

(c) In addition to and notwithstanding any other provision in this Trust Agreement, without the consent of each affected Securityholder (such consent being obtained in accordance with Section 6.03 or 6.06), this Trust Agreement may not be amended to (i) change the amount or timing of any Distribution on the Trust Securities or otherwise adversely affect the amount of any Distribution required to be made in respect of the Trust Securities as of a specified date, (ii) restrict the right of a Securityholder to institute suit for the enforcement of any such payment on or after such date or (iii) change the provisions of this Section 10.02(c).

(d) Notwithstanding any other provisions of this Trust Agreement, no Administrative Trustee shall enter into or consent to any amendment to this Trust Agreement which would cause the Trust to fail or cease to qualify for the exemption from status of an "investment company" under the Investment Company Act of 1940, as amended, afforded by Rule 3a-5 thereunder or which would cause the Trust to be classified as other than a grantor trust for United States federal income tax purposes.



(e) Notwithstanding anything in this Trust Agreement to the contrary, without the consent of the affected party, this Trust Agreement may not be amended in a manner which imposes any additional obligation on the Depositor or any Trustee.

(f) In the event there shall be that any amendment to this Trust Agreement, the Administrative Trustees shall promptly provide to the Depositor a copy of such amendment.

(g) The Trustees are entitled to receive an Opinion of Counsel as conclusive evidence that any amendment to this Trust Agreement executed pursuant to this Section 10.02 is authorized or permitted by, and conforms to, the terms of this Section 10.02, has been duly authorized by and lawfully executed and delivered on behalf of the other requisite parties, and that it is proper for the Trustees under the provisions of this Section 10.02 to join in the execution thereof.

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SECTION X.03. SEPARABILITY . In case any provision in this Trust Agreement or in the Trust Securities Certificates shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

SECTION X.04. GOVERNING LAW . This Trust Agreement and the rights and obligations of each of the Securityholders, the Trust and the Trustees with respect to this Trust Agreement and the Trust Securities shall be construed in accordance with and governed by the laws of the State of Delaware (without regard to conflict of laws principles).

SECTION X.05. SUCCESSORS . This Trust Agreement shall be binding upon and shall inure to the benefit of any successor to the Trust or the Trustees, including any successor by operation of law.

SECTION X.06. HEADINGS . The Article and Section headings are for convenience only and shall not affect the construction of this Trust Agreement.

SECTION X.07. NOTICE AND DEMAND . (a) Any notice, demand or other communication which by any provision of this Trust Agreement is required or permitted to be given or served to or upon any Securityholder or the Depositor may be given or served in writing by deposit thereof, postage prepaid, in the United States mail, hand delivery or facsimile transmission, in each case, addressed, (i) in the case of a Preferred Securityholder, to such Preferred Securityholder as such Securityholder's name and address may appear on the Securities Register and (ii) in the case of the Common Securityholder or the Depositor, to Atlantic City Electric Company, 800 King Street, Wilmington, Delaware 19899, Attention: Treasurer, facsimile no. (302) 429-3356, with a copy to the Secretary, facsimile no. (302) 429-3367. Such notice, demand or other communication to or upon a Securityholder shall be deemed to have been sufficiently given or made, for all purposes, upon hand delivery, mailing or

transmission.

(b) Any notice, demand or other communication which by any provision of this Trust Agreement is required or permitted to be given or served to or upon the Trust, the Property Trustee, the Delaware Trustee or the Administrative Trustees shall be given in writing addressed (until another address is published by the Trust) as follows: (i) with respect to the Property Trustee, to The Bank of New York, 101 Barclay Street - 21 West, New York, New York 10286 marked "Attention: Corporate Trust Department" (ii) with respect to the Delaware Trustee, to The Bank of New York (Delaware), White Clay Center, Route 273, Newark, Delaware 19711 and (iii) with respect to the Trust or the Administrative Trustees, at the address above for notice to the Depositor, marked "Attention: Administrative Trustees for Atlantic Capital II". Such notice, demand or other communication to or upon the Trust or the Property Trustee shall be deemed to have been sufficiently given or made only upon actual receipt of the writing by the Trust or the Property Trustee.

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SECTION X.08. AGREEMENT NOT TO PETITION . Each of the Trustees and the Depositor agrees for the benefit of the Securityholders that, until at least one year and one day after the Trust has been terminated in accordance with Article IX, it shall not file, or join in the filing of, a petition against the Trust under any bankruptcy, reorganization, arrangement, insolvency, liquidation or other similar law (including, without limitation, the United States Bankruptcy Code) (collectively, "Bankruptcy Laws") or otherwise join in the commencement of any proceeding against the Trust under any Bankruptcy Law. In the event the Depositor takes action in violation of this Section 10.08, the Property Trustee agrees, for the benefit of Securityholders, that it shall file an answer with the bankruptcy court or otherwise properly contest the filing of such petition by the Depositor against the Trust or the commencement of such action and raise the defense that the Depositor has agreed in writing not to take such action and should be stopped and precluded therefrom and such other defenses, if any, as counsel for the Property Trustee or the Trust may assert. The provisions of this Section 10.08 shall survive the termination of this Trust Agreement.

SECTION X.09. CONFLICT WITH TRUST INDENTURE ACT. (a) If any provision hereof limits, qualifies or conflicts with another provision hereof which is required or deemed to be included in this Trust Agreement by, or is otherwise governed by, any of the provisions of the Trust Indenture Act, such other provisions shall control; and if any provision hereof otherwise conflicts with the Trust Indenture Act, the Trust Indenture Act shall control.

(b) The Property Trustee shall be the only Trustee which is a trustee for the purposes of the Trust Indenture Act.

(c) The application of the Trust Indenture Act to this Trust Agreement shall not affect the nature of the Trust Securities as equity securities representing interests in the Trust.

This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

THE RECEIPT AND ACCEPTANCE OF A TRUST SECURITY OR ANY INTEREST THEREIN BY OR ON BEHALF OF A SECURITYHOLDER OR ANY BENEFICIAL OWNER, WITHOUT ANY SIGNATURE OR FURTHER MANIFESTATION OF ASSENT, SHALL CONSTITUTE THE UNCONDITIONAL ACCEPTANCE BY THE SECURITYHOLDER AND ALL OTHERS HAVING A BENEFICIAL INTEREST IN SUCH TRUST SECURITY OF ALL THE TERMS AND PROVISIONS OF THIS TRUST AGREEMENT AND THE SUBORDINATION PROVISIONS AND OTHER TERMS OF THE GUARANTEE AND THE INDENTURE AND SHALL CONSTITUTE THE AGREEMENT OF THE TRUST, SUCH SECURITYHOLDER AND SUCH OTHERS THAT THOSE TERMS AND PROVISIONS SHALL BE BINDING, OPERATIVE AND EFFECTIVE AS BETWEEN THE TRUST AND SUCH SECURITYHOLDER AND SUCH OTHERS.

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IN WITNESS WHEREOF, the parties have caused this Trust Agreement to be duly executed, all as of the day and year first above written.

ATLANTIC CITY ELECTRIC COMPANY

By: \_\_\_\_\_  
Title: Senior Vice President and Chief Financial  
Officer

THE BANK OF NEW YORK,  
as Property Trustee

By: \_\_\_\_\_  
Title:

THE BANK OF NEW YORK (DELAWARE),  
as Delaware Trustee

By: \_\_\_\_\_  
Title:

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Louis M. Walters, solely in his capacity  
as Administrative Trustee  
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CERTIFICATE OF TRUST

OF

ATLANTIC CAPITAL II

THIS CERTIFICATE OF TRUST of Atlantic Capital II (the "Trust"), dated as of September 10, 1998, is being duly executed and filed by the undersigned, as trustees, to create a business trust under the Delaware Business Trust Act (12 Del. C. (S) 3801, et seq.).

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1. Name. The name of the business trust being created hereby is Atlantic Capital II.

2. Delaware Trustee. The name and business address of the trustee of the Trust with a principal place of business in the State of Delaware are as follows:

The Bank of New York (Delaware)  
White Clay Center  
Newark, Delaware 19711

3. Effective Date. This Certificate of Trust shall be effective as of its filing.

IN WITNESS WHEREOF, the undersigned, being the only trustees of the Trust, have executed this Certificate of Trust as of the date first above written.

THE BANK OF NEW YORK (DELAWARE),  
not in its individual capacity but  
solely as Trustee

Louis M. Walters  
not in his individual capacity  
but solely as Trustee

By: \_\_\_\_\_  
Name:  
Title:

THE BANK OF NEW YORK,  
not in its individual capacity but

solely as Trustee

By: \_\_\_\_\_

Name:

Title:

1

EXHIBIT B

THIS CERTIFICATE IS NOT TRANSFERABLE

Certificate Number

Number of Common Securities

C-[ ]

Certificate Evidencing Common Securities

of

ATLANTIC CAPITAL II

Common Securities

(Liquidation Amount \$25 per Common Security)

Atlantic Capital II, a statutory business trust created under the laws of the State of Delaware (the "Trust"), hereby certifies that Atlantic City Electric Company (the "Holder") is the registered owner of the number set forth above of common securities of the Trust representing undivided beneficial ownership interests in the assets of the Trust and designated as Common Securities (Liquidation Amount \$25 per Common Security) (the "Common Securities"). In accordance with Section 5.02 of the Trust Agreement (as defined below) the Common Securities are not transferable and any attempted transfer hereof shall be void. The designations, rights, privileges, restrictions, preferences and other terms and provisions of the Common Securities are set forth in, and this certificate and the Common Securities represented hereby are issued and shall in all respects be subject to the terms and provisions of, the Amended and Restated Trust Agreement of the Trust dated as of October 1, 1998, as the same may be amended from time to time (the "Trust Agreement"). The Trust will furnish a copy of the Trust Agreement to the holder of this certificate without charge upon written request to the Trust at its principal place of business or registered office.

Upon receipt of this certificate, the holder of this certificate is bound by the Trust Agreement and is entitled to the benefits thereunder.

IN WITNESS WHEREOF, an Administrative Trustee of the Trust has executed this certificate for and on behalf of the Trust on this \_\_\_\_\_ day of \_\_\_\_\_, 199 .

ATLANTIC CAPITAL II

By: \_\_\_\_\_  
not in his (her) individual capacity, but  
solely as Administrative Trustee

[Clearing Agency Legend]

EXHIBIT C

Certificate Number	Number of Preferred Securities
P-	CUSIP NO.

Certificate Evidencing Preferred Securities  
of

ATLANTIC CAPITAL II

% Cumulative Trust Preferred Capital Securities  
(Liquidation Amount \$25 per Preferred Security)

Atlantic Capital II, a statutory business trust created under the laws of the State of Delaware (the "Trust"), hereby certifies that \_\_\_\_\_ (the "Holder") is the registered owner of the number set forth above of preferred securities of the Trust representing undivided beneficial ownership interests in the assets of the Trust and designated as % Cumulative Trust Preferred Capital Securities (Liquidation Amount \$25 per Preferred Security) (the "Preferred Securities"). The Preferred Securities are transferable on the books and records of the Trust, in person or by a duly authorized attorney, upon surrender of this certificate duly endorsed and in proper form for transfer as provided in the Trust Agreement (as defined below). The designations, rights, privileges,

restrictions, preferences and other terms and provisions of the Preferred Securities are set forth in, and this certificate and the Preferred Securities represented hereby are issued and shall in all respects be subject to the terms and provisions of, the Amended and Restated Trust Agreement of the Trust, dated as of October 1, 1998, as the same may be amended from time to time (the "Trust Agreement"). The holder of this certificate is entitled to the benefits and agrees to the subordination provisions and other terms of the Guarantee Agreement of Atlantic City Electric Company, a New Jersey corporation, and The Bank of New York, as guarantee trustee, dated as of October 1, 1998 (the "Guarantee"), to the extent provided therein. The Trust will furnish a copy of the Trust Agreement and the Guarantee to the holder of this certificate without charge upon written request to the Trust at its principal place of business or registered office.

Upon receipt of this certificate, the holder of this certificate is bound by the Trust Agreement and is entitled to the benefits thereunder.

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IN WITNESS WHEREOF, one of the Administrative Trustees of the Trust has executed this certificate for and on behalf of the Trust.

Dated:

ATLANTIC CAPITAL II

By: \_\_\_\_\_  
[ \_\_\_\_\_ ]  
not in his (her) individual capacity,  
but solely as Administrative Trustee

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ASSIGNMENT

FOR VALUE RECEIVED, the undersigned assigns and transfers this Preferred Security to:

(Insert assignee's social security or tax identification number)

---

---

(Insert address and zip code of assignee)

of the Preferred Securities represented by this Preferred Securities Certificate and irrevocably appoints

---

---

attorney to transfer such Preferred Securities Certificate on the books of the Trust. The attorney may substitute another to act for him or her.

Date: \_\_\_\_\_

Signature:

(Sign exactly as your name appears on the other side of this Preferred Securities Certificate)

Signature:

(Sign exactly as your name appears on the other side of this Preferred Securities Certificate)



EXHIBIT 4-H

-----

Junior Subordinated Indenture, dated as of October 1, 1998, by and between Atlantic City Electric Company and The Bank of New York, as Trustee

ATLANTIC CITY ELECTRIC COMPANY

TO

THE BANK OF NEW YORK

Trustee

-----

Indenture  
(FOR UNSECURED SUBORDINATED DEBT SECURITIES  
RELATING TO TRUST SECURITIES)

Dated as of October 1, 1998

-----

ATLANTIC CITY ELECTRIC COMPANY

Reconciliation and tie between Trust Indenture Act of 1939 and indenture, dated as of October 1, 1998

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INDENTURE, dated as of October 1, 1998, between ATLANTIC CITY ELECTRIC COMPANY, a corporation duly organized and existing under the laws of the State of New Jersey (herein called the "Company"), having its principal office at 800 King Street, Wilmington, Delaware 19899, and THE BANK OF NEW YORK, a New York banking corporation, having its principal corporate trust office at 101 Barclay Street - 21 West, New York, New York 10286, as Trustee (herein called the "Trustee").

RECITAL OF THE COMPANY

The Company has duly authorized the execution and delivery of this Indenture to provide for the issuance from time to time of its unsecured subordinated debentures, notes or other evidences of indebtedness (herein called the "Securities"), in an unlimited aggregate principal amount to be issued in one or more series as contemplated herein; and all acts necessary to make this Indenture a valid agreement of the Company have been performed.

For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires, capitalized terms used herein shall have the meanings assigned to them in Article One of this Indenture.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

For and in consideration of the premises and the purchase of the Securities by the Holders thereof, it is mutually covenanted and agreed, for the equal and proportionate benefit of all Holders of the Securities or of any series thereof, as follows:

## ARTICLE ONE

### DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

#### SECTION 101. DEFINITIONS.

For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

(a) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular;

(b) all terms used herein without definition which are defined in the Trust Indenture Act, either directly or by reference therein, have the meanings assigned to them therein;

(c) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles in the United States, and, except as otherwise herein expressly provided, the term "generally accepted accounting principles" with respect to any computation required or permitted hereunder shall mean such accounting principles as are generally accepted in the United States at the date of such computation or, at the election of the Company from time to time, at the date of the execution and delivery of this Indenture; provided, however, that in determining generally

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accepted accounting principles applicable to the Company, the Company shall, to the extent required, conform to any order, rule or regulation of any administrative agency, regulatory authority or other governmental body having jurisdiction over the Company; and

(d) the words "herein", "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

Certain terms, used principally in Article Nine, are defined in that Article.

"ACT", when used with respect to any Holder of a Security, has the meaning specified in Section 104.

"AFFILIATE" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "CONTROL" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or through one or more intermediaries, whether through the ownership of voting securities, by contract or otherwise; and the terms "CONTROLLING" and "CONTROLLED" have meanings correlative to the foregoing.

"AUTHENTICATING AGENT" means any Person (other than the Company or an Affiliate of the Company) authorized by the Trustee pursuant to Section 915 to act on behalf of the Trustee to authenticate one or more series of Securities.

"AUTHORIZED OFFICER" means the Chairman of the Board, the President, any Vice President, the Treasurer, any Assistant Treasurer, or any other officer or agent of the Company duly authorized by the Board of Directors to act in respect of matters relating to this Indenture.

"BOARD OF DIRECTORS" means either the board of directors of the Company or any committee thereof duly authorized to act in respect of matters relating to this Indenture.

"BOARD RESOLUTION" means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"BUSINESS DAY", when used with respect to a Place of Payment or any other particular location specified in the Securities or this Indenture, means any day, other than a Saturday or Sunday, which is not a day on which banking institutions or trust companies in such Place of Payment or other location are generally authorized or required by law, regulation or executive order to remain closed, except as may be otherwise specified as contemplated by Section 301.

"COMMISSION" means the Securities and Exchange Commission, as from time to time constituted, created under the Securities Exchange Act of 1934, as amended, or, if at any time after the date of execution and delivery of this Indenture such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body, if any, performing such duties at such time.

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"COMPANY" means the Person named as the "Company" in the first paragraph of this Indenture until a successor Person shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Company" shall mean such successor Person.

"COMPANY REQUEST" or "COMPANY ORDER" means a written request or order signed in the name of the Company by an Authorized Officer and delivered to the Trustee.

"CORPORATE TRUST OFFICE" means the office of the Trustee at which at any particular time its corporate trust business shall be principally administered, which office at the date of execution and delivery of this Indenture is located at 101 Barclay Street - 21 West, New York, New York 10286.

"CORPORATION" means a corporation, association, company, joint stock company or business trust.

"CREDITOR" has the meaning specified in Section 312.

"DEFAULTED INTEREST" has the meaning specified in Section 307.

"DOLLAR" or "\$" means a dollar or other equivalent unit in such coin or currency of the United States as at the time shall be legal tender for the payment of public and private debts.

"EVENT OF DEFAULT" has the meaning specified in Section 801.

"GOVERNMENTAL AUTHORITY" means the government of the United States or of



any State or Territory thereof or of the District of Columbia or of any county, municipality or other political subdivision of any of the foregoing, or any department, agency, authority or other instrumentality of any of the foregoing.

"GOVERNMENT OBLIGATIONS" means:

(a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States and entitled to the benefit of the full faith and credit thereof; and

(b) certificates, depositary receipts or other instruments which evidence a direct ownership interest in obligations described in clause (a) above or in any specific interest or principal payments due in respect thereof; provided, however, that the custodian of such obligations or specific interest or principal payments shall be a bank or trust company (which may include the Trustee or any Paying Agent) subject to Federal or state supervision or examination with a combined capital and surplus of at least \$50,000,000; and provided, further, that except as may be otherwise required by law, such custodian shall be obligated to pay to the holders of such certificates, depositary receipts or other instruments the full amount received by such custodian in respect of such obligations or specific payments and shall not be permitted to make any deduction therefrom.

"GUARANTEE" means the guarantee agreement delivered from the Company to a Trust, for the benefit of the holders of Preferred Securities issued by such Trust.

"HOLDER" means a Person in whose name a Security is registered in the Security Register.

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"INDENTURE" means this instrument as originally executed and delivered and as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof and shall include the terms of a particular series of Securities established as contemplated by Section 301.

"INTEREST PAYMENT DATE", when used with respect to any Security, means the Stated Maturity of an installment of interest on such Security.

"MATURITY", when used with respect to any Security, means the date on which the principal of such Security or an installment of principal becomes due and payable as provided in such Security or in this Indenture, whether at the Stated Maturity, by declaration of acceleration, upon call for redemption or otherwise.

"OFFICER'S CERTIFICATE" means a certificate signed by an Authorized Officer and delivered to the Trustee.

"OPINION OF COUNSEL" means a written opinion of counsel, who may be counsel for the Company, but not an employee of the Trust, the Trustee, or other counsel reasonably acceptable to the Trustee.

"OUTSTANDING", when used with respect to Securities, means, as of the date of determination, all Securities theretofore authenticated and delivered under this Indenture, except:

(a) Securities theretofore canceled by the Security Registrar or delivered to the Trustee for cancellation;

(b) Securities deemed to have been paid in accordance with Section 701;

and

(c) Securities which have been paid pursuant to Section 306 or in exchange for or in lieu of which other Securities have been authenticated and delivered pursuant to this Indenture, other than any such Securities in respect of which there shall have been presented to the Trustee proof satisfactory to it and the Company that such Securities are held by a bona fide purchaser or purchasers in whose hands such Securities are valid obligations of the Company;

provided, however, that in determining whether or not the Holders of the requisite principal amount of the Securities Outstanding under this Indenture, or the Outstanding Securities of any series, have given any request, demand, authorization, direction, notice, consent or waiver hereunder or whether or not a quorum is present at a meeting of Holders of Securities, Securities owned by the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor (unless the Company, such Affiliate or such obligor owns all Securities Outstanding under this Indenture, or all Outstanding Securities of each such series, as the case may be, determined without regard to this provision) shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver or upon any such determination as to the presence of a quorum, only Securities which the Trustee knows to be so owned shall be so disregarded; provided, however, that Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Securities and that the pledgee is not the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor; and provided, further, that, in the case of any Security the principal of which is payable from time to time without presentment or surrender, the principal amount of such Security that shall be deemed to be

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Outstanding at any time for all purposes of this Indenture shall be the original principal amount thereof less the aggregate amount of principal thereof theretofore paid.

"PAYING AGENT" means any Person, including the Company, authorized by the Company to pay the principal of, and premium, if any, or interest, if any, on any Securities on behalf of the Company.

"PERSON" means any individual, corporation, partnership, joint venture, trust or unincorporated organization or any Governmental Authority.

"PLACE OF PAYMENT", when used with respect to the Securities of any series, means the place or places, specified as contemplated by Section 301, at which, subject to Section 602, principal of and premium, if any, and interest, if any, on the Securities of such series are payable.

"PREDECESSOR SECURITY" of any particular Security means every previous Security evidencing all or a portion of the same debt as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 306 in exchange for or in lieu of a mutilated, destroyed, lost or stolen Security shall be deemed (to the extent lawful) to evidence the same debt as the mutilated, destroyed, lost or stolen Security.

"PREFERRED SECURITIES" means any preferred securities issued by a Trust or similar securities issued by permitted successors to such Trust in accordance with the Trust Agreement pertaining to such Trust.

"PROPERTY TRUSTEE" means The Bank of New York, as Trustee under the Trust Agreement.

"REDEMPTION DATE", when used with respect to any Security to be redeemed, means the date fixed for such redemption by or pursuant to this Indenture.

"REDEMPTION PRICE", when used with respect to any Security to be redeemed, means the price at which it is to be redeemed pursuant to this Indenture.

"REGULAR RECORD DATE" for the interest payable on any Interest Payment Date on the Securities of any series means the date specified for that purpose as contemplated by Section 301.

"RESPONSIBLE OFFICER", when used with respect to the Trustee, means any officer of the Trustee assigned by the Trustee to administer its corporate trust matters.

"SECURITIES" has the meaning stated in the first recital of this Indenture and more particularly means any securities authenticated and delivered under this Indenture.

"SECURITY REGISTER" and "SECURITY REGISTRAR" have the respective meanings specified in Section 305.

"SENIOR INDEBTEDNESS" means all obligations (other than non-recourse obligations and the indebtedness issued under this Indenture) of, or guaranteed or assumed by, the Company for borrowed money, including both senior and subordinated indebtedness for borrowed money (other than the Securities and \$72,164,950 principal amount of 8.25% Junior Subordinated Deferrable Interest Debentures of the Company issued under its Junior Subordinated Indenture dated as of October 1, 1996 with The Bank of New York,

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Trustee), or for the payment of money relating to any lease which is capitalized on the consolidated balance sheet of the Company and its subsidiaries in accordance with generally accepted accounting principles as in effect from time to time, or evidenced by bonds, debentures, notes or other similar instruments (other than trade accounts payable in the ordinary course of business), and in each case, amendments, renewals, extensions, modifications and refundings of any such indebtedness or obligations, whether existing as of the date of this Indenture as originally executed and delivered or subsequently incurred by the Company unless, in the case of any particular indebtedness, renewal, extension or refunding, the instrument creating or evidencing the same or the assumption or guarantee of the same expressly provides that such indebtedness, renewal, extension or refunding is not superior in right of payment to or is pari passu with the Securities; provided that the Company's obligations under the Guarantee shall not be deemed to be Senior Indebtedness.

"SPECIAL RECORD DATE" for the payment of any Defaulted Interest on the Securities of any series means a date fixed by the Trustee pursuant to Section 307.

"STATED MATURITY", when used with respect to any obligation or any installment of principal thereof or interest thereon, means the date on which the principal of such obligation or such installment of principal or interest is stated in such Security to be due and payable (without regard to any provisions for redemption, prepayment, acceleration, purchase or extension).

"TRUST" means Atlantic Capital II, a statutory business trust created under the laws of the State of Delaware, or any other Trust designated pursuant

to Section 301 hereof or any permitted successor under the Trust Agreement pertaining to such Trust.

"TRUST AGREEMENT" means the Amended and Restated Trust Agreement, dated as of October 1, 1998, relating to Atlantic Capital II or an Amended and Restated Trust Agreement relating to a Trust designated pursuant to Section 301 hereof, in each case, among the Company, as Depositor, the trustees named therein and the several holders referred to therein as each such agreement may be amended from time to time.

"TRUST INDENTURE ACT" means, as of any time, the Trust Indenture Act of 1939, or any successor statute, as in effect at such time.

"TRUSTEE" means the Person named as the "Trustee" in the first paragraph of this Indenture until a successor Trustee shall have become such with respect to one or more series of Securities pursuant to the applicable provisions of this Indenture, and thereafter "Trustee" shall mean or include each Person who is then a Trustee hereunder, and if at any time there is more than one such Person, "Trustee" as used with respect to the Securities of any series shall mean the Trustee with respect to Securities of that series.

"UNITED STATES" means the United States of America, its Territories, its possessions and other areas subject to its political jurisdiction.

#### SECTION 102. COMPLIANCE CERTIFICATES AND OPINIONS.

Except as otherwise expressly provided in this Indenture, upon any application or request by the Company to the Trustee to take any action under any provision of this Indenture, the Company shall furnish to the Trustee an Officer's Certificate stating that all conditions precedent, if any, provided for in this Indenture relating to the proposed action (including any covenants compliance with which constitutes a condition precedent) have been complied with and an Opinion of Counsel stating that in the opinion of such counsel all such conditions

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precedent, if any, have been complied with, except that in the case of any such application or request as to which the furnishing of such documents is specifically required by any provision of this Indenture relating to such particular application or request, no additional certificate or opinion need be furnished.

Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include:

(a) a statement that each Person signing such certificate or opinion has read such covenant or condition and the definitions herein relating thereto;

(b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(c) a statement that, in the opinion of each such Person, such Person has made such examination or investigation as is necessary to enable such Person to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(d) a statement as to whether, in the opinion of each such Person, such condition or covenant has been complied with.

#### SECTION 103. FORM OF DOCUMENTS DELIVERED TO TRUSTEE.

In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Company may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which such Officer's Certificate or opinion are based are erroneous. Any such certificate or Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Company stating that the information with respect to such factual matters is in the possession of the Company, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

Whenever, subsequent to the receipt by the Trustee of any Board Resolution, Officer's Certificate, Opinion of Counsel or other document or instrument, a clerical, typographical or other inadvertent or unintentional error or omission shall be discovered therein, a new document or instrument may be substituted therefor in corrected form with the same force and effect as if originally filed in the corrected form and, irrespective of the date or dates of the actual execution and/or delivery thereof, such substitute document or instrument shall be deemed to have been executed and/or delivered as of the date or dates required with respect to the document or instrument for which it is substituted. Anything in this Indenture to the contrary

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notwithstanding, if any such corrective document or instrument indicates that action has been taken by or at the request of the Company which could not have been taken had the original document or instrument not contained such error or omission, the action so taken shall not be invalidated or otherwise rendered ineffective but shall be and remain in full force and effect, except to the extent that such action was a result of willful misconduct or bad faith. Without limiting the generality of the foregoing, any Securities issued under the authority of such defective document or instrument shall nevertheless be the valid obligations of the Company entitled to the benefits of this Indenture equally and ratably with all other Outstanding Securities, except as aforesaid.

#### SECTION 104. ACTS OF HOLDERS.

(a) Any request, demand, authorization, direction, notice, consent, election, waiver or other action provided by this Indenture to be made, given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by an agent duly appointed in writing or, alternatively, may be embodied in and evidenced by the record of Holders voting in favor thereof, either in person or by proxies duly appointed in writing, at any meeting of Holders duly called and held in accordance with the provisions of Article Thirteen, or a combination of such instruments and any such record. Except as herein otherwise expressly provided, such action shall become effective when such

instrument or instruments or record or both are delivered to the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments and any such record (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Holders signing such instrument or instruments and so voting at any such meeting. Proof of execution of any such instrument or of a writing appointing any such agent, or of the holding by any Person of a Security, shall be sufficient for any purpose of this Indenture and (subject to Section 901) conclusive in favor of the Trustee and the Company, if made in the manner provided in this Section. The record of any meeting of Holders shall be proved in the manner provided in Section 1306.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof or may be proved in any other manner which the Trustee and the Company deem sufficient. Where such execution is by a signer acting in a capacity other than his individual capacity, such certificate or affidavit shall also constitute sufficient proof of his authority.

(c) The principal amount and serial numbers of Securities held by any Person, and the date of holding the same, shall be proved by the Security Register.

(d) Any request, demand, authorization, direction, notice, consent, election, waiver or other Act of a Holder shall bind every future Holder of the same Security and the Holder of every Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such Security.

(e) Until such time as written instruments shall have been delivered to the Trustee with respect to the requisite percentage of principal amount of Securities for the action contemplated by such instruments, any such instrument executed and delivered by or on behalf of a Holder may be revoked with respect to any or all of such Securities by written notice by such Holder or any subsequent Holder, proven in the manner in which such instrument was proven.

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(f) Securities of any series authenticated and delivered after any Act of Holders may, and shall if required by the Trustee, bear a notation in form approved by the Trustee as to any action taken by such Act of Holders. If the Company shall so determine, new Securities of any series so modified as to conform, in the opinion of the Trustee and the Company, to such action may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for Outstanding Securities of such series.

(g) If the Company shall solicit from Holders any request, demand, authorization, direction, notice, consent, waiver or other Act, the Company may, at its option, fix in advance a record date for the determination of Holders entitled to give such request, demand, authorization, direction, notice, consent, waiver or other Act, but the Company shall have no obligation to do so. If such a record date is fixed, such request, demand, authorization, direction, notice, consent, waiver or other Act may be given before or after such record date, but only the Holders of record at the close of business on the record date shall be deemed to be Holders for the purposes of determining whether Holders of the requisite proportion of the Outstanding Securities have authorized or agreed or consented to such request, demand,

authorization, direction, notice, consent, waiver or other Act, and for that purpose the Outstanding Securities shall be computed as of the record date.

SECTION 105. NOTICES, ETC. TO TRUSTEE AND COMPANY.

Any request, demand, authorization, direction, notice, consent, election, waiver or Act of Holders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with, the Trustee by any Holder or by the Company, or the Company by the Trustee or by any Holder, shall be sufficient for every purpose hereunder (unless otherwise herein expressly provided) if in writing and delivered personally to an officer or other responsible employee of the addressee, or transmitted by facsimile transmission or other direct written electronic means to such telephone number or other electronic communications address as the parties hereto shall from time to time designate, or transmitted by certified or registered mail, charges prepaid, to the applicable address set opposite such party's name below or to such other address as either party hereto may from time to time designate:

If to the Trustee, to:

The Bank of New York  
101 Barclay Street - 21 West  
New York, New York 10286  
Attention: Corporate Trust Administration  
Telecopy: (212) 815-5915

If to the Company, to:

Atlantic City Electric Company  
800 King Street  
Wilmington, Delaware 19899

Attention: Treasurer  
Telephone: (302) 429-3011  
Telecopy: (302) 429-3367

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Any communication contemplated herein shall be deemed to have been made, given, furnished and filed if personally delivered, on the date of delivery, if transmitted by facsimile transmission or other direct written electronic means, on the date of transmission, and if transmitted by certified or registered mail, on the date of receipt.

SECTION 106. NOTICE TO HOLDERS OF SECURITIES; WAIVER.

Except as otherwise expressly provided herein, where this Indenture provides for notice to Holders of any event, such notice shall be sufficiently given, and shall be deemed given, to Holders if in writing and mailed, first-class postage prepaid, to each Holder affected by such event, at the address of such Holder as it appears in the Security Register, not later than the latest date, if any, and not earlier than the earliest date, if any, prescribed for the giving of such notice.

In case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice to Holders by mail, then such notification as shall be made with the approval of the Trustee shall constitute a sufficient notification for every purpose hereunder. In any case where notice to Holders is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders.

Any notice required by this Indenture may be waived in writing by the



Person entitled to receive such notice, either before or after the event otherwise to be specified therein, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

SECTION 107. CONFLICT WITH TRUST INDENTURE ACT.

If any provision of this Indenture limits, qualifies or conflicts with another provision hereof which is required or deemed to be included in this Indenture by, or is otherwise governed by, any of the provisions of the Trust Indenture Act, such other provision shall control; and if any provision hereof otherwise conflicts with the Trust Indenture Act, the Trust Indenture Act shall control.

SECTION 108. EFFECT OF HEADINGS AND TABLE OF CONTENTS.

The Article and Section headings in this Indenture and the Table of Contents are for convenience only and shall not affect the construction hereof.

SECTION 109. SUCCESSORS AND ASSIGNS.

All covenants and agreements in this Indenture by the Company and Trustee shall bind their respective successors and assigns, whether so expressed or not.

SECTION 110. SEPARABILITY CLAUSE.

In case any provision in this Indenture or the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

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SECTION 111. BENEFITS OF INDENTURE.

Nothing in this Indenture or the Securities, express or implied, shall give to any Person, other than the parties hereto, their successors hereunder, any Creditors, the Holders and, so long as the notice described in Section 1513 hereof has not been given, the holders of Senior Indebtedness, any benefit or any legal or equitable right, remedy or claim under this Indenture; provided, however, that for so long as any Preferred Securities remain outstanding, the holders of such Preferred Securities, subject to certain limitations set forth in this Indenture, may enforce the Company's obligations hereunder directly against the Company as third party beneficiaries of this Indenture without first proceeding against the Trust issuing such Preferred Securities or the Property Trustee of the Trust.

SECTION 112. GOVERNING LAW.

This Indenture and the Securities shall be governed by and construed in accordance with the laws of the State of New York, without regard to conflict of laws principles.

SECTION 113. LEGAL HOLIDAYS.

In any case where any Interest Payment Date, Redemption Date or Stated Maturity of any Security shall not be a Business Day at any Place of Payment, then (notwithstanding any other provision of this Indenture or of the Securities other than a provision in Securities of any series, or in the indenture supplemental hereto, Board Resolution or Officer's Certificate which establishes the terms of the Securities of such series, which specifically states that such provision shall apply in lieu of this Section) payment of interest or principal



and premium, if any, need not be made at such Place of Payment on such date, but may be made on the next succeeding Business Day at such Place of Payment, except that if such Business Day is in the next succeeding calendar year, such payment shall be made on the immediately preceding Business Day, in each case with the same force and effect, and in the same amount, as if made on the Interest Payment Date or Redemption Date, or at the Stated Maturity, as the case may be, and, if such payment is made or duly provided for on such Business Day, no interest shall accrue on the amount so payable for the period from and after such Interest Payment Date, Redemption Date or Stated Maturity, as the case may be, to such Business Day.

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ARTICLE TWO

SECURITY FORMS

SECTION 201. FORMS GENERALLY.

The definitive Securities of each series shall be in substantially the form or forms thereof established in the indenture supplemental hereto establishing such series or in a Board Resolution establishing such series, or in an Officer's Certificate pursuant to such supplemental indenture or Board Resolution, in each case with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange or as may, consistently herewith, be determined by the officers executing such Securities, as evidenced by their execution of the Securities. If the form or forms of Securities of any series are established in a Board Resolution or in an Officer's Certificate pursuant to a Board Resolution, such Board Resolution and Officer's Certificate, if any, shall be delivered to the Trustee at or prior to the delivery of the Company Order contemplated by Section 303 for the authentication and delivery of such Securities.

Unless otherwise specified as contemplated by Section 301, the Securities of each series shall be issuable in registered form without coupons. The definitive Securities shall be produced in such manner as shall be determined by the officers executing such Securities, as evidenced by their execution thereof.

SECTION 202. FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION.

The Trustee's certificate of authentication shall be in substantially the form set forth below:

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

\_\_\_\_\_  
as Trustee

By: \_\_\_\_\_  
Authorized Signatory

ARTICLE THREE

The Securities

The aggregate principal amount of Securities which may be authenticated and delivered under this Indenture is unlimited; provided, however, that all Securities shall be issued to a Trust in exchange for securities of such Trust or to evidence loans by a Trust of the proceeds of the issuance of Preferred Securities of such Trust plus the amount deposited by the Company with such Trust from time to time.

The Securities may be issued in one or more series. Prior to the authentication and delivery of Securities of any series there shall be established by specification in an indenture supplemental hereto or in a Board Resolution, or in an Officer's Certificate pursuant to an indenture supplemental hereto or a Board Resolution:

(a) the title of the Securities of such series (which shall distinguish the Securities of such series from Securities of all other series);

(b) any limit upon the aggregate principal amount of the Securities of such series which may be authenticated and delivered under this Indenture (except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities of such series pursuant to Section 304, 305, 306, 406 or 1206 and except for any Securities which, pursuant to Section 303, are deemed never to have been authenticated and delivered hereunder);

(c) the Person or Persons (without specific identification) to whom interest on Securities of such series shall be payable on any Interest Payment Date, if other than the Persons in whose names such Securities (or one or more Predecessor Securities) are registered at the close of business on the Regular Record Date for such interest;

(d) the date or dates on which the principal of the Securities of such series is payable or any formulary or other method or other means by which such date or dates shall be determined, by reference or otherwise (without regard to any provisions for redemption, prepayment, acceleration, purchase or extension);

(e) the rate or rates at which the Securities of such series shall bear interest, if any (including the rate or rates at which overdue principal shall bear interest, if different from the rate or rates at which such Securities shall bear interest prior to Maturity, and, if applicable, the rate or rates at which overdue premium or interest shall bear interest, if any), or any formulary or other method or other means by which such rate or rates shall be determined, by reference or otherwise; the date or dates from which such interest shall accrue; the Interest Payment Dates on which such interest shall be payable and the Regular Record Date, if any, for the interest payable on such Securities on any Interest Payment Date; the right of the Company, if any, to extend the interest payment periods and the duration of any such extension as contemplated by Section 311; and the basis of computation of interest, if other than as provided in Section 310;

(f) the place or places at which or methods by which (i) the principal of and premium, if any, and interest, if any, on Securities of such series shall be payable, (ii) registration of transfer of Securities of such series may be effected, (iii) exchanges of Securities of such series may be effected and (iv) notices and demands to or upon the Company in respect of the Securities of such series and this Indenture may be served; the Security Registrar for such series; and, if such is the case, that the principal of such Securities shall be payable without presentment or surrender thereof;

(g) the period or periods within which, or the date or dates on which, the price or prices at which and the terms and conditions upon which the Securities of such series may be redeemed, in whole or in part,

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at the option of the Company and any restrictions on such redemptions, including but not limited to a restriction on a partial redemption by the Company of the Securities of any series, resulting in delisting of such Securities from any national exchange;

(h) the obligation or obligations, if any, of the Company to redeem or purchase the Securities of such series pursuant to any sinking fund or other mandatory redemption provisions or at the option of a Holder thereof and the period or periods within which or the date or dates on which, the price or prices at which and the terms and conditions upon which such Securities shall be redeemed or purchased, in whole or in part, pursuant to such obligation, and applicable exceptions to the requirements of Section 404 in the case of mandatory redemption or redemption at the option of the Holder;

(i) the denominations in which Securities of such series shall be issuable if other than denominations of \$25 and any integral multiple thereof;

(j) the currency or currencies, including composite currencies, in which payment of the principal of and premium, if any, and interest, if any, on the Securities of such series shall be payable (if other than in Dollars);

(k) if the principal of or premium, if any, or interest, if any, on the Securities of such series are to be payable, at the election of the Company or a Holder thereof, in a coin or currency other than that in which the Securities are stated to be payable, the period or periods within which and the terms and conditions upon which, such election may be made;

(l) if the principal of or premium, if any, or interest, if any, on the Securities of such series are to be payable, or are to be payable at the election of the Company or a Holder thereof, in securities or other property, the type and amount of such securities or other property, or the formulary or other method or other means by which such amount shall be determined, and the period or periods within which, and the terms and conditions upon which, any such election may be made;

(m) if the amount payable in respect of principal of or premium, if any, or interest, if any, on the Securities of such series may be determined with reference to an index or other fact or event ascertainable outside this Indenture, the manner in which such amounts shall be determined to the extent not established pursuant to clause (e) of this paragraph;

(n) if other than the principal amount thereof, the portion of the principal amount of Securities of such series which shall be payable upon declaration of acceleration of the Maturity thereof pursuant to Section 802;

(o) any Events of Default, in addition to those specified in Section 801, with respect to the Securities of such series, and any covenants of the Company for the benefit of the Holders of the Securities of such series, in addition to those set forth in Article Six;

(p) the terms, if any, pursuant to which the Securities of such series may be converted into or exchanged for shares of capital stock or other securities of the Company or any other Person;

(q) the obligations or instruments, if any, which shall be considered

to be Government Obligations in respect of the Securities of such series denominated in a currency other than Dollars or in a composite

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currency, and any additional or alternative provisions for the reinstatement of the Company's indebtedness in respect of such Securities after the satisfaction and discharge thereof as provided in Section 701;

(r) if the Securities of such series are to be issued in global form, (i) any limitations on the rights of the Holder or Holders of such Securities to transfer or exchange the same or to obtain the registration of transfer thereof, (ii) any limitations on the rights of the Holder or Holders thereof to obtain certificates therefor in definitive form in lieu of temporary form and (iii) any and all other matters incidental to such Securities;

(s) if the Securities of such series are to be issuable as bearer securities, any and all matters incidental thereto which are not specifically addressed in a supplemental indenture as contemplated by clause (g) of Section 1201;

(t) to the extent not established pursuant to clause (r) of this paragraph, any limitations on the rights of the Holders of the Securities of such Series to transfer or exchange such Securities or to obtain the registration of transfer thereof; and if a service charge will be made for the registration of transfer or exchange of Securities of such series the amount or terms thereof;

(u) any exceptions to Section 113, or variation in the definition of Business Day, with respect to the Securities of such series;

(v) the designation of the Trust to which Securities of such series are to be issued; and

(w) any other terms of the Securities of such series not inconsistent with the provisions of this Indenture.

All Securities of any one series shall be substantially identical, except as to principal amount and date of issue and except as may be set forth in the terms of such series as contemplated above. The Securities of each series shall be subordinated in right of payment to Senior Indebtedness as provided in Article Fifteen.

#### SECTION 302. DENOMINATIONS.

Unless otherwise provided as contemplated by Section 301 with respect to any series of Securities, the Securities of each series shall be issuable in denominations of \$25 and any integral multiple thereof.

#### SECTION 303. EXECUTION, AUTHENTICATION, DELIVERY AND DATING.

Unless otherwise provided as contemplated by Section 301 with respect to any series of Securities, the Securities shall be executed on behalf of the Company by an Authorized Officer and may have the corporate seal of the Company affixed thereto or reproduced thereon attested by any other Authorized Officer or by the Secretary or an Assistant Secretary of the Company. The signature of any or all of these officers on the Securities may be manual or facsimile.

Securities bearing the manual or facsimile signatures of individuals who were at the time of execution Authorized Officers or the Secretary or an Assistant Secretary of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Securities or did not hold such offices at

the date of original issue of such Securities.

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The Trustee shall authenticate and deliver Securities of a series, for original issue, at one time or from time to time in accordance with the Company Order referred to below, upon receipt by the Trustee of:

(a) the instrument or instruments establishing the form or forms and terms of such series, as provided in Sections 201 and 301;

(b) a Company Order requesting the authentication and delivery of such Securities and, to the extent that the terms of such Securities shall not have been established in an indenture supplemental hereto or in a Board Resolution, or in an Officer's Certificate pursuant to a supplemental indenture or Board Resolution, all as contemplated by Sections 201 and 301, establishing such terms;

(c) the Securities of such series, executed on behalf of the Company by an Authorized Officer;

(d) an Opinion of Counsel to the effect that:

(i) the form or forms of such Securities have been duly authorized by the Company and have been established in conformity with the provisions of this Indenture;

(ii) the terms of such Securities have been duly authorized by the Company and have been established in conformity with the provisions of this Indenture; and

(iii) such Securities, when authenticated and delivered by the Trustee and issued and delivered by the Company in the manner and subject to any conditions specified in such Opinion of Counsel, will have been duly issued under this Indenture and will constitute valid and legally binding obligations of the Company, entitled to the benefits provided by this Indenture, and enforceable against the Company in accordance with their terms, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing.

If the form or terms of the Securities of any series have been established by or pursuant to a Board Resolution or an Officer's Certificate as permitted by Sections 201 or 301, the Trustee shall not be required to authenticate such Securities if the issuance of such Securities pursuant to this Indenture will materially or adversely affect the Trustee's own rights, duties or immunities under the Securities and this Indenture or otherwise in a manner that is not reasonably acceptable to the Trustee.

Unless otherwise specified as contemplated by Section 301 with respect to any series of Securities, each Security shall be dated the date of its authentication.

Unless otherwise specified as contemplated by Section 301 with respect to any series of Securities, no Security shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Security a certificate of authentication substantially in the form provided for herein executed by the Trustee or an Authenticating Agent by manual signature, and such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and

delivered hereunder and is entitled to the benefits of this Indenture. Notwithstanding the foregoing, if any Security shall have been authenticated and delivered hereunder to the Company, or any Person acting on its behalf, but shall never have been issued and sold by the Company, and the Company shall deliver such Security to the Trustee for cancellation as provided in Section 309 together with a written statement (which need not comply with Section

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102 and need not be accompanied by an Opinion of Counsel) stating that such Security has never been issued and sold by the Company, for all purposes of this Indenture such Security shall be deemed never to have been authenticated and delivered hereunder and shall never be entitled to the benefits hereof.

#### SECTION 304. TEMPORARY SECURITIES.

Pending the preparation of definitive Securities of any series, the Company may execute, and upon Company Order the Trustee shall authenticate and deliver, temporary Securities which are printed, lithographed, typewritten, mimeographed or otherwise produced, in any authorized denomination, substantially of the tenor of the definitive Securities in lieu of which they are issued, with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Securities may determine, as evidenced by their execution of such Securities; provided, however, that temporary Securities need not recite specific redemption, sinking fund, conversion or exchange provisions.

Unless otherwise specified as contemplated by Section 301 with respect to the Securities of any series, after the preparation of definitive Securities of such series, the temporary Securities of such series shall be exchangeable, without charge to the Holder thereof, for definitive Securities of such series upon surrender of such temporary Securities at the office or agency of the Company maintained pursuant to Section 602 in a Place of Payment for such Securities. Upon such surrender of temporary Securities for such exchange, the Company shall, except as aforesaid, execute and the Trustee shall authenticate and deliver in exchange therefor definitive Securities of the same series, of authorized denominations and of like tenor and aggregate principal amount.

Until exchanged in full as hereinabove provided, the temporary Securities of any series shall in all respects be entitled to the same benefits under this Indenture as definitive Securities of the same series and of like tenor authenticated and delivered hereunder.

#### SECTION 305. REGISTRATION, REGISTRATION OF TRANSFER AND EXCHANGE.

The Company shall cause to be kept in each office designated pursuant to Section 602, with respect to the Securities of each series, a register (all registers kept in accordance with this Section being collectively referred to as the "Security Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Securities of such series and the registration of transfer thereof. The Company shall designate one Person to maintain the Security Register for the Securities of each series on a consolidated basis, and such Person is referred to herein, with respect to such series, as the "Security Registrar." Anything herein to the contrary notwithstanding, the Company may designate one or more of its offices as an office in which a register with respect to the Securities of one or more series shall be maintained, and the Company may designate itself the Security Registrar with respect to one or more of such series. The Security Register shall be open for inspection by the Trustee and the Company at all reasonable times.

Except as otherwise specified as contemplated by Section 301 with respect to the Securities of any series, upon surrender for registration of

transfer of any Security of such series at the office or agency of the Company maintained pursuant to Section 602 in a Place of Payment for such series, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Securities of the same series, of authorized denominations and of like tenor and aggregate principal amount.

Except as otherwise specified as contemplated by Section 301 with respect to the Securities of any series, any Security of such series may be exchanged at the option of the Holder, for one or more new Securities of the same series, of authorized denominations and of like tenor and aggregate principal amount, upon surrender

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of the Securities to be exchanged at any such office or agency. Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Securities which the Holder making the exchange is entitled to receive.

All Securities delivered upon any registration of transfer or exchange of Securities shall be valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Securities surrendered upon such registration of transfer or exchange.

Every Security presented or surrendered for registration of transfer or for exchange shall (if so required by the Company, the Trustee or the Security Registrar) be duly endorsed or shall be accompanied by a written instrument of transfer in form satisfactory to the Company, the Trustee or the Security Registrar, as the case may be, duly executed by the Holder thereof or his attorney duly authorized in writing.

Unless otherwise specified as contemplated by Section 301 with respect to Securities of any series, no service charge shall be made for any registration of transfer or exchange of Securities, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Securities, other than exchanges pursuant to Section 304, 406 or 1206 not involving any transfer.

The Company shall not be required to execute or to provide for the registration of transfer of or the exchange of (a) Securities of any series during a period of 15 days immediately preceding the date of the mailing of any notice of redemption of such Securities called for redemption or (b) any Security so selected for redemption in whole or in part, except the unredeemed portion of any Security being redeemed in part.

#### SECTION 306. MUTILATED, DESTROYED, LOST AND STOLEN SECURITIES.

If any mutilated Security is surrendered to the Trustee, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a new Security of the same series, and of like tenor and principal amount and bearing a number not contemporaneously outstanding.

If there shall be delivered to the Company and the Trustee (a) evidence to their satisfaction of the ownership of and the destruction, loss or theft of any Security and (b) such security or indemnity as may be reasonably required by them to save each of them and any agent of either of them harmless, then, in the absence of notice to the Company or the Trustee that such Security is held by a Person purporting to be the owner of such Security, the Company shall execute and the Trustee shall authenticate and deliver, in lieu of any such destroyed, lost or stolen Security, a new Security of the same series, and of like tenor and principal amount and bearing a number not contemporaneously outstanding.



Notwithstanding the foregoing, in case any such mutilated, destroyed, lost or stolen Security has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Security, pay such Security.

Upon the issuance of any new Security under this Section, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other reasonable expenses (including the fees and expenses of the Trustee) connected therewith.

Every new Security of any series issued pursuant to this Section in lieu of any destroyed, lost or stolen Security shall constitute an original additional contractual obligation of the Company, whether or not the

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destroyed, lost or stolen Security shall be at any time enforceable by anyone other than the Holder of such new Security, and any such new Security shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Securities of such series duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

#### SECTION 307. PAYMENT OF INTEREST; INTEREST RIGHTS PRESERVED.

Unless otherwise specified as contemplated by Section 301 with respect to the Securities of any series, interest on any Security which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest.

Subject to Section 311, any interest on any Security of any series which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called "Defaulted Interest") shall forthwith cease to be payable to the Holder on the related Regular Record Date by virtue of having been such Holder, and such Defaulted Interest may be paid by the Company, at its election in each case, as provided in clause (a) or (b) below:

(a) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Securities of such series (or their respective Predecessor Securities) are registered at the close of business on a date (herein called a "Special Record Date") for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Security of such series and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit on or prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this clause provided. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company, shall promptly cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed,



first-class postage prepaid, to each Holder of Securities of such series at the address of such Holder as it appears in the Security Register, not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been so mailed, such Defaulted Interest shall be paid to the Persons in whose names the Securities of such series (or their respective Predecessor Securities) are registered at the close of business on such Special Record Date.

(b) The Company may make payment of any Defaulted Interest on the Securities of any series in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Securities may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Trustee.

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Subject to the foregoing provisions of this Section and Section 305, each Security delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Security shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Security.

#### SECTION 308. PERSONS DEEMED OWNERS.

Prior to due presentment of a Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Security is registered as the absolute owner of such Security for the purpose of receiving payment of principal of and premium, if any, and (subject to Sections 305 and 307) interest, if any, on such Security and for all other purposes whatsoever, whether or not such Security be overdue, and neither the Company, the Trustee nor any agent of the Company or the Trustee shall be affected by notice to the contrary.

#### SECTION 309. CANCELLATION BY SECURITY REGISTRAR.

All Securities surrendered for payment, redemption, registration of transfer or exchange shall, if surrendered to any Person other than the Security Registrar, be delivered to the Security Registrar and, if not theretofore canceled, shall be promptly canceled by the Security Registrar. The Company may at any time deliver to the Security Registrar for cancellation any Securities previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever or which the Company shall not have issued and sold, and all Securities so delivered shall be promptly canceled by the Security Registrar. No Securities shall be authenticated in lieu of or in exchange for any Securities canceled as provided in this Section, except as expressly permitted by this Indenture. All canceled Securities held by the Security Registrar shall be disposed of in accordance with the customary procedures of the Security Registrar as at the time of disposition shall be in effect (which may or may not include destruction of the certificate or certificates evidencing such Securities). The Security Registrar shall promptly deliver evidence of any cancellation of a Security in accordance with this Section 309 to the Trustee and the Company.

#### SECTION 310. COMPUTATION OF INTEREST.

Except as otherwise specified as contemplated by Section 301 for Securities of any series, interest on the Securities of each series shall be computed on the basis of a 360-day year consisting of twelve 30-day months and for any period shorter than a full month, on the basis of the actual number of days elapsed in such period.

SECTION 311. EXTENSION OF INTEREST PAYMENT.

The Company shall have the right at any time, so long as the Company is not in default in the payment of interest on the Securities of any series hereunder, to extend interest payment periods on all Securities of one or more series, if so specified as contemplated by Section 301 with respect to such Securities and upon such terms as may be specified as contemplated by Section 301 with respect to such Securities.

SECTION 312. PAYMENT OF EXPENSES.

The Company, as issuer of the Securities, shall pay all debts and obligations (other than with respect to the securities of a Trust) and all costs, liabilities and expenses of a Trust (including, but not limited to, all costs, liabilities, expenses and indemnities under Section 8.06 of the Trust Agreement dated as of October 1, 1998 and the comparable provisions of any other Trust Agreement, all costs, liabilities and expenses relating

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to the organization of a Trust, the fees and expenses of the Property Trustee, the Delaware Trustee and the Administrative Trustees and all costs, liabilities and expenses relating to the operation of the Trust (other than with respect to payments due to the holders of the securities of a Trust pursuant to the terms of such securities)) and to pay any and all taxes, duties, assessments or other governmental charges of whatever nature (other than United States withholding taxes) imposed by the United States or any other taxing authority, so that the net amounts received and retained by a Trust after paying such fees, costs, expenses, liabilities, debts and obligations will be equal to the amounts a Trust would have received and retained had no such fees, costs, expenses, liabilities, debts and obligations been incurred by or imposed on a Trust. The foregoing obligations of the Company are for the benefit of, and shall be enforceable by, any person to whom such fees, costs, expenses, liabilities, debts and obligations are owed (each a "Creditor") whether or not such Creditor has received notice thereof. Any such Creditor may enforce such obligations of the Company directly against the Company, and the Company irrevocably waives any right or remedy to require that any such Creditor take any action against a Trust or any other person before proceeding against the Company. The Company shall execute such additional agreements as may be necessary to give full effect to the foregoing. The provisions of this Section 312 shall survive the termination for any reason of this Indenture.

ARTICLE FOUR

Redemption of Securities

SECTION 401. APPLICABILITY OF ARTICLE.

Securities of any series which are redeemable before their Stated Maturity shall be redeemable in accordance with their terms and (except as otherwise specified as contemplated by Section 301 for Securities of such series) in accordance with this Article.

SECTION 402. ELECTION TO REDEEM; NOTICE TO TRUSTEE.

The election of the Company to redeem any Securities shall be evidenced by a Board Resolution or an Officer's Certificate. The Company shall, at least 45 days prior to the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee in writing of such Redemption Date and of the principal amount of such Securities to be redeemed. In the case of any redemption of Securities (a) prior to the

expiration of any restriction on such redemption provided in the terms of such Securities or elsewhere in this Indenture or (b) pursuant to an election of the Company which is subject to a condition specified in the terms of such Securities, the Company shall furnish the Trustee with an Officer's Certificate evidencing compliance with such restriction or condition.

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SECTION 403. SELECTION OF SECURITIES TO BE REDEEMED.

If less than all the Securities of any series are to be redeemed, the particular Securities to be redeemed shall be selected by the Trustee from the Outstanding Securities of such series not previously called for redemption, by such method as shall be provided for any particular series, or, in the absence of any such provision, by such method as the Trustee shall deem fair and appropriate and which may provide for the selection for redemption of portions (equal to the minimum authorized denomination for Securities of such series or any integral multiple thereof) of the principal amount of Securities of such series of a denomination larger than the minimum authorized denomination for Securities of such series; provided, however, that if, as indicated in an Officer's Certificate, the Company shall have offered to purchase all or any principal amount of the Securities then Outstanding of any series, and less than all of such Securities as to which such offer was made shall have been tendered to the Company for such purchase, the Trustee, if so directed by Company Order, shall select for redemption all or any principal amount of such Securities which have not been so tendered.

The Trustee shall promptly notify the Company and the Security Registrar in writing of the Securities selected for redemption and, in the case of any Securities selected to be redeemed in part, the principal amount thereof to be redeemed.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Securities shall relate, in the case of any Securities redeemed or to be redeemed only in part, to the portion of the principal amount of such Securities which has been or is to be redeemed.

SECTION 404. NOTICE OF REDEMPTION.

Notice of redemption shall be given in the manner provided in Section 106 to the Holders of the Securities to be redeemed not less than 30 nor more than 60 days prior to the Redemption Date.

All notices of redemption shall state:

- (a) the Redemption Date,
- (b) the Redemption Price,
- (c) if less than all the Securities of any series are to be redeemed, the identification of the particular Securities to be redeemed and the portion of the principal amount of any Security to be redeemed in part,
- (d) that on the Redemption Date the Redemption Price, together with accrued interest, if any, to the Redemption Date, will become due and payable upon each such Security to be redeemed and, if applicable, that interest thereon will cease to accrue on and after said date,
- (e) the place or places where such Securities are to be surrendered for payment of the Redemption Price and accrued interest, if any, unless it shall have been specified as contemplated by Section 301 with respect to such Securities that such surrender shall not be required,

(f) that the redemption is for a sinking or other fund, if such is the case, and

(g) such other matters as the Company shall deem desirable or appropriate.

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Unless otherwise specified with respect to any Securities in accordance with Section 301, with respect to any notice of redemption of Securities at the election of the Company, unless, upon the giving of such notice, such Securities shall be deemed to have been paid in accordance with Section 701, such notice may state that such redemption shall be conditional upon the receipt by the Paying Agent or Agents for such Securities, on or prior to the date fixed for such redemption, of money sufficient to pay the principal of and premium, if any, and interest, if any, on such Securities and that if such money shall not have been so received such notice shall be of no force or effect and the Company shall not be required to redeem such Securities. In the event that such notice of redemption contains such a condition and such money is not so received, the redemption shall not be made and within a reasonable time thereafter notice shall be given, in the manner in which the notice of redemption was given, that such money was not so received and such redemption was not required to be made, and the Paying Agent or Agents for the Securities otherwise to have been redeemed shall promptly return to the Holders thereof any of such Securities which had been surrendered for payment upon such redemption.

Notice of redemption of Securities to be redeemed at the election of the Company, and any notice of non-satisfaction of a condition for redemption as aforesaid, shall be given by the Company or, at the Company's request, by the Security Registrar in the name and at the expense of the Company. Notice of mandatory redemption of Securities shall be given by the Security Registrar in the name and at the expense of the Company.

#### SECTION 405. SECURITIES PAYABLE ON REDEMPTION DATE.

Notice of redemption having been given as aforesaid, and the conditions, if any, set forth in such notice having been satisfied, the Securities or portions thereof so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price therein specified, and from and after such date (unless, in the case of an unconditional notice of redemption, the Company shall default in the payment of the Redemption Price and accrued interest, if any) such Securities or portions thereof, if interest-bearing, shall cease to bear interest. Upon surrender of any such Security for redemption in accordance with such notice, such Security or portion thereof shall be paid by the Company at the Redemption Price, together with accrued interest, if any, to the Redemption Date; provided, however, that no such surrender shall be a condition to such payment if so specified as contemplated by Section 301 with respect to such Security; and provided, further, that except as otherwise specified as contemplated by Section 301 with respect to such Security, any installment of interest on any Security the Stated Maturity of which installment is on or prior to the Redemption Date shall be payable to the Holder of such Security, or one or more Predecessor Securities, registered as such at the close of business on the related Regular Record Date according to the terms of such Security and subject to the provisions of Section 307.

#### SECTION 406. SECURITIES REDEEMED IN PART.

Upon the surrender of any Security which is to be redeemed only in part at a Place of Payment therefor (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing), the Company shall execute, and the Trustee shall

authenticate and deliver to the Holder of such Security, without service charge, a new Security or Securities of the same series, of any authorized denomination requested by such Holder and of like tenor and in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Security so surrendered.

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## ARTICLE FIVE

### Sinking Funds

#### SECTION 501. APPLICABILITY OF ARTICLE.

The provisions of this Article shall be applicable to any sinking fund for the retirement of the Securities of any series, except as otherwise specified as contemplated by Section 301 for Securities of such series.

The minimum amount of any sinking fund payment provided for by the terms of Securities of any series is herein referred to as a "mandatory sinking fund payment," and any payment in excess of such minimum amount provided for by the terms of Securities of any series is herein referred to as an "optional sinking fund payment." If provided for by the terms of Securities of any series, the cash amount of any sinking fund payment may be subject to reduction as provided in Section 502. Each sinking fund payment shall be applied to the redemption of Securities of the series in respect of which it was made as provided for by the terms of such Securities.

#### SECTION 502. SATISFACTION OF SINKING FUND PAYMENTS WITH SECURITIES.

The Company (a) may deliver to the Trustee Outstanding Securities (other than any previously called for redemption) of a series in respect of which a mandatory sinking fund payment is to be made and (b) may apply as a credit Securities of such series which have been redeemed either at the election of the Company pursuant to the terms of such Securities or through the application of permitted optional sinking fund payments pursuant to the terms of such Securities or Outstanding Securities purchased by the Company, in each case in satisfaction of all or any part of such mandatory sinking fund payment with respect to the Securities of such series; provided, however, that no Securities shall be applied in satisfaction of a mandatory sinking fund payment if such Securities shall have been previously so applied. Securities so applied shall be received and credited for such purpose by the Trustee at the Redemption Price specified in such Securities for redemption through operation of the sinking fund and the amount of such mandatory sinking fund payment shall be reduced accordingly.

#### SECTION 503. REDEMPTION OF SECURITIES FOR SINKING FUND.

Not less than 45 days prior to each sinking fund payment date for the Securities of any series, the Company shall deliver to the Trustee an Officer's Certificate specifying:

(a) the amount of the next succeeding mandatory sinking fund payment for such series;

(b) the amount, if any, of the optional sinking fund payment to be made together with such mandatory sinking fund payment;

(c) the aggregate sinking fund payment;

(d) the portion, if any, of such aggregate sinking fund payment which is to be satisfied by the payment of cash; and

(e) the portion, if any, of such aggregate sinking fund payment which is to be satisfied by delivering and crediting Securities of such series pursuant to Section 502 and stating the basis for such credit and that such Securities have not previously been so credited, and the Company shall also deliver to the Trustee any Securities to be so delivered.

If the Company shall not have delivered such Officer's Certificate and, to the extent applicable, all such Securities, on or prior to the 45th day prior to such sinking fund payment date, the sinking fund payment for such series in respect of such sinking fund payment date shall be made entirely in cash in the amount of the mandatory sinking fund payment. Not less than 30 days before each such sinking fund payment date the Trustee shall select the Securities to be redeemed upon such sinking fund payment date in the manner specified in Section 403 and cause notice of the redemption thereof to be given in the name of and at the expense of the Company in the manner provided in Section 404. Such notice having been duly given, the redemption of such Securities shall be made upon the terms and in the manner stated in Sections 405 and 406.

## ARTICLE SIX

### Covenants

#### SECTION 601. PAYMENT OF PRINCIPAL, PREMIUM AND INTEREST.

The Company shall pay the principal of and premium, if any, and interest, if any, on the Securities of each series in accordance with the terms of such Securities and this Indenture.

#### SECTION 602. MAINTENANCE OF OFFICE OR AGENCY.

The Company shall maintain in each Place of Payment for the Securities of each series an office or agency where payment of such Securities shall be made, where the registration of transfer or exchange of such Securities may be effected and where notices and demands to or upon the Company in respect of such Securities and this Indenture may be served. The Company shall give prompt written notice to the Trustee of the location, and any change in the location, of each such office or agency and prompt notice to the Holders of any such change in the manner specified in Section 106. If at any time the Company shall fail to maintain any such required office or agency in respect of Securities of any series, or shall fail to furnish the Trustee with the address thereof, payment of such Securities shall be made, registration of transfer or exchange thereof may be effected and notices and demands in respect thereof may be served at the Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee as its agent for all such purposes in any such event.

The Company may also from time to time designate one or more other offices or agencies with respect to the Securities of one or more series, for any or all of the foregoing purposes and may from time to time rescind such designations; provided, however, that, unless otherwise specified as contemplated by Section 301 with respect to the Securities of such series, no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency for such purposes in each Place of Payment for such Securities in accordance with the requirements set forth above. The Company shall give prompt written notice to the Trustee, and prompt notice to the Holders in the manner specified in Section 106, of any such designation or rescission and of any change in the location of any such other office or agency.

Anything herein to the contrary notwithstanding, any office or agency required by this Section may be maintained at an office of the Company, in which event the Company shall perform all functions to be performed at such office or agency.

SECTION 603. MONEY FOR SECURITIES PAYMENTS TO BE HELD IN TRUST.

If the Company shall at any time act as its own Paying Agent with respect to the Securities of any series, it shall, on or before each due date of the principal of and premium, if any, and interest, if any, on any of such Securities, segregate and hold in trust for the benefit of the Persons entitled thereto a sum sufficient to pay the principal and premium or interest so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided. The Company shall promptly notify the Trustee of any failure by the Company (or any other obligor on such Securities) to make any payment of principal of or premium, if any, or interest, if any, on such Securities.

Whenever the Company shall have one or more Paying Agents for the Securities of any series, it shall, on or before each due date of the principal of and premium, if any, and interest, if any, on such Securities, deposit with such Paying Agents sums sufficient (without duplication) to pay the principal and premium or interest so becoming due, such sum to be held in trust for the benefit of the Persons entitled to such principal, premium or interest, and (unless such Paying Agent is the Trustee) the Company shall promptly notify the Trustee of any failure by it so to act.

The Company shall cause each Paying Agent for the Securities of any series, other than the Company or the Trustee, to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section, that such Paying Agent shall:

(a) hold all sums held by it for the payment of the principal of and premium, if any, or interest, if any, on such Securities in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided;

(b) give the Trustee notice of any failure by the Company (or any other obligor upon such Securities) to make any payment of principal of or premium, if any, or interest, if any, on such Securities; and

(c) at any time during the continuance of any such default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent and furnish to the Trustee such information as it possesses regarding the names and addresses of the Persons entitled to such sums.

The Company may at any time pay, or by Company Order direct any Paying Agent to pay, to the Trustee all sums held in trust by the Company or such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by the Company or such Paying Agent and, if so stated in a Company Order delivered to the Trustee, in accordance with the provisions of Article Seven; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of and premium, if any, or interest, if any, on any Security and remaining unclaimed for two years after such principal and premium, if any, or interest has become due and payable shall be paid to the Company on Company Request, or, if then held by the Company, shall be discharged from such



trust; and, upon such payment or discharge, the Holder of such Security shall, as an unsecured general creditor and not as a Holder of an Outstanding Security, look only to the Company for payment of the amount so due and payable and remaining unpaid, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; provided, however, that the Trustee or such Paying Agent, before being required to make any such payment to the Company, may at the expense of the Company cause to be mailed, on one occasion only, notice to such Holder that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such mailing, any unclaimed balance of such money then remaining will be paid to the Company.

SECTION 604. CORPORATE EXISTENCE.

Subject to the rights of the Company under Article Eleven, the Company shall do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence.

SECTION 605. MAINTENANCE OF PROPERTIES.

The Company shall cause (or, with respect to property owned in common with others, make reasonable effort to cause) all its properties used or useful in the conduct of its business to be maintained and kept in good condition, repair and working order and shall cause (or, with respect to property owned in common with others, make reasonable effort to cause) to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as, in the judgment of the Company, may be necessary so that the business carried on in connection therewith may be properly conducted; provided, however, that nothing in this Section shall prevent the Company from discontinuing, or causing the discontinuance of, the operation and maintenance of any of its properties if such discontinuance is, in the judgment of the Company, desirable in the conduct of its business.

SECTION 606. ANNUAL OFFICER'S CERTIFICATE AS TO COMPLIANCE.

Not later than September 15 in each year, commencing September 15, 1999, the Company shall deliver to the Trustee an Officer's Certificate which need not comply with Section 102, executed by the principal executive officer, the principal financial officer or the principal accounting officer of the Company, as to such officer's knowledge of the Company's compliance with all conditions and covenants under this Indenture, such compliance to be determined without regard to any period of grace or requirement of notice under this Indenture.

SECTION 607. WAIVER OF CERTAIN COVENANTS.

The Company may omit in any particular instance to comply with any term, provision or condition set forth in (a) Section 602 or any additional covenant or restriction specified with respect to the Securities of any series, as contemplated by Section 301, if before the time for such compliance the Holders of at least a majority in aggregate principal amount of the Outstanding Securities of all series with respect to which compliance with Section 602 or such additional covenant or restriction is to be omitted, considered as one class, shall, by Act of such Holders, either waive such compliance in such instance or generally waive compliance with such term, provision or condition and (b) Section 604, 605 or Article Eleven if before the time for such compliance the Holders of at least a majority in principal amount of Securities



Outstanding under this Indenture shall, by Act of such Holders, either waive such compliance in such instance or generally waive compliance with such term, provision or condition; but, in the case of (a) or (b), no such waiver shall extend to or affect such term, provision or condition except to the extent so expressly waived, and, until such waiver shall become effective, the obligations of the Company and the duties of the Trustee in respect of any such term, provision or condition shall remain in full force and effect; provided, however, that so long as a Trust holds Securities of any series, such Trust may not waive compliance or waive any default in compliance by the Company with any covenant or other term contained in this Indenture or the Securities of such series without the approval of the holders of at least a majority in aggregate liquidation preference of the outstanding Preferred Securities issued by such Trust affected, obtained as provided in the Trust Agreement pertaining to such Trust.

#### SECTION 608. RESTRICTION ON PAYMENT OF DIVIDENDS.

So long as any Preferred Securities of any series remain outstanding, the Company shall not declare or pay any dividend on, or redeem, purchase, acquire or make a liquidation payment with respect to, any of the Company's capital stock, or make any guarantee payments with respect to the foregoing (other than payments under the Guarantee relating to such Preferred Securities) if at such time (a) the Company shall be in default with respect to its payment or other obligations under the Guarantee relating to such Preferred Securities, (b) there shall have occurred and be continuing a payment default (whether before or after expiration of any period of grace) or an Event of Default hereunder or (c) the Company shall have elected to extend any interest payment period as provided in Section 311, and any such period, or any extension thereof, shall be continuing.

#### SECTION 609. MAINTENANCE OF TRUST EXISTENCE.

So long as Preferred Securities of any series remain outstanding, the Company shall (i) maintain direct or indirect ownership of all interests in the Trust which issued such Preferred Securities, other than such Preferred Securities, (ii) not voluntarily (to the extent permitted by law) dissolve, liquidate or wind up such Trust, except in connection with a distribution of the Securities to the holders of the Preferred Securities in liquidation of such Trust, (iii) remain the sole Depositor under the Trust Agreement (the "Depositor") of such Trust and timely perform in all material respects all of its duties as Depositor of such Trust, and (iv) use reasonable efforts to cause such Trust to remain a business trust and otherwise continue to be treated as a grantor trust for Federal income tax purposes provided that any permitted successor to the Company under this Indenture may succeed to the Company's duties as Depositor of such Trust; and provided further that the Company may permit such Trust to consolidate or merge with or into another business trust or other permitted successor under the Trust Agreement pertaining to such Trust so long as the Company agrees to comply with this Section 609 with respect to such successor business trust or other permitted successor.

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### ARTICLE SEVEN

#### Satisfaction and Discharge

#### SECTION 701. DEFEASANCE.

Any Security or Securities, or any portion of the principal amount thereof, shall be deemed to have been paid for all purposes of this Indenture, and the entire indebtedness of the Company in respect thereof shall be deemed to have been satisfied and discharged, if there shall have been irrevocably deposited with the Trustee or any Paying Agent (other than the Company), in

trust:

(a) money in an amount which shall be sufficient, or

(b) in the case of a deposit made prior to the Maturity of such Securities or portions thereof, Government Obligations, which shall not contain provisions permitting the redemption or other prepayment thereof at the option of the issuer thereof, the principal of and the interest on which when due, without any regard to reinvestment thereof, will provide moneys which, together with the money, if any, deposited with or held by the Trustee or such Paying Agent, shall be sufficient, or

(c) a combination of (a) or (b) which shall be sufficient,

to pay when due the principal of and premium, if any, and interest, if any, due and to become due on such Securities or portions thereof on or prior to Maturity; provided, however, that in the case of the provision for payment or redemption of less than all the Securities of any series, such Securities or portions thereof shall have been selected by the Trustee as provided herein and, in the case of a redemption, the notice requisite to the validity of such redemption shall have been given or irrevocable authority shall have been given by the Company to the Trustee to give such notice, under arrangements satisfactory to the Trustee; and provided, further, that the Company shall have delivered to the Trustee and such Paying Agent:

(i) if such deposit shall have been made prior to the Maturity of such Securities, a Company Order stating that the money and Government Obligations deposited in accordance with this Section shall be held in trust, as provided in Section 703; and

(ii) if Government Obligations shall have been deposited, an Opinion of Counsel that the obligations so deposited constitute Government Obligations and do not contain provisions permitting the redemption or other prepayment at the option of the issuer thereof, and an opinion of an independent public accountant of nationally recognized standing, selected by the Company, to the effect that the requirements set forth in clause (b) above have been satisfied; and

(iii) An Opinion of Counsel to the effect that the Holders of such Securities will not recognize income, gain or loss for federal income tax purposes as a result of the satisfaction and discharge of the Company's indebtedness in respect of such Securities, and such Holders will be subject to federal income taxation on the same amounts and in the same manner and at the same times as if such satisfaction and discharge had occurred.

Upon the deposit of money or Government Obligations, or both, in accordance with this Section, together with the documents required by clauses (i), (ii) and (iii) above, the Trustee shall, upon receipt of a Company Request, acknowledge in writing that the Security or Securities or portions thereof with respect to

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which such deposit was made are deemed to have been paid for all purposes of this Indenture and that the entire indebtedness of the Company in respect thereof has been satisfied and discharged as contemplated in this Section. In the event that all of the conditions set forth in the preceding paragraph shall have been satisfied in respect of any Securities or portions thereof except that, for any reason, the Opinion of Counsel specified in clause (iii) shall not have been delivered, such Securities or portions thereof shall nevertheless be deemed to have been paid for all purposes of this Indenture, and the Holders of such Securities or portions thereof shall nevertheless be no longer entitled to

the benefits of this Indenture or of any of the covenants of the Company under Article Six (except the covenants contained in Sections 602 and 603) or any other covenants made in respect of such Securities or portions thereof as contemplated by Section 301, but the indebtedness of the Company in respect of such Securities or portions thereof shall not be deemed to have been satisfied and discharged prior to Maturity for any other purpose, and the Holders of such Securities or portions thereof shall continue to be entitled to look to the Company for payment of the indebtedness represented thereby; and, upon Company Request, the Trustee shall acknowledge in writing that such Securities or portions thereof are deemed to have been paid for all purposes of this Indenture.

If payment at Stated Maturity of less than all of the Securities of any series is to be provided for in the manner and with the effect provided in this Section, the Security Registrar shall select such Securities, or portions of principal amount thereof, in the manner specified by Section 403 for selection for redemption of less than all the Securities of a series.

In the event that Securities which shall be deemed to have been paid for purposes of this Indenture, and, if such is the case, in respect of which the Company's indebtedness shall have been satisfied and discharged, all as provided in this Section do not mature and are not to be redeemed within the 60-day period commencing with the date of the deposit of moneys or Government Obligations, as aforesaid, the Company shall, as promptly as practicable, give a notice, in the same manner as a notice of redemption with respect to such Securities, to the Holders of such Securities to the effect that such deposit has been made and the effect thereof.

Notwithstanding that any Securities shall be deemed to have been paid for purposes of this Indenture, as aforesaid, the obligations of the Company and the Trustee in respect of such Securities under Sections 304, 305, 306, 312, 404, 503 (as to notice of redemption), 602, 603, 907 and 915 and this Article Seven shall survive.

The Company shall pay, and shall indemnify the Trustee or any Paying Agent with which Government Obligations shall have been deposited as provided in this Section against, any tax, fee or other charge imposed on or assessed against such Government Obligations or the principal or interest received in respect of such Government Obligations, including, but not limited to, any such tax payable by any entity deemed, for tax purposes, to have been created as a result of such deposit.

Anything herein to the contrary notwithstanding, (a) if, at any time after a Security would be deemed to have been paid for purposes of this Indenture, and, if such is the case, the Company's indebtedness in respect thereof would be deemed to have been satisfied or discharged, pursuant to this Section (without regard to the provisions of this paragraph), the Trustee or any Paying Agent, as the case may be, shall be required to return the money or Government Obligations, or combination thereof, deposited with it as aforesaid to the Company or its representative under any applicable Federal or State bankruptcy, insolvency or other similar law, such Security shall thereupon be deemed retroactively not to have been paid and any satisfaction and discharge of the Company's indebtedness in respect thereof shall retroactively be deemed not to have been effected, and such Security shall be deemed to remain Outstanding and (b) any satisfaction and discharge of the Company's indebtedness in respect of any Security shall be subject to the provisions of the last paragraph of Section 603.

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#### SECTION 702. SATISFACTION AND DISCHARGE OF INDENTURE.

This Indenture shall upon Company Request cease to be of further effect

(except as hereinafter expressly provided), and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when

(a) no Securities remain Outstanding hereunder; and

(b) the Company has paid or caused to be paid all other sums payable hereunder by the Company;

provided, however, that if, in accordance with the last paragraph of Section 701, any Security, previously deemed to have been paid for purposes of this Indenture, shall be deemed retroactively not to have been so paid, this Indenture shall thereupon be deemed retroactively not to have been satisfied and discharged, as aforesaid, and to remain in full force and effect, and the Company shall execute and deliver such instruments as the Trustee shall reasonably request to evidence and acknowledge the same.

Notwithstanding the satisfaction and discharge of this Indenture as aforesaid, the obligations of the Company and the Trustee under Sections 304, 305, 306, 312, 404, 503 (as to notice of redemption), 602, 603, 907 and 915 and this Article Seven shall survive.

Upon satisfaction and discharge of this Indenture as provided in this Section, the Trustee shall assign, transfer and turn over to the Company, subject to the lien provided by Section 907, any and all money, securities and other property then held by the Trustee for the benefit of the Holders of the Securities other than money and Government Obligations held by the Trustee pursuant to Section 703.

#### SECTION 703. APPLICATION OF TRUST MONEY.

Neither the Government Obligations nor the money deposited pursuant to Section 701, nor the principal or interest payments on any such Government Obligations, shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal of and premium, if any, and interest, if any, on the Securities or portions of principal amount thereof in respect of which such deposit was made, all subject, however, to the provisions of Section 603; provided, however, that, so long as there shall not have occurred and be continuing an Event of Default any cash received from such principal or interest payments on such Government Obligations, if not then needed for such purpose, shall, to the extent practicable, be invested in Government Obligations of the type described in clause (b) in the first paragraph of Section 701 maturing at such times and in such amounts as shall be sufficient to pay when due the principal of and premium, if any, and interest, if any, due and to become due on such Securities or portions thereof on and prior to the Maturity thereof, and interest earned from such reinvestment shall be paid over to the Company as received, free and clear of any trust, lien or pledge under this Indenture except the lien provided by Section 907; and provided, further, that, so long as there shall not have occurred and be continuing an Event of Default, any moneys held in accordance with this Section on the Maturity of all such Securities in excess of the amount required to pay the principal of and premium, if any, and interest, if any, then due on such Securities shall be paid over to the Company free and clear of any trust, lien or pledge under this Indenture except the lien provided by Section 907; and provided, further, that if an Event of Default shall have occurred and be continuing, moneys to be paid over to the Company pursuant to this Section shall be held until such Event of Default shall have been waived or cured.

#### ARTICLE EIGHT

##### Events of Default; Remedies

SECTION 801. EVENTS OF DEFAULT.

"Event of Default", wherever used herein with respect to Securities of any series, means any one of the following events:

(a) failure to pay interest, if any, on any Security of such series within 30 days after the same becomes due and payable (whether or not payment is prohibited by the provisions of Article Fifteen hereof); provided, however, that a valid extension of the interest payment period by the Company as contemplated in Section 311 of this Indenture shall not constitute a failure to pay interest for this purpose; or

(b) failure to pay the principal of or premium, if any, on any Security of such series at its Maturity (whether or not payment is prohibited by the provisions of Article Fifteen hereof); or

(c) failure to perform or breach of any covenant or warranty of the Company in this Indenture (other than a covenant or warranty a default in the performance of which or breach of which is elsewhere in this Section specifically dealt with or which has expressly been included in this Indenture solely for the benefit of one or more series of Securities other than such series) for a period of 60 days after there has been given, by registered or certified mail, to the Company by the Trustee, or to the Company and the Trustee by the Holders of at least 10% in principal amount of the Outstanding Securities of such series, a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder, unless the Trustee, or the Trustee and the Holders of a principal amount of Securities of such series not less than the principal amount of Securities the Holders of which gave such notice, as the case may be, shall agree in writing to an extension of such period prior to its expiration; provided, however, that the Trustee, or the Trustee and the Holders of such principal amount of Securities of such series, as the case may be, shall be deemed to have agreed to an extension of such period if corrective action is initiated by the Company within such period and is being diligently pursued; or

(d) the entry by a court having jurisdiction in the premises of (1) a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or (2) a decree or order adjudging the Company a bankrupt or insolvent, or approving as properly filed a petition by one or more Persons other than the Company seeking reorganization, arrangement, adjustment or composition of or in respect of the Company under any applicable Federal or State law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official for the Company or for any substantial part of its property, or ordering the winding up or liquidation of its affairs, and any such decree or order for relief or any such other decree or order shall have remained unstayed and in effect for a period of 90 consecutive days; or

(e) the commencement by the Company of a voluntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by it to the entry of a decree or order for relief in respect of the Company in a case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under any applicable Federal or State law, or the consent by it to the filing of such petition

or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or similar official of the Company or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the authorization of such action by the Board of Directors; or

(f) any other Event of Default specified with respect to Securities of such series.

#### SECTION 802. ACCELERATION OF MATURITY; RESCISSION AND ANNULMENT.

If an Event of Default due to the default in payment of principal of, or interest on, any series of Securities or due to the default in the performance or breach of any other covenant or warranty of the Company applicable to the Securities of such series but not applicable to all outstanding Securities shall have occurred and be continuing, either the Trustee or the Holders of not less than 25% in principal amount of the Securities of such series may then declare the principal of all Securities of such series and interest accrued thereon to be due and payable immediately; provided, however, that, in the case of the Securities of a series issued to a Trust, if, upon an Event of Default, the Trustee or the Holders of not less than 25% in principal amount of the Outstanding Securities of that series fail to declare the principal of all the Securities of that series to be immediately due and payable, the holders of at least 25% in aggregate liquidation amount of the corresponding series of Preferred Securities then outstanding shall have such right by a notice in writing to the Company and the Trustee; and upon any such declaration such principal amount (or specified amount) of and the accrued interest on all the Securities of such series shall become immediately due and payable (provided that the payment of principal and interest on such Securities shall remain subordinated to the extent provided in Article Fifteen hereof). If an Event of Default due to default in the performance of any other of the covenants or agreements herein applicable to all Outstanding Securities or an Event of Default specified in Section 801(d) or (e) shall have occurred and be continuing, either the Trustee or the Holders of not less than 25% in principal amount of all Securities then Outstanding (considered as one class), and not the Holders of the Securities of any one of such series, may declare the principal of all Securities and interest accrued thereon to be due and payable immediately and upon any such declaration such principal amount (or specified amount) of and the accrued interest on all the Securities of such series shall become immediately due and payable (provided that the payment of principal and interest on such Securities shall remain subordinated to the extent provided in Article Fifteen hereof).

At any time after such a declaration of acceleration with respect to Securities of any series shall have been made and before a judgment or decree for payment of the money due shall have been obtained by the Trustee as hereinafter in this Article provided, the Event or Events of Default giving rise to such declaration of acceleration shall, without further act, be deemed to have been waived, and such declaration and its consequences shall, without further act, be deemed to have been rescinded and annulled, if

(a) the Company shall have paid or deposited with the Trustee a sum sufficient to pay

(i) all overdue interest on all Securities of such series;

(ii) the principal of and premium, if any, on any Securities of such series which have become due otherwise than by such declaration of acceleration and interest thereon at the rate or rates prescribed therefor in such Securities;

(iii) to the extent that payment of such interest is lawful,

interest upon overdue interest, if any, at the rate or rates prescribed therefor in such Securities;

(iv) all amounts due to the Trustee under Section 907;

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and

(b) any other Event or Events of Default with respect to Securities of such series, other than the nonpayment of the principal of Securities of such series which shall have become due solely by such declaration of acceleration, shall have been cured or waived as provided in Section 813.

No such rescission shall affect any subsequent Event of Default or impair any right consequent thereon.

#### SECTION 803. COLLECTION OF INDEBTEDNESS AND SUITS FOR ENFORCEMENT BY TRUSTEE.

If an Event of Default described in clause (a) or (b) of Section 801 shall have occurred and be continuing, the Company shall, upon demand of the Trustee, pay to it, for the benefit of the Holders of the Securities of the series with respect to which such Event of Default shall have occurred, the whole amount then due and payable on such Securities for principal and premium, if any, and interest, if any, and, to the extent permitted by law, interest on premium, if any, and on any overdue principal and interest, at the rate or rates prescribed therefor in such Securities, and, in addition thereto, such further amount as shall be sufficient to cover any amounts due to the Trustee under Section 907.

If the Company shall fail to pay such amounts forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, may institute a judicial proceeding for the collection of the sums so due and unpaid, may prosecute such proceeding to judgment or final decree and may enforce the same against the Company or any other obligor upon such Securities and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of the Company or any other obligor upon such Securities, wherever situated.

If an Event of Default with respect to Securities of any series shall have occurred and be continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders of Securities of such series by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

#### SECTION 804. TRUSTEE MAY FILE PROOFS OF CLAIM.

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Company or any other obligor upon the Securities or the property of the Company or of such other obligor or their creditors, the Trustee (irrespective of whether the principal of the Securities shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Company for the payment of overdue principal or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise,

(a) to file and prove a claim for the whole amount of principal, premium, if any, and interest, if any, owing and unpaid in respect of the Securities and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for



amounts due to the Trustee under Section 907) and of the Holders allowed in such judicial proceeding, and

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(b) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amounts due it under Section 907.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

SECTION 805. TRUSTEE MAY ENFORCE CLAIMS WITHOUT POSSESSION OF SECURITIES.

All rights of action and claims under this Indenture or the Securities may be prosecuted and enforced by the Trustee without the possession of any of the Securities or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders in respect of which such judgment has been recovered.

SECTION 806. APPLICATION OF MONEY COLLECTED.

Subject to the provisions of Article Fifteen, any money collected by the Trustee pursuant to this Article shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal or premium, if any, or interest, if any, upon presentation of the Securities in respect of which or for the benefit of which such money shall have been collected and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

FIRST: To the payment of all amounts due the Trustee under Section 907;

SECOND: To the payment of the amounts then due and unpaid upon the Securities for principal of and premium, if any, and interest, if any, in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Securities for principal, premium, if any, and interest, if any, respectively; and

THIRD: To the payment of the remainder, if any, to the Company or to whomsoever may be lawfully entitled to receive the same or as a court of competent jurisdiction may direct.

SECTION 807. LIMITATION ON SUITS.

No Holder shall have any right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless:

(a) such Holder shall have previously given written notice to the Trustee of a continuing Event of Default with respect to the Securities of



(b) the Holders of not less than a majority in aggregate principal amount of the Outstanding Securities of all series in respect of which an Event of Default shall have occurred and be continuing, considered as one class, shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

(c) such Holder or Holders shall have offered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;

(d) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity shall have failed to institute any such proceeding; and

(e) no direction inconsistent with such written request shall have been given to the Trustee during such 60-day period by the Holders of a majority in aggregate principal amount of the Outstanding Securities of all series in respect of which an Event of Default shall have occurred and be continuing, considered as one class;

it being understood and intended that no one or more of such Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other of such Holders or to obtain or to seek to obtain priority or preference over any other of such Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all of such Holders.

SECTION 808. UNCONDITIONAL RIGHT OF HOLDERS TO RECEIVE PRINCIPAL, Premium and Interest.

Notwithstanding any other provision in this Indenture, the Holder of any Security shall have the right, which is absolute and unconditional, to receive payment of the principal of and premium, if any, and (subject to Section 307 and 311) interest, if any, on such Security on the Stated Maturity or Maturities expressed in such Security (or, in the case of redemption, on the Redemption Date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder. Any holder of related Preferred Securities shall have the right to institute suit for the enforcement of any such payment to such holder with respect to Securities relating to such Preferred Securities having a principal amount equal to the aggregate liquidation preference amount of the related Preferred Securities held by such holder.

SECTION 809. RESTORATION OF RIGHTS AND REMEDIES.

If the Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee or to such Holder, then and in every such case, subject to any determination in such proceeding, the Company, and Trustee and such Holder shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and such Holder shall continue as though no such proceeding had been instituted.

SECTION 810. RIGHTS AND REMEDIES CUMULATIVE.

Except as otherwise provided in the last paragraph of Section 306, no right or remedy herein conferred upon or reserved to the Trustee or to the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

SECTION 811. DELAY OR OMISSION NOT WAIVER.

No delay or omission of the Trustee or of any Holder to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders, as the case may be.

SECTION 812. CONTROL BY HOLDERS OF SECURITIES.

If an Event of Default shall have occurred and be continuing in respect of a series of Securities, the Holders of a majority in principal amount of the Outstanding Securities of such series shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, with respect to the Securities of such series; provided, however, that if an Event of Default shall have occurred and be continuing with respect to more than one series of Securities, the Holders of a majority in aggregate principal amount of the Outstanding Securities of all such series, considered as one class, shall have the right to make such direction, and not the Holders of the Securities of any one of such series; and provided, further, that such direction shall not be in conflict with any rule of law or with this Indenture. The Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction. Before proceeding to exercise any right or power hereunder at the direction of such Holders, the Trustee shall be entitled to receive from such Holders reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with any such direction.

SECTION 813. WAIVER OF PAST DEFAULTS.

The Holders of not less than a majority in principal amount of the Outstanding Securities of any series may on behalf of the Holders of all the Securities of such series waive any past default hereunder with respect to such series and its consequences, except a default:

(a) in the payment of the principal of or premium, if any, or interest, if any, on any Security of such series, or

(b) in respect of a covenant or provision hereof which under Section 1202 cannot be modified or amended without the consent of the Holder of each Outstanding Security of such series affected;

provided, however, that so long as a Trust holds the Securities of any series, such Trust may not waive any past default without the consent of at least a majority in aggregate liquidation preference of the outstanding Preferred Securities issued by such Trust affected, obtained as provided in the Trust Agreement pertaining to such Trust.

Upon any such waiver, such default shall cease to exist, and any and all Events of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

SECTION 814. UNDERTAKING FOR COSTS.

The Company and the Trustee agree, and each Holder by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken, suffered or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; provided, however, that the provisions of this Section shall not apply to any suit instituted by the Company, to any suit instituted by the Trustee, to any suit instituted by any Holder, or group of Holders, holding in the aggregate more than 10% in aggregate principal amount of the Outstanding Securities of all series in respect of which such suit may be brought, considered as one class, or to any suit instituted by any Holder for the enforcement of the payment of the principal of or premium, if any, or interest, if any, on any Security on or after the Stated Maturity or Maturities expressed in such Security (or, in the case of redemption, on or after the Redemption Date).

SECTION 815. WAIVER OF STAY OR EXTENSION LAWS.

The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE NINE

The Trustee

SECTION 901. CERTAIN DUTIES AND RESPONSIBILITIES.

(a) Except during the continuance of an Event of Default,

(i) the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(ii) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; provided, however, that, in the case of any such certificates or opinions which by any provisions hereof are specifically

required to be furnished to the Trustee, the Trustee shall be under a

duty to examine the same to determine whether or not they conform to the requirements of this Indenture.

(b) In case an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

(c) No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct except that

(i) this Subsection shall not be construed to limit the effect of Subsection (a) of this Section;

(ii) the Trustee shall not be liable for any error or judgment made in good faith by a Responsible Officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts; and

(iii) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of Holders pursuant to Section 812 relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture with respect to the Securities of such series.

(d) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(e) Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section.

#### SECTION 902. NOTICE OF DEFAULTS.

The Trustee shall give notice of any default hereunder with respect to the Securities of any series to the Holders of Securities of such series in the manner and to the extent required to do so by the Trust Indenture Act, unless such default shall have been cured or waived; provided, however, that in the case of any default of the character specified in Section 801(c), no such notice to Holders shall be given until at least 45 days after the occurrence thereof. For the purpose of this Section, the term "default" means any event which is, or after notice or lapse of time, or both, would become, an Event of Default.

#### SECTION 903. CERTAIN RIGHTS OF TRUSTEE.

Subject to the provisions of Section 901 and to the applicable provisions of the Trust Indenture Act:

(a) the Trustee may rely and shall be protected in acting or refraining from acting in good faith upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent,

order, bond, debenture, note, other evidence of indebtedness or other paper or document reasonably believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) any request or direction of the Company mentioned herein shall be sufficiently evidenced by a Company Request or Company Order, or as otherwise expressly provided herein, and any resolution of the Board of Directors may be sufficiently evidenced by a Board Resolution;

(c) whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officer's Certificate;

(d) the Trustee may consult with counsel and the advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(e) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any Holder pursuant to this Indenture, unless such Holder shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(f) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall (subject to applicable legal requirements) be entitled to examine, during normal business hours, the books, records and premises of the Company, personally or by agent or attorney;

(g) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder; and

(h) the Trustee shall not be charged with knowledge of any default or Event of Default, as the case may be, with respect to the Securities of any series for which it is acting as Trustee unless either (i) a Responsible Officer of the Trustee shall have actual knowledge of the default or Event of Default, as the case may be, or (ii) written notice of such default or Event of Default, as the case may be, shall have been given to the Trustee by the Company, any other obligor on such Securities or by any Holder of such Securities.

#### SECTION 904. NOT RESPONSIBLE FOR RECITALS OR ISSUANCE OF SECURITIES.

The recitals contained herein and in the Securities (except the Trustee's certificates of authentication) shall be taken as the statements of the Company, and neither the Trustee nor any Authenticating Agent assumes responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Securities. Neither the Trustee nor any Authenticating Agent shall be accountable for the use or application by the Company of Securities or the proceeds thereof.

SECTION 905. MAY HOLD SECURITIES.

Each of the Trustee, any Authenticating Agent, any Paying Agent, any Security Registrar or any other agent of the Company, in its individual or any other capacity, may become the owner or pledgee of Securities and (subject to Sections 908 and 913) may otherwise deal with the Company with the same rights it would have if it were not the Trustee, Authenticating Agent, Paying Agent, Security Registrar or such other agent.

SECTION 906. MONEY HELD IN TRUST.

Money held by the Trustee in trust hereunder need not be segregated from other funds, except to the extent required by law. The Trustee shall be under no liability for interest on any money received by it hereunder except as expressly provided herein or otherwise agreed with, and for the sole benefit of, the Company.

SECTION 907. COMPENSATION AND REIMBURSEMENT.

The Company shall

(a) pay to the Trustee from time to time reasonable compensation for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(b) except as otherwise expressly provided herein, reimburse the Trustee upon its request for all reasonable expenses (including any costs of collection), disbursements and advances reasonably incurred or made by the Trustee in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except to the extent that any such expense, disbursement or advance may be attributable to the Trustee's negligence, wilful misconduct or bad faith; and

(c) indemnify the Trustee for, and hold it harmless from and against, any and all losses, liabilities, demands, claims, causes of action or expenses (including reasonable attorneys' fees and expenses) incurred by it arising out of or in connection with the acceptance or administration of the trust or trusts hereunder or the performance of its duties hereunder, including the reasonable costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder, except to the extent any such loss, liability, demand, claim, cause of action or expense may be attributable to its negligence, wilful misconduct or bad faith. At the option of the Trustee, the Company shall assume the defense of the Trustee with counsel acceptable to the Trustee.

As security for the performance of the obligations of the Company under this Section, the Trustee shall have a lien prior to the Securities upon all property and funds held or collected by the Trustee as such other than property and funds held in trust under Section 703 (except as otherwise provided in Section 703). "Trustee" for purposes of this Section shall include any predecessor Trustee; provided, however, that the negligence, wilful misconduct or bad faith of any Trustee hereunder shall not affect the rights of any other Trustee hereunder.

In addition to the rights provided to the Trustee pursuant to the provisions of the immediately preceding paragraph of this Section 907, when the Trustee incurs expenses or renders services in connection with an Event of

Default specified in Section 801(d) or Section 801(e), the expenses (including the reasonable charges and expenses of its counsel) and the compensation for the services are intended to constitute expenses of administration under any applicable Federal or State bankruptcy, insolvency or other similar law.

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The provisions of this Section 907 shall survive the termination for any reason of this Indenture.

SECTION 908. DISQUALIFICATION; CONFLICTING INTERESTS.

If the Trustee shall have or acquire any conflicting interest within the meaning of the Trust Indenture Act, it shall either eliminate such conflicting interest or resign to the extent, in the manner and with the effect, and subject to the conditions, provided in the Trust Indenture Act and this Indenture. For purposes of Section 310(b)(1) of the Trust Indenture Act and to the extent permitted thereby, the Trustee, in its capacity as trustee in respect of the Securities of any series, shall not be deemed to have a conflicting interest arising from its capacity as trustee in respect of the Securities of any other series, under any Guarantee, or as trustee under the Junior Subordinated Indenture dated as of October 1, 1996, the Amended and Restated Trust Agreement dated as of October 1, 1996 and the Guarantee Agreement dated as of October 1, 1996, relating to the Company's 8.25% Junior Subordinated Deferrable Interest Debentures. Each Trust Agreement and each Guarantee pertaining to each Trust shall be deemed to be specifically described in this Indenture for the purposes of clause (i) of the first proviso contained in Section 310(b) of the Trust Indenture Act.

SECTION 909. CORPORATE TRUSTEE REQUIRED; ELIGIBILITY.

There shall at all times be a Trustee hereunder which shall be

(a) a corporation organized and doing business or other Person permitted by the Commission authorized under the laws of the United States, any State or Territory thereof or the District of Columbia, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$50,000,000 and subject to supervision or examination by Federal or State authority, or

(b) if and to the extent permitted by the Commission by rule, regulation or order upon application, a corporation or other Person organized and doing business under the laws of a foreign government, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$50,000,000 or the Dollar equivalent of the applicable foreign currency and subject to supervision or examination by authority of such foreign government or a political subdivision thereof substantially equivalent to supervision or examination applicable to United States institutional trustees,

and, in either case, qualified and eligible under this Article and the Trust Indenture Act. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of such supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

SECTION 910. RESIGNATION AND REMOVAL; APPOINTMENT OF SUCCESSOR.

(a) No resignation or removal of the Trustee and no appointment of a



successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee in accordance with the applicable requirements of Section 911.

(b) The Trustee may resign at any time with respect to the Securities of one or more series by giving written notice thereof to the Company. If the instrument of acceptance by a successor Trustee

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required by Section 911 shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.

(c) The Trustee may be removed at any time with respect to the Securities of any series by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series delivered to the Trustee and to the Company; provided, however, that so long as any Preferred Securities remain outstanding, the Trust which issued such Preferred Securities shall not execute any Act to remove the Trustee without the consent of the holders of a majority in aggregate liquidation preference of Preferred Securities issued by such Trust outstanding, obtained as provided in the Trust Agreement pertaining to such Trust.

(d) If at any time:

(i) the Trustee shall fail to comply with Section 908 after written request therefor by the Company or by any Holder who has been a bona fide Holder for at least six months, or

(ii) the Trustee shall cease to be eligible under Section 909 and shall fail to resign after written request therefor by the Company or by any such Holder, or

(iii) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (x) the Company by a Board Resolution may remove the Trustee with respect to all Securities or (y) subject to Section 814, any Holder who has been a bona fide Holder for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee with respect to all Securities and the appointment of a successor Trustee or Trustees.

(e) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause (other than as contemplated in clause (y) in subsection (d) of this Section), with respect to the Securities of one or more series, the Company, by a Board Resolution, shall promptly appoint a successor Trustee or Trustees with respect to the Securities of that or those series (it being understood that any such successor Trustee may be appointed with respect to the Securities of one or more or all of such series and that at any time there shall be only one Trustee with respect to the Securities of any particular series) and shall comply with the applicable requirements of Section 911. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee with respect to the Securities of any series shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series delivered to the Company and the retiring Trustee, the successor Trustee so appointed shall, forthwith



upon its acceptance of such appointment in accordance with the applicable requirements of Section 911, become the successor Trustee with respect to the Securities of such series and to that extent supersede the successor Trustee appointed by the Company. If no successor Trustee with respect to the Securities of any series shall have been so appointed by the Company or the Holders and accepted appointment in the manner required by Section 911, any Holder who has been a bona fide Holder of a Security of such series for at least six months may, on behalf of itself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.

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(f) So long as no event which is, or after notice or lapse of time, or both, would become, an Event of Default shall have occurred and be continuing, and except with respect to a Trustee appointed by Act of the Holders of a majority in principal amount of the Outstanding Securities pursuant to subsection (e) of this Section, if the Company shall have delivered to the Trustee (i) a Board Resolution appointing a successor Trustee, effective as of a date specified therein, and (ii) an instrument of acceptance of such appointment, effective as of such date, by such successor Trustee in accordance with Section 911, the Trustee shall be deemed to have resigned as contemplated in subsection (b) of this Section, the successor Trustee shall be deemed to have been appointed by the Company pursuant to subsection (e) of this Section and such appointment shall be deemed to have been accepted as contemplated in Section 911, all as of such date, and all other provisions of this Section and Section 911 shall be applicable to such resignation, appointment and acceptance except to the extent inconsistent with this subsection (f).

(g) The Company (or, should the Company fail so to act promptly, the successor Trustee at the expense of the Company) shall give notice of each resignation and each removal of the Trustee with respect to the Securities of any series and each appointment of a successor Trustee with respect to the Securities of any series by mailing written notice of such event by first-class mail, postage prepaid, to all Holders of Securities of such series as their names and addresses appear in the Security Register. Each notice shall include the name of the successor Trustee with respect to the Securities of such series and the address of its corporate trust office.

#### SECTION 911. ACCEPTANCE OF APPOINTMENT BY SUCCESSOR.

(a) In case of the appointment hereunder of a successor Trustee with respect to the Securities of all series, every such successor Trustee so appointed shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; provided, however that on the request of the Company or the successor Trustee, such retiring Trustee shall, upon payment of all sums owed to it, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder.

(b) In case of the appointment hereunder of a successor Trustee with respect to the Securities of one or more (but not all) series, the Company, the retiring Trustee and each successor Trustee with respect to the Securities of one or more series shall execute and deliver an indenture supplemental hereto wherein each successor Trustee shall accept such appointment and which (i) shall contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, each successor

Trustee all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates, (ii) if the retiring Trustee is not retiring with respect to all Securities, shall contain such provisions as shall be deemed necessary or desirable to confirm that all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series as to which the retiring Trustee is not retiring shall continue to be vested in the retiring Trustee and (iii) shall add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, it being understood that nothing herein or in such supplemental indenture shall constitute such Trustees co-trustees of the same trust and that each such Trustee shall be trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered by any other such Trustee; and upon the execution and delivery of such supplemental indenture the resignation or removal of the retiring Trustee shall become effective to the extent provided therein and

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each such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates; provided, however that on request of the Company or any successor Trustee, such retiring Trustee, upon payment of all sums owed to it, shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder with respect to the Securities of that or those series to which the appointment of such successor Trustee relates.

(c) Upon request of any such successor Trustee, the Company shall execute any instruments which fully vest in and confirm to such successor Trustee all such rights, powers and trusts referred to in subsection (a) or (b) of this Section, as the case may be.

(d) No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article.

#### SECTION 912. MERGER, CONVERSION, CONSOLIDATION OR SUCCESSION TO BUSINESS.

Any corporation or other Person into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation or other Person resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation or other Person succeeding to all or substantially all the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation or other Person shall be otherwise qualified and eligible under this Article, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Securities shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Securities so authenticated with the same effect as if such successor Trustee had itself authenticated such Securities.

#### SECTION 913. PREFERENTIAL COLLECTION OF CLAIMS AGAINST COMPANY.

If the Trustee shall be or become a creditor of the Company or any other obligor upon the Securities (other than by reason of a relationship described in Section 311(b) of the Trust Indenture Act), the Trustee shall be subject to any and all applicable provisions of the Trust Indenture Act regarding the collection of claims against the Company or such other obligor. For purposes of Section 311(b) of the Trust Indenture Act:

(a) the term "cash transaction" means any transaction in which full payment for goods or securities sold is made within seven days after delivery of the goods or securities in currency or in checks or other orders drawn upon banks or bankers and payable upon demand;

(b) the term "self-liquidating paper" means any draft, bill of exchange, acceptance or obligation which is made, drawn, negotiated or incurred by the Company for the purpose of financing the purchase, processing, manufacturing, shipment, storage or sale of goods, wares or merchandise and which is secured by documents evidencing title to, possession of, or a lien upon, the goods, wares or merchandise or the receivables or proceeds arising from the sale of the goods, wares or merchandise previously constituting the security, provided the security is received by the Trustee simultaneously with the creation of the creditor relationship with the Company arising from the making, drawing, negotiating or incurring of the draft, bill of exchange, acceptance or obligation.

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#### SECTION 914. CO-TRUSTEES AND SEPARATE TRUSTEES.

At any time or times, for the purpose of meeting the legal requirements of any applicable jurisdiction, the Company and the Trustee shall have power to appoint, and, upon the written request of the Trustee or of the Holders of at least 25% in principal amount of the Securities then Outstanding, the Company shall for such purpose join with the Trustee in the execution and delivery of all instruments and agreements necessary or proper to appoint, one or more Persons approved by the Trustee either to act as co-trustee, jointly with the Trustee, or to act as separate trustee, in either case with such powers as may be provided in the instrument of appointment, and to vest in such Person or Persons, in the capacity aforesaid, any property, title, right or power deemed necessary or desirable, subject to the other provisions of this Section. If the Company does not join in such appointment within 15 days after the receipt by it of a request so to do, or if an Event of Default shall have occurred and be continuing, the Trustee alone shall have power to make such appointment.

Should any written instrument or instruments from the Company be required by any co-trustee or separate trustee so appointed to more fully confirm to such co-trustee or separate trustee such property, title, right or power, any and all such instruments shall, on request, be executed, acknowledged and delivered by the Company.

Every co-trustee or separate trustee shall, to the extent permitted by law, but to such extent only, be appointed subject to the following conditions:

(a) the Securities shall be authenticated and delivered, and all rights, powers, duties and obligations hereunder in respect of the custody of securities, cash and other personal property held by, or required to be deposited or pledged with, the Trustee hereunder, shall be exercised solely, by the Trustee;

(b) the rights, powers, duties and obligations hereby conferred or imposed upon the Trustee in respect of any property covered by such appointment shall be conferred or imposed upon and exercised or performed either by the Trustee or by the Trustee and such co-trustee or separate trustee jointly, as shall be provided in the instrument appointing such co-trustee or separate trustee, except to the extent that under any law of any jurisdiction in which any particular act is to be performed, the Trustee shall be incompetent or unqualified to perform such act, in which event such rights, powers, duties and obligations shall be exercised and performed by such co-trustee or separate trustee;

(c) the Trustee at any time, by an instrument in writing executed by it, with the concurrence of the Company, may accept the resignation of or remove any co-trustee or separate trustee appointed under this Section, and, if an Event of Default shall have occurred and be continuing, the Trustee shall have power to accept the resignation of, or remove, any such co-trustee or separate trustee without the concurrence of the Company. Upon the written request of the Trustee, the Company shall join with the Trustee in the execution and delivery of all instruments and agreements necessary or proper to effectuate such resignation or removal. A successor to any co-trustee or separate trustee so resigned or removed may be appointed in the manner provided in this Section;

(d) no co-trustee or separate trustee hereunder shall be personally liable by reason of any act or omission of the Trustee, or any other such trustee hereunder; and

(e) any Act of Holders delivered to the Trustee shall be deemed to have been delivered to each such co-trustee and separate trustee.

#### SECTION 915. APPOINTMENT OF AUTHENTICATING AGENT.

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The Trustee may appoint an Authenticating Agent or Agents with respect to the Securities of one or more series, which shall be authorized to act on behalf of the Trustee to authenticate Securities of such series issued upon original issuance and upon exchange, registration of transfer or partial redemption thereof or pursuant to Section 306, and Securities so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenticated by the Trustee hereunder. Wherever reference is made in this Indenture to the authentication and delivery of Securities by the Trustee or the Trustee's certificate of authentication, such reference shall be deemed to include authentication and delivery on behalf of the Trustee by an Authenticating Agent and a certificate of authentication executed on behalf of the Trustee by an Authenticating Agent. Each Authenticating Agent shall be acceptable to the Company and shall at all times be a corporation organized and doing business under the laws of the United States, any State or territory thereof or the District of Columbia, authorized under such laws to act as Authenticating Agent, having a combined capital and surplus of not less than \$50,000,000 and subject to supervision or examination by Federal or State authority. If such Authenticating Agent publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Authenticating Agent shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time an Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, such Authenticating Agent shall resign immediately in the manner and with the effect specified in this Section.

Any corporation into which an Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which such Authenticating Agent shall be a party, or any corporation succeeding to the corporate agency or corporate trust business of an Authenticating Agent, shall continue to be an Authenticating Agent, provided such corporation shall be otherwise eligible under this Section, without the execution or filing of any paper or any further act on the part of the Trustee or the Authenticating Agent.

An Authenticating Agent may resign at any time by giving written notice thereof to the Trustee and to the Company. The Trustee may at any time terminate the agency of an Authenticating Agent by giving written notice thereof to such Authenticating Agent and to the Company. Upon receiving such a notice

of resignation or upon such a termination, or in case at any time such Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, the Trustee may appoint a successor Authenticating Agent which shall be acceptable to the Company. Any successor Authenticating Agent upon acceptance of its appointment hereunder shall become vested with all the rights, powers and duties of its predecessor hereunder, with like effect as if originally named as an Authenticating Agent. No successor Authenticating Agent shall be appointed unless eligible under the provisions of this Section.

The Company agrees to pay to each Authenticating Agent from time to time reasonable compensation for its services under this Section, and the Trustee shall be entitled to be reimbursed for such payments, in accordance with, and subject to the provisions of Section 907.

The provisions of Sections 308, 904 and 905 shall be applicable to each Authenticating Agent.

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If an appointment with respect to the Securities of one or more series shall be made pursuant to this Section, the Securities of such series may have endorsed thereon, in addition to the Trustee's certificate of authentication, an alternate certificate of authentication substantially in the following form:

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

-----  
As Trustee  
  
By  
-----  
As Authenticating Agent  
  
By  
-----  
Authorized Signatory

If all of the Securities of a series may not be originally issued at one time, and if the Trustee does not have an office capable of authenticating Securities upon original issuance located in a Place of Payment where the Company wishes to have Securities of such series authenticated upon original issuance, the Trustee, if so requested by the Company in writing (which writing need not comply with Section 102 and need not be accompanied by an Opinion of Counsel), shall appoint, in accordance with this Section and in accordance with such procedures as shall be acceptable to the Trustee, an Authenticating Agent having an office in a Place of Payment designated by the Company with respect to such series of Securities.

#### ARTICLE TEN

Holder's Lists and Reports by Trustee and Company

#### SECTION 1001. LISTS OF HOLDERS.

Semiannually, not later than January 15 and July 15 in each year, commencing January 15, 1999, and at such other times as the Trustee may request in writing, the Company shall furnish or cause to be furnished to the Trustee information as to the names and addresses of the Holders, and the Trustee shall preserve such information and similar information received by it in any other

capacity and afford to the Holders access to information so preserved by it, all to such extent, if any, and in such manner as shall be required by the Trust Indenture Act; provided, however, that no such list need be furnished so long as the Trustee shall be the Security Registrar.

SECTION 1002. REPORTS BY TRUSTEE.

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(a) The Trustee shall transmit to the Holders such reports concerning the Trustee and its actions under this Indenture as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant thereto. Such of those reports as are required to be transmitted by the Trustee pursuant to Section 313(a) of the Trust Indenture Act shall be so transmitted within 60 days after July 1 of each year, commencing July 1, 1999.

(b) A copy of each such report shall, at the time of such transmission to the Holders, be filed by the Trustee with each stock exchange upon which the Securities are listed, with the Commission and with the Company. The Company shall notify the Trustee when any Securities shall have been listed on any stock exchange.

SECTION 1003. REPORTS TO THE TRUSTEE. The Company shall provide to the Trustee such documents, reports, compliance certificates and information as may be required by Section 314 of the Trust Indenture Act in the form, in the manner and at the times required thereby. The Company shall notify the Trustee of the listing of any Securities on any securities exchange. Delivery of such reports, information and documents by the Company to the Trustee is for informational purposes only and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on certificates of officers).

ARTICLE ELEVEN

Consolidation, Merger, Conveyance or Other Transfer

SECTION 1101. COMPANY MAY CONSOLIDATE, ETC., ONLY ON CERTAIN TERMS.

The Company shall not consolidate with or merge into any other corporation, or convey or otherwise transfer or lease its properties and assets substantially as an entirety to any Person, unless

(a) the corporation formed by such consolidation or into which the Company is merged or the Person which acquires by conveyance or transfer, or which leases, the properties and assets of the Company substantially as an entirety shall be a Person organized and validly existing under the laws of the United States, any State thereof or the District of Columbia, and shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, the due and punctual payment of the principal of and premium, if any, and interest, if any, on all Outstanding Securities and the performance of every covenant of this Indenture on the part of the Company to be performed or observed;

(b) immediately after giving effect to such transaction no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing; and

(c) the Company shall have delivered to the Trustee an Officer's Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, or other

transfer or lease and such supplemental indenture comply with this Article and that all conditions precedent herein provided for relating to such transactions have been complied with.

SECTION 1102. SUCCESSOR CORPORATION SUBSTITUTED.

Upon any consolidation by the Company with or merger by the Company into any other corporation or any conveyance, or other transfer or lease of the properties and assets of the Company substantially as an entirety in accordance with Section 1101, the successor corporation formed by such consolidation or into which the Company is merged or the Person to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor Person had been named as the Company herein, and thereafter, except in the case of a lease, the predecessor Person shall be relieved of all obligations and covenants under this Indenture and the Securities Outstanding hereunder.

ARTICLE TWELVE

Supplemental Indentures

SECTION 1201. SUPPLEMENTAL INDENTURES WITHOUT CONSENT OF HOLDERS.

Without the consent of any Holders, the Company and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental hereto, in form satisfactory to the Trustee, for any of the following purposes:

(a) to evidence the succession of another Person to the Company and the assumption by any such successor of the covenants of the Company herein and in the Securities, all as provided in Article Eleven; or

(b) to add one or more covenants of the Company or other provisions for the benefit of all Holders or for the benefit of the Holders of, or to remain in effect only so long as there shall be Outstanding, Securities of one or more specified series, or to surrender any right or power herein conferred upon the Company; or

(c) to add any additional Events of Default with respect to all or any series of Securities Outstanding hereunder; or

(d) to change or eliminate any provision of this Indenture or to add any new provision to this Indenture; provided, however, that if such change, elimination or addition shall adversely affect the interests of the Holders of Securities of any series Outstanding on the date of such indenture supplemental hereto in any material respect, such change, elimination or addition shall become effective with respect to such series only pursuant to the provisions of Section 1202 hereof or when no Security of such series remains Outstanding; or

(e) to provide collateral security for all but not part of the Securities; or

(f) to establish the form or terms of Securities of any series as contemplated by Sections 201 and 301; or



(g) to provide for the authentication and delivery of bearer securities and coupons appertaining thereto representing interest, if any, thereon and for the procedures for the registration, exchange and replacement thereof and for the giving of notice to, and the solicitation of the vote or consent of, the holders thereof, and for any and all other matters incidental thereto; or

(h) to evidence and provide for the acceptance of appointment hereunder by a separate or successor Trustee with respect to the Securities of one or more series and to add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, pursuant to the requirements of Section 911(b); or

(i) to provide for the procedures required to permit the Company to utilize, at its option, a noncertificated system of registration for all, or any series of, the Securities; or

(j) to change any place or places where (i) the principal of and premium, if any, and interest, if any, on all or any series of Securities shall be payable, (ii) all or any series of Securities may be surrendered for registration of transfer, (iii) all or any series of Securities may be surrendered for exchange and (iv) notices and demands to or upon the Company in respect of all or any series of Securities and this Indenture may be served; or

(k) to cure any ambiguity, to correct or supplement any provision herein which may be defective or inconsistent with any other provision herein, or to make any other changes to the provisions hereof or to add other provisions with respect to matters or questions arising under this Indenture, provided that such other changes or additions shall not adversely affect the interests of the Holders of Securities of any series in any material respect.

Without limiting the generality of the foregoing, if the Trust Indenture Act as in effect at the date of the execution and delivery of this Indenture or at any time thereafter shall be amended and

(x) if any such amendment shall require one or more changes to any provisions hereof or the inclusion herein of any additional provisions, or shall by operation of law be deemed to effect such changes or incorporate such provisions by reference or otherwise, this Indenture shall be deemed to have been amended so as to conform to such amendment to the Trust Indenture Act, and the Company and the Trustee may, without the consent of any Holders, enter into an indenture supplemental hereto to effect or evidence such changes or additional provisions; or

(y) if any such amendment shall permit one or more changes to, or the elimination of, any provisions hereof which, at the date of the execution and delivery hereof or at any time thereafter, are required by the Trust Indenture Act to be contained herein, this Indenture shall be deemed to have been amended to effect such changes or elimination, and the Company and the Trustee may, without

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the consent of any Holders, enter into an indenture supplemental hereto to evidence such amendment hereof.

SECTION 1202. SUPPLEMENTAL INDENTURES WITH CONSENT OF HOLDERS.



With the consent of the Holders of not less than a majority in aggregate principal amount of the Securities of all series then Outstanding under this Indenture, considered as one class, by Act of said Holders delivered to the Company and the Trustee, the Company, when authorized by a Board Resolution, and the Trustee may enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, this Indenture or modifying in any manner the rights of the Holders of Securities of such series under the Indenture; provided, however, that if there shall be Securities of more than one series Outstanding hereunder and if a proposed supplemental indenture shall directly affect the rights of the Holders of Securities of one or more, but less than all, of such series, then the consent only of the Holders of a majority in aggregate principal amount of the Outstanding Securities of all series so directly affected, considered as one class, shall be required; and provided, further, that no such supplemental indenture shall:

(a) change the Stated Maturity of the principal of, or any installment of principal of or interest on (except as provided in Section 311 hereof), any Security, or reduce the principal amount thereof or the rate of interest thereon (or the amount of any installment of interest thereon) or change the method of calculating such rate or reduce any premium payable upon the redemption thereof, or change the coin or currency (or other property), in which any Security or any premium or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity of any Security (or, in the case of redemption, on or after the Redemption Date), without, in any such case, the consent of the Holder of such Security, or

(b) reduce the percentage in principal amount of the Outstanding Securities of any series (or, if applicable, in liquidation preference of any series of Preferred Securities), the consent of the Holders of which is required for any such supplemental indenture, or the consent of the Holders of which is required for any waiver of compliance with any provision of this Indenture or of any default hereunder and its consequences, or reduce the requirements of Section 1304 for quorum or voting, without, in any such case, the consent of the Holders of each Outstanding Security of such series, or

(c) modify any of the provisions of this Section, Section 607 or Section 813 with respect to the Securities of any series, except to increase the percentages in principal amount referred to in this Section or such other Sections or to provide that other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Outstanding Security affected thereby; provided, however, that this clause shall not be deemed to require the consent of any Holder with respect to changes in the references to "the Trustee" and concomitant changes in this Section, or the deletion of this proviso, in accordance with the requirements of Sections 911(b) and 1201(h).

Notwithstanding the foregoing, so long as any of the Preferred Securities remain outstanding, the Trustee may not consent to a supplemental indenture under this Section 1202 without the prior consent, obtained as provided in a Trust Agreement pertaining to a Trust which issued such Preferred

Securities, of the holders of not less than a majority in aggregate liquidation preference of all Preferred Securities issued by such Trust affected, considered as one class, or, in the case of changes described in clauses (a), (b) and (c) above, 100% in aggregate liquidation preference of all such Preferred Securities then outstanding which would be affected thereby, considered as one class. A supplemental indenture which changes or eliminates any covenant or other provision of this Indenture which has expressly been included solely for the

benefit of one or more particular series of Securities, or which modifies the rights of the Holders of Securities of such series with respect to such covenant or other provision, shall be deemed not to affect the rights under this Indenture of the Holders of Securities of any other series.

It shall not be necessary for any Act of Holders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof. A waiver by a Holder of such Holder's right to consent under this Section shall be deemed to be a consent of such Holder.

SECTION 1203. EXECUTION OF SUPPLEMENTAL INDENTURES.

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modifications thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and (subject to Section 901) shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture which affects the Trustee's own rights, duties, immunities or liabilities under this Indenture or otherwise.

SECTION 1204. EFFECT OF SUPPLEMENTAL INDENTURES.

Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder shall be bound thereby. Any supplemental indenture permitted by this Article may restate this Indenture in its entirety, and, upon the execution and delivery thereof, any such restatement shall supersede this Indenture as theretofore in effect for all purposes.

SECTION 1205. CONFORMITY WITH TRUST INDENTURE ACT.

Every supplemental indenture executed pursuant to this Article shall conform to the requirements of the Trust Indenture Act as then in effect.

SECTION 1206. REFERENCE IN SECURITIES TO SUPPLEMENTAL INDENTURES.

Securities of any series authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may, and shall if required by the Trustee, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Securities of any series so modified as to conform, in the opinion of the Trustee and the Company, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for Outstanding Securities of such series.

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SECTION 1207. MODIFICATION WITHOUT SUPPLEMENTAL INDENTURE.

If the terms of any particular series of Securities shall have been established in a Board Resolution or an Officer's Certificate as contemplated by Section 301, and not in an indenture supplemental hereto, additions to, changes in or the elimination of any of such terms may be effected by means of a supplemental Board Resolution or Officer's Certificate, as the case may be, delivered to, and accepted in writing by, the Trustee; provided, however, that such supplemental Board Resolution or Officer's Certificate shall not be accepted by the Trustee or otherwise be effective unless all conditions set forth in this Indenture which would be required to be satisfied if such

additions, changes or elimination were contained in a supplemental indenture shall have been appropriately satisfied. Upon the acceptance thereof by the Trustee, any such supplemental Board Resolution or Officer's Certificate shall be deemed to be a "supplemental indenture" for purposes of Section 1204 and 1206.

#### ARTICLE THIRTEEN

##### Meetings of Holders; Action Without Meeting

###### SECTION 1301. PURPOSES FOR WHICH MEETINGS MAY BE CALLED.

A meeting of Holders of Securities of one or more, or all, series may be called at any time and from time to time pursuant to this Article to make, give or take any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be made, given or taken by Holders of Securities of such series.

###### SECTION 1302. CALL, NOTICE AND PLACE OF MEETINGS.

(a) The Trustee may at any time call a meeting of Holders of Securities of one or more, or all, series for any purpose specified in Section 1301, to be held at such time and at such place in the Borough of Manhattan, The City of New York, as the Trustee shall determine, or, with the approval of the Company, at any other place. Notice of every such meeting, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting, shall be given, in the manner provided in Section 106, not less than 21 nor more than 180 days prior to the date fixed for the meeting.

(b) If the Trustee shall have been requested to call a meeting of the Holders of Securities of one or more, or all, series by the Company or by the Holders of 33% in aggregate principal amount of all of such series, considered as one class, for any purpose specified in Section 1301, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, and the Trustee shall not have given the notice of such meeting within 21 days after receipt of such request or shall not thereafter proceed to cause the meeting to be held as provided herein, then the Company or the Holders of Securities of such series in the amount above specified, as the case may be, may determine the time and the place in the Borough of Manhattan, The City of New York, or in such other place as shall be determined or approved by the Company, for such meeting and may call such meeting for such purposes by giving notice thereof as provided in subsection (a) of this Section.

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(c) Any meeting of Holders of Securities of one or more, or all, series shall be valid without notice if the Holders of all Outstanding Securities of such series are present in person or by proxy and if representatives of the Company and the Trustee are present, or if notice is waived in writing before or after the meeting by the Holders of all Outstanding Securities of such series, or by such of them as are not present at the meeting in person or by proxy, and by the Company and the Trustee.

###### SECTION 1303. PERSONS ENTITLED TO VOTE AT MEETINGS.

To be entitled to vote at any meeting of Holders of Securities of one or more, or all, series a Person shall be (a) a Holder of one or more Outstanding Securities of such series, or (b) a Person appointed by an instrument in writing as proxy for a Holder or Holders of one or more

Outstanding Securities of such series by such Holder or Holders. The only Persons who shall be entitled to attend any meeting of Holders of Securities of any series shall be the Persons entitled to vote at such meeting and their counsel, any representatives of the Trustee and its counsel and any representatives of the Company and its counsel.

SECTION 1304. QUORUM; ACTION.

The Persons entitled to vote a majority in aggregate principal amount of the Outstanding Securities of the series with respect to which a meeting shall have been called as hereinbefore provided, considered as one class, shall constitute a quorum for a meeting of Holders of Securities of such series; provided, however, that if any action is to be taken at such meeting which this Indenture expressly provides may be taken by the Holders of a specified percentage, which is less than a majority, in principal amount of the Outstanding Securities of such series, considered as one class, the Persons entitled to vote such specified percentage in principal amount of the Outstanding Securities of such series, considered as one class, shall constitute a quorum. In the absence of a quorum within one hour of the time appointed for any such meeting, the meeting shall, if convened at the request of Holders of Securities of such series, be dissolved. In any other case the meeting may be adjourned for such period as may be determined by the chairman of the meeting prior to the adjournment of such meeting. In the absence of a quorum at any such adjourned meeting, such adjourned meeting may be further adjourned for such period as may be determined by the chairman of the meeting prior to the adjournment of such adjourned meeting. Except as provided by Section 1305(e), notice of the reconvening of any meeting adjourned for more than 30 days shall be given as provided in Section 1302(a) not less than 10 days prior to the date on which the meeting is scheduled to be reconvened. Notice of the reconvening of an adjourned meeting shall state expressly the percentage, as provided above, of the principal amount of the Outstanding Securities of such series which shall constitute a quorum.

Except as limited by Section 1202, any resolution presented to a meeting or adjourned meeting duly reconvened at which a quorum is present as aforesaid may be adopted only by the affirmative vote of the Holders of a majority in aggregate principal amount of the Outstanding Securities of the series with respect to which such meeting shall have been called, considered as one class; provided, however, that, except as so limited, any resolution with respect to any action which this Indenture expressly provides may be taken by the Holders of a specified percentage, which is less than a majority, in principal amount of the Outstanding Securities of such series, considered as one class, may be adopted at a meeting or an adjourned meeting duly reconvened and at which a quorum

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is present as aforesaid by the affirmative vote of the Holders of such specified percentage in principal amount of the Outstanding Securities of such series, considered as one class.

Any resolution passed or decision taken at any meeting of Holders of Securities duly held in accordance with this Section shall be binding on all the Holders of Securities of the series with respect to which such meeting shall have been held, whether or not present or represented at the meeting.

SECTION 1305. ATTENDANCE AT MEETINGS; DETERMINATION OF VOTING RIGHTS;  
CONDUCT AND ADJOURNMENT OF MEETINGS.

(a) Attendance at meetings of Holders of Securities may be in person or by proxy; and, to the extent permitted by law, any such proxy shall remain in effect and be binding upon any future Holder of the Securities with respect to which it was given unless and until specifically revoked by

the Holder or future Holder of such Securities before being voted.

(b) Notwithstanding any other provisions of this Indenture, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of Holders of Securities in regard to proof of the holding of such Securities and of the appointment of proxies and in regard to the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall deem appropriate. Except as otherwise permitted or required by any such regulations, the holding of Securities shall be proved in the manner specified in Section 104 and the appointment of any proxy shall be proved in the manner specified in Section 104. Such regulations may provide that written instruments appointing proxies, regular on their face, may be presumed valid and genuine without the proof specified in Section 104 or other proof.

(c) The Trustee shall, by an instrument in writing, appoint a temporary chairman of the meeting, unless the meeting shall have been called by the Company or by Holders as provided in Section 1302(b), in which case the Company or the Holders of Securities of the series calling the meeting, as the case may be, shall in like manner appoint a temporary chairman. A permanent chairman and a permanent secretary of the meeting shall be elected by vote of the Persons entitled to vote a majority in aggregate principal amount of the Outstanding Securities of all series represented at the meeting, considered as one class.

(d) At any meeting each Holder or proxy shall be entitled to one vote for each \$1 principal amount of Securities held or represented by him; provided, however, that no vote shall be cast or counted at any meeting in respect of any Security challenged as not Outstanding and ruled by the chairman of the meeting to be not Outstanding. The chairman of the meeting shall have no right to vote, except as a Holder of a Security or proxy.

(e) Any meeting duly called pursuant to Section 1302 at which a quorum is present may be adjourned from time to time by Persons entitled to vote a majority in aggregate principal amount of the Outstanding Securities of all series represented at the meeting, considered as one class; and the meeting may be held as so adjourned without further notice.

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#### SECTION 1306. COUNTING VOTES AND RECORDING ACTION OF MEETINGS.

The vote upon any resolution submitted to any meeting of Holders shall be by written ballots on which shall be subscribed the signatures of the Holders or of their representatives by proxy and the principal amounts and serial numbers of the Outstanding Securities, of the series with respect to which the meeting shall have been called, held or represented by them. The permanent chairman of the meeting shall appoint two inspectors of votes who shall count all votes cast at the meeting for or against any resolution and who shall make and file with the secretary of the meeting their verified written reports of all votes cast at the meeting. A record of the proceedings of each meeting of Holders shall be prepared by the secretary of the meeting and there shall be attached to said record the original reports of the inspectors of votes on any vote by ballot taken thereat and affidavits by one or more persons having knowledge of the facts setting forth a copy of the notice of the meeting and showing that said notice was given as provided in Section 1302 and, if applicable, Section 1304. Each copy shall be signed and verified by the affidavits of the permanent chairman and secretary of the meeting and one such copy shall be delivered to the Company, and another to the Trustee to be preserved by the Trustee, the latter to have attached thereto the ballots voted at the meeting. Any record so signed and verified shall be conclusive evidence

of the matters therein stated.

SECTION 1307. ACTION WITHOUT MEETING.

In lieu of a vote of Holders at a meeting as hereinbefore contemplated in this Article, any request, demand, authorization, direction, notice, consent, waiver or other action may be made, given or taken by Holders by written instruments as provided in Section 104.

ARTICLE FOURTEEN

Immunity of Incorporators, Stockholders, Officers and Directors

SECTION 1401. LIABILITY SOLELY CORPORATE.

No recourse shall be had for the payment of the principal of or premium, if any, or interest, if any, on any Securities, or any part thereof, or for any claim based thereon or otherwise in respect thereof, or of the indebtedness represented thereby, or upon any obligation, covenant or agreement under this Indenture, against any incorporator, stockholder, officer or director, as such, past, present or future of the Company or of any predecessor or successor corporation (either directly or through the Company or a predecessor or successor corporation), whether by virtue of any constitutional provision, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly agreed and understood that this Indenture and all the Securities are solely corporate obligations, and that no personal liability whatsoever shall attach to, or be incurred by, any incorporator, stockholder, officer or director, past, present or future, of the Company or of any predecessor or successor corporation, either directly or indirectly through the Company or any predecessor or successor corporation, because of the indebtedness hereby authorized or under or by reason of any of the obligations, covenants or agreements contained in this Indenture or in any of the Securities or to be implied herefrom or therefrom, and that any such personal liability is hereby expressly waived and released as a condition of, and as part of the consideration for, the execution of this Indenture and the issuance of the Securities.

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ARTICLE FIFTEEN

Subordination of Securities

SECTION 1501. SECURITIES SUBORDINATE TO SENIOR INDEBTEDNESS.

The Company, for itself, its successors and assigns, covenants and agrees, and each Holder of the Securities of each series, by its acceptance thereof, likewise covenants and agrees, that the payment of the principal of and premium, if any, and interest, if any, on each and all of the Securities is hereby expressly subordinated and subject to the extent and in the manner set forth in this Article, in right of payment to the prior payment in full of all Senior Indebtedness.

Each Holder of the Securities of each series, by its acceptance thereof, authorizes and directs the Trustee on its behalf to take such action as may be necessary or appropriate to effectuate the subordination as provided in this Article, and appoints the Trustee its attorney-in-fact for any and all such purposes.

SECTION 1502. PAYMENT OVER OF PROCEEDS OF SECURITIES.

In the event (a) of any insolvency or bankruptcy proceedings or any

receivership, liquidation, reorganization or other similar proceedings in respect of the Company or a substantial part of its property, or of any proceedings for liquidation, dissolution or other winding up of the Company, whether or not involving insolvency or bankruptcy, or (b) subject to the provisions of Section 1503, that (i) a default shall have occurred with respect to the payment of principal of or interest on or other monetary amounts due and payable on any Senior Indebtedness, or (ii) there shall have occurred a default (other than a default in the payment of principal or interest or other monetary amounts due and payable) in respect of any Senior Indebtedness, as defined therein or in the instrument under which the same is outstanding, permitting the holder or holders thereof to accelerate the maturity thereof (with notice or lapse of time, or both), and such default shall have continued beyond the period of grace, if any, in respect thereof, and, in the cases of subclauses (i) and (ii) of this clause (b), such default shall not have been cured or waived or shall not have ceased to exist, or (c) that the principal of and accrued interest on the Securities of any series shall have been declared due and payable pursuant to Section 801 and such declaration shall not have been rescinded and annulled as provided in Section 802, then:

(1) the holders of all Senior Indebtedness shall first be entitled to receive payment of the full amount due thereon, or provision shall be made for such payment in money or money's worth, before the Holders of any of the Securities are entitled to receive a payment on account of the principal of or interest on the indebtedness evidenced by the Securities, including, without limitation, any payments made pursuant to Articles Four and Five;

(2) any payment by, or distribution of assets of, the Company of any kind or character, whether in cash, property or securities, to which any Holder or the Trustee would be entitled except for the provisions of this Article, shall be paid or delivered by the person making such payment or distribution, whether a trustee in bankruptcy, a receiver or liquidating

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trustee or otherwise, directly to the holders of such Senior Indebtedness or their representative or representatives or to the trustee or trustees under any indenture under which any instruments evidencing any of such Senior Indebtedness may have been issued, ratably according to the aggregate amounts remaining unpaid on account of such Senior Indebtedness held or represented by each, to the extent necessary to make payment in full of all Senior Indebtedness remaining unpaid after giving effect to any concurrent payment or distribution (or provision therefor) to the holders of such Senior Indebtedness, before any payment or distribution is made to the Holders of the indebtedness evidenced by the Securities or to the Trustee under this Indenture; and

(3) in the event that, notwithstanding the foregoing, any payment by, or distribution of assets of, the Company of any kind or character, whether in cash, property or securities, in respect of principal of or interest on the Securities or in connection with any repurchase by the Company of the Securities, shall be received by the Trustee or any Holder before all Senior Indebtedness is paid in full, or provision is made for such payment in money or money's worth, such payment or distribution in respect of principal of or interest on the Securities or in connection with any repurchase by the Company of the Securities shall be paid over to the holders of such Senior Indebtedness or their representative or representatives or to the trustee or trustees under any indenture under which any instruments evidencing any such Senior Indebtedness may have been issued, ratably as aforesaid, for application to the payment of all Senior



Indebtedness remaining unpaid until all such Senior Indebtedness shall have been paid in full, after giving effect to any concurrent payment or distribution (or provision therefor) to the holders of such Senior Indebtedness.

Notwithstanding the foregoing, at any time after the 123rd day following the date of deposit of cash or Government Obligations pursuant to Section 701 (provided all conditions set out in such Section shall have been satisfied), the funds so deposited and any interest thereon will not be subject to any rights of holders of Senior Indebtedness including, without limitation, those arising under this Article Fifteen; provided that no event described in clauses (d) and (e) of Section 801 with respect to the Company has occurred during such 123-day period.

For purposes of this Article only, the words "cash, property or securities" shall not be deemed to include shares of stock of the Company as reorganized or readjusted, or securities of the Company or any other corporation provided for by a plan or reorganization or readjustment which are subordinate in right of payment to all Senior Indebtedness which may at the time be outstanding to the same extent as, or to a greater extent than, the Securities are so subordinated as provided in this Article. The consolidation of the Company with, or the merger of the Company into, another corporation or the liquidation or dissolution of the Company following the conveyance or transfer of its property as an entirety, or substantially as an entirety, to another corporation upon the terms and conditions provided for in Article Eleven hereof shall not be deemed a dissolution, winding-up, liquidation or reorganization for the purposes of this Section 1502 if such other corporation shall, as a part of such consolidation, merger, conveyance or transfer, comply with the conditions stated in

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Article Eleven hereof. Nothing in Section 1501 or in this Section 1502 shall apply to claims of, or payments to, (i) the Trustee under or pursuant to Section 907 or (ii) any Creditor under or pursuant to Section 312.

#### SECTION 1503. DISPUTES WITH HOLDERS OF CERTAIN SENIOR INDEBTEDNESS.

Any failure by the Company to make any payment on or perform any other obligation in respect of Senior Indebtedness, other than any indebtedness incurred by the Company or assumed or guaranteed, directly or indirectly, by the Company for money borrowed (or any deferral, renewal, extension or refunding thereof) or any other obligation as to which the provisions of this Section shall have been waived by the Company in the instrument or instruments by which the Company incurred, assumed, guaranteed or otherwise created such indebtedness or obligation, shall not be deemed a default under clause (b) of Section 1502 if (i) the Company shall be disputing its obligation to make such payment or perform such obligation and (ii) either (A) no final judgment relating to such dispute shall have been issued against the Company which is in full force and effect and is not subject to further review, including a judgment that has become final by reason of the expiration of the time within which a party may seek further appeal or review, or (B) in the event that a judgment that is subject to further review or appeal has been issued, the Company shall in good faith be prosecuting an appeal or other proceeding for review and a stay or execution shall have been obtained pending such appeal or review.

#### SECTION 1504. SUBROGATION.

Senior Indebtedness shall not be deemed to have been paid in full unless the holders thereof shall have received cash (or securities or other property satisfactory to such holders) in full payment of such Senior Indebtedness then outstanding. Subject to the prior payment in full of all Senior Indebtedness, the rights of the Holders of the Securities shall be



subrogated to the rights of the holders of Senior Indebtedness to receive any further payments or distributions of cash, property or securities of the Company applicable to the holders of the Senior Indebtedness until all amounts owing on the Securities shall be paid in full; and such payments or distributions of cash, property or securities received by the Holders of the Securities, by reason of such subrogation, which otherwise would be paid or distributed to the holders of such Senior Indebtedness shall, as between the Company, its creditors other than the holders of Senior Indebtedness, and the Holders, be deemed to be a payment by the Company to or on account of Senior Indebtedness, it being understood that the provisions of this Article are and are intended solely for the purpose of defining the relative rights of the Holders, on the one hand, and the holders of the Senior Indebtedness, on the other hand.

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SECTION 1505. OBLIGATION OF THE COMPANY UNCONDITIONAL.

Nothing contained in this Article or elsewhere in this Indenture or in the Securities is intended to or shall impair, as among the Company, its creditors other than the holders of Senior Indebtedness and the Holders, the obligation of the Company, which is absolute and unconditional, to pay to the Holders the principal of and interest on the Securities as and when the same shall become due and payable in accordance with their terms, or is intended to or shall affect the relative rights of the Holders and creditors of the Company other than the holders of Senior Indebtedness, nor shall anything herein or therein prevent the Trustee or any Holder from exercising all remedies otherwise permitted by applicable law upon default under this Indenture, subject to the rights, if any, under this Article of the holders of Senior Indebtedness in respect of cash, property or securities of the Company received upon the exercise of any such remedy.

Upon any payment or distribution of assets or securities of the Company referred to in this Article, the Trustee and the Holders shall be entitled to rely upon any order or decree of a court of competent jurisdiction in which such dissolution, winding up, liquidation or reorganization proceedings are pending for the purpose of ascertaining the persons entitled to participate in such distribution, the holders of the Senior Indebtedness and other indebtedness of the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon, and all other facts pertinent thereto or to this Article.

SECTION 1506. PRIORITY OF SENIOR INDEBTEDNESS UPON MATURITY.

Upon the maturity of the principal of any Senior Indebtedness by lapse of time, acceleration or otherwise, all matured principal of Senior Indebtedness and interest and premium, if any, thereon shall first be paid in full before any payment of principal or premium, if any, or interest, if any, is made upon the Securities or before any Securities can be acquired by the Company or any sinking fund payment is made with respect to the Securities (except that required sinking fund payments may be reduced by Securities acquired before such maturity of such Senior Indebtedness).

SECTION 1507. TRUSTEE AS HOLDER OF SENIOR INDEBTEDNESS.

The Trustee shall be entitled to all rights set forth in this Article with respect to any Senior Indebtedness at any time held by it, to the same extent as any other holder of Senior Indebtedness. Nothing in this Article shall deprive the Trustee of any of its rights as such holder.

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SECTION 1508. NOTICE TO TRUSTEE TO EFFECTUATE SUBORDINATION.

Notwithstanding the provisions of this Article or any other provision of the Indenture, the Trustee shall not be charged with knowledge of the existence of any facts which would prohibit the making of any payment of moneys to or by the Trustee unless and until the Trustee shall have received written notice thereof from the Company, from a Holder or from a holder of any Senior Indebtedness or from any representative or representatives of such holder and, prior to the receipt of any such written notice, the Trustee shall be entitled, subject to Section 901, in all respects to assume that no such facts exist; provided, however, that, if prior to the fifth Business Day preceding the date upon which by the terms hereof any such moneys may become payable for any purpose, or in the event of the execution of an instrument pursuant to Section 702 acknowledging satisfaction and discharge of this Indenture, then if prior to the second Business Day preceding the date of such execution, the Trustee shall not have received with respect to such moneys the notice provided for in this Section, then, anything herein contained to the contrary notwithstanding, the Trustee may, in its discretion, receive such moneys and/or apply the same to the purpose for which they were received, and shall not be affected by any notice to the contrary, which may be received by it on or after such date; provided, however, that no such application shall affect the obligations under this Article of the persons receiving such moneys from the Trustee.

SECTION 1509. MODIFICATION, EXTENSION, ETC. OF SENIOR INDEBTEDNESS.

The holders of Senior Indebtedness may, without affecting in any manner the subordination of the payment of the principal of and premium, if any, and interest, if any, on the Securities, at any time or from time to time and in their absolute discretion, agree with the Company to change the manner, place or terms of payment, change or extend the time of payment of, or renew or alter, any Senior Indebtedness, or amend or supplement any instrument pursuant to which any Senior Indebtedness is issued, or exercise or refrain from exercising any other of their rights under the Senior Indebtedness including, without limitation, the waiver of default thereunder, all without notice to or assent from the Holders or the Trustee.

SECTION 1510. TRUSTEE HAS NO FIDUCIARY DUTY TO HOLDERS OF SENIOR INDEBTEDNESS.

With respect to the holders of Senior Indebtedness, the Trustee undertakes to perform or to observe only such of its covenants and objectives as are specifically set forth in this Indenture, and no implied covenants or obligations with respect to the holders of Senior Indebtedness shall be read into this Indenture against the Trustee. The Trustee shall not be deemed to owe any fiduciary duty to the holders of Senior Indebtedness, and shall not be liable to any such holders if it shall mistakenly pay over or deliver to the Holders or the Company or any other Person, money or assets to which any holders of Senior Indebtedness shall be entitled by virtue of this Article or otherwise.

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SECTION 1511. PAYING AGENTS OTHER THAN THE TRUSTEE.

In case at any time any Paying Agent other than the Trustee shall have been appointed by the Company and be then acting hereunder, the term "Trustee" as used in this Article shall in such case (unless the context shall otherwise require) be construed as extending to and including such Paying Agent within its meaning as fully for all intents and purposes as if such Paying Agent were named in this Article in addition to or in place of the Trustee; provided, however, that Sections 1507, 1508 and 1510 shall not apply to the Company if it acts as Paying Agent.

SECTION 1512. RIGHTS OF HOLDERS OF SENIOR INDEBTEDNESS NOT IMPAIRED.

No right of any present or future holder of Senior Indebtedness to

enforce the subordination herein shall at any time or in any way be prejudiced or impaired by any act or failure to act on the part of the Company or by any noncompliance by the Company with the terms, provisions and covenants of this Indenture, regardless of any knowledge thereof any such holder may have or be otherwise charged with.

SECTION 1513. EFFECT OF SUBORDINATION PROVISIONS; TERMINATION.

Notwithstanding anything contained herein to the contrary, other than as provided in the immediately succeeding sentence, all the provisions of this Indenture shall be subject to the provisions of this Article, so far as the same may be applicable thereto.

Notwithstanding anything contained herein to the contrary, the provisions of this Article Fifteen shall be of no further effect, and the Securities shall no longer be subordinated in right of payment to the prior payment of Senior Indebtedness, if the Company shall have delivered to the Trustee a notice to such effect. Any such notice delivered by the Company shall not be deemed to be a supplemental indenture for purposes of Article Twelve.

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This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

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IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, all as of the day and year first above written.

ATLANTIC CITY ELECTRIC COMPANY

By: \_\_\_\_\_  
Senior Vice President and  
Chief Financial Officer

THE BANK OF NEW YORK, Trustee

By: \_\_\_\_\_

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EXHIBIT 4-I

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GUARANTEE AGREEMENT, DATED AS OF OCTOBER 1, 1998, BY AND BETWEEN ATLANTIC CITY ELECTRIC COMPANY AS GUARANTOR, AND THE BANK OF NEW YORK AS GUARANTEE TRUSTEE

GUARANTEE AGREEMENT

Between

Atlantic City Electric Company  
(as Guarantor)

and

The Bank of New York  
(as Trustee)

dated as of

October 1, 1998

CROSS-REFERENCE TABLE

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Section of  
Trust Indenture Act  
of 1939, as amended

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310 (b) .....	4.01 (c), 2.08
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\* This Cross-Reference Table does not constitute part of the Guarantee Agreement and shall not affect the interpretation of any of its terms or provisions.

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GUARANTEE AGREEMENT

This GUARANTEE AGREEMENT ("Guarantee Agreement"), dated as of October 1, 1998, is executed and delivered by Atlantic City Electric Company, a New Jersey corporation (the "Guarantor"), and The Bank of New York, a New York banking corporation, as trustee (the "Guarantee Trustee"), for the benefit of the Holders (as defined herein) from time to time of the Preferred Securities (as defined herein) of Atlantic Capital II, a Delaware statutory business trust (the "Issuer").

WHEREAS, pursuant to an Amended and Restated Trust Agreement (the "Trust Agreement"), dated as of October 1, 1998, between the Company, as Depositor, the Trustees of the Issuer named therein and the several Holders, as defined therein, the Issuer is issuing as of the date hereof \$25,000,000 aggregate liquidation amount of its 7-3/8% Trust Preferred Capital Securities (the "Preferred Securities") and \$773,200 aggregate liquidation amount of its Common Securities (the "Common Securities" and, together with the Preferred Securities, the "Securities") representing undivided beneficial ownership interests in the Issuer and having the terms set forth in the Trust Agreement;

WHEREAS, the Preferred Securities are to be issued for sale by the

Issuer and the proceeds, together with the proceeds from the sale of the Common Securities of the Issuer, are to be invested in \$25,773,200 principal amount of Debentures (as defined in the Trust Agreement); and

WHEREAS, as incentive for the Holders to purchase the Securities, the Guarantor desires irrevocably and unconditionally to agree, to the extent set forth herein, to pay to the Holders the Guarantee Payments (as defined herein) and to make certain other payments on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the purchase by each Holder of Securities, which purchase the Guarantor hereby agrees shall benefit the Guarantor, the Guarantor executes and delivers this Guarantee Agreement for the benefit of the Holders from time to time.

## ARTICLE I

### DEFINITIONS

SECTION I.01 DEFINITIONS. As used in this Guarantee Agreement, the terms set forth below shall, unless the context otherwise requires, have the following meanings. Capitalized or otherwise defined terms used but not otherwise defined herein shall have the meanings assigned to such terms in the Trust Agreement as in effect on the date hereof.

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"Event of Default" means a default by the Guarantor on any of its payment obligations under this Guarantee Agreement.

"Guarantee Payments" shall mean the following payments or distributions, without duplication, with respect to the Securities, to the extent not paid or made by or on behalf of the Issuer: (a) any accumulated and unpaid Distributions that are required to be paid on such Securities but only if and to the extent that the Property Trustee has available in the Payment Account funds sufficient to make such payment, (b) the Redemption Price with respect to the Securities called for redemption by the Issuer but only if and to the extent that the Property Trustee has available in the Payment Account funds sufficient to make such payment, (c) upon a voluntary or involuntary dissolution, winding-up or termination of the Issuer (unless the Debentures are distributed to the Holders of such Securities), the lesser of (i) the aggregate of the Liquidation Amount and all accumulated and unpaid Distributions on the Securities to the date of payment, and (ii) the amount of assets of the Issuer remaining available for distribution to Holders in liquidation of the Issuer (the "Liquidation Distribution").

"Guarantee Trustee" means The Bank of New York until a Successor Guarantee Trustee has been appointed and has accepted such appointment pursuant to the terms of this Guarantee Agreement and thereafter means each such Successor Guarantee Trustee.

"Holder" shall mean any Person in whose name any Securities are registered in the Securities Registrar; provided, however, that, in determining whether the Holders of the requisite percentage of Preferred Securities have

given any request, notice, consent or waiver hereunder, "Holder" shall not include the Guarantor or any Affiliate of the Guarantor.

"Indenture" means the Indenture dated as of October 1, 1998, between the Guarantor (the "Debenture Issuer") and The Bank of New York, as trustee, pursuant to which the Debentures are issued.

"Officer's Certificate" means a certificate signed by the Chairman of the Board, the President, a Vice President, the Treasurer or an Assistant Treasurer of the Guarantor, and delivered to the Guarantee Trustee. Any Officer's Certificate or Opinion of Counsel delivered with respect to compliance with a condition or covenant provided for in this Guarantee Agreement shall include:

(a) a statement that the officer signing such Officer's Certificate or the counsel rendering such Opinion of Counsel has read the covenant or condition and the definitions relating thereto;

(b) a brief statement of the nature and scope of the examination or investigation undertaken by such officer or such counsel in rendering the Officer's Certificate or the Opinion of Counsel;

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(c) a statement that such officer or counsel has made such examination or investigation as, in such officer's or such counsel's opinion, is necessary to enable such officer or counsel to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(d) a statement as to whether, in the opinion of such officer or counsel, such condition or covenant has been complied with.

"Opinion of Counsel" means a written opinion of counsel, who may be counsel for the Guarantor or an Affiliate of the Guarantor, or an employee thereof, who shall be acceptable to the Guarantee Trustee.

"Responsible Officer" means, with respect to the Guarantee Trustee, any officer of the Guarantee Trustee assigned by the Guarantee Trustee to administer its corporate trust matters.

"Successor Guarantee Trustee" means a successor Guarantee Trustee possessing the qualifications to act as Guarantee Trustee under Section 4.01.

## ARTICLE II

### TRUST INDENTURE ACT

#### SECTION II.01 CONFLICT WITH TRUST INDENTURE ACT.

If any provision of this Guarantee Agreement limits, qualifies or conflicts with another provision hereof which is required or deemed to be included in this Guarantee Agreement by, or is otherwise governed by, any of the



provisions of the Trust Indenture Act, such other provision shall control; and if any provision hereof otherwise conflicts with the Trust Indenture Act, the Trust Indenture Act shall control.

SECTION II.02 LISTS OF HOLDERS OF PREFERRED SECURITIES.

(a) Semiannually, not later than January 15 and July 15 in each year, commencing January 15, 1999, and at such other times as the Guarantee Trustee may request in writing, the Guarantor shall furnish or cause to be furnished to the Guarantee Trustee information as to the names and addresses of the Holders, and the Guarantee Trustee shall preserve such information and similar information received by it in any other capacity and afford to the Holders access to information received by it in any other capacity and afford to the Holders access to information so preserved by it, all to such extent, if any, and in such manner as shall be required by the Trust Indenture Act.

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(b) The Guarantee Trustee shall comply with its obligations under Section 311(a) of the Trust Indenture Act (subject to the provisions of Section 311(b) of such Act) and Section 312(b) of the Trust Indenture Act.

SECTION II.03 REPORTS BY THE GUARANTEE TRUSTEE. Not later than 60 days after July 1 of each year, commencing July 1, 1999, the Guarantee Trustee shall provide to Holders such reports as are required by Section 313(a) of the Trust Indenture Act, if any, in the form and in the manner provided by Section 313(a) of the Trust Indenture Act. The Guarantee Trustee shall also comply with the requirements of Section 313(d) of the Trust Indenture Act.

SECTION II.04 PERIODIC REPORTS TO GUARANTEE TRUSTEE. The Guarantor shall provide to the Guarantee Trustee, the Commission and the Holders such documents, reports, compliance certificates and information as may be required by Section 314 of the Trust Indenture Act to be provided by the Guarantor Trustee to such Persons in the form, in the manner and at the times required by Section 314 of the Trust Indenture Act. Delivery of such reports, information and documents by the Company to the Trustee is for informational purposes only and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officer's Certificates). The Guarantor shall provide to the Guarantee Trustee the compliance certificate required by Section 314(a) (4) of the Trust Indenture Act in the form, in the manner and at the times required by Section 314(a) (4) of the Trust Indenture Act.

SECTION II.05 EVIDENCE OF COMPLIANCE WITH CONDITIONS PRECEDENT. The Guarantor shall provide to the Guarantee Trustee such evidence of compliance with any conditions precedent provided for in this Guarantee Agreement as and to the extent required by Section 314(c) of the Trust Indenture Act. Any certificate or opinion required to be given by an officer pursuant to Section 314(c) (1) of the Trust Indenture Act may be given in the form of an Officer's Certificate.

SECTION II.06 EVENTS OF DEFAULT; WAIVER. The Holders of a majority

in liquidation amount of Outstanding Preferred Securities may, by vote, on behalf of all of the Holders, waive any past Event of Default and its consequences. Upon such waiver, any such Event of Default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Guarantee Agreement, but no such waiver shall extend to any subsequent or other default or Event of Default or impair any right consequent thereon.

SECTION II.07 EVENT OF DEFAULT; NOTICE.

(a) The Guarantee Trustee shall give notice of any Event of Default hereunder to the Holders in the manner and to the extent required to do so by the Trust Indenture Act, unless such Event of Default shall have been cured or waived.

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(b) The Guarantee Trustee shall not be deemed to have knowledge of any Event of Default unless the Guarantee Trustee shall have received written notice of such Event of Default.

ARTICLE III

POWERS, DUTIES AND RIGHTS OF GUARANTEE TRUSTEE

SECTION III.01 POWERS AND DUTIES OF THE GUARANTEE TRUSTEE.

(a) This Guarantee Agreement shall be held by the Guarantee Trustee for the benefit of the Holders, and the Guarantee Trustee shall not transfer this Guarantee Agreement or any rights hereunder to any Person except a Holder exercising his or her rights pursuant to Section 5.04 or to a Successor Guarantee Trustee on acceptance by such Successor Guarantee Trustee of its appointment to act as Successor Guarantee Trustee. The right, title and interest of the Guarantee Trustee shall vest automatically in any Successor Guarantee Trustee, and such vesting and cessation of title shall be effective whether or not conveyancing documents have been executed and delivered pursuant to the appointment of such Successor Guarantee Trustee.

(b) The Guarantee Trustee, prior to the occurrence of any Event of Default and after the curing or waiving of all Events of Default that may have occurred, shall undertake to perform such duties and only such duties as are specifically set forth in this Guarantee Agreement, and no implied covenants or obligations shall be read into this Guarantee Agreement against the Guarantee Trustee. In case an Event of Default has occurred (that has not been cured or waived pursuant to Section 2.06), and is actually known to a Responsible Officer of the Guarantee Trustee, the Guarantee Trustee shall exercise such of the rights and powers vested in it by this Guarantee Agreement, and use the same degree of care and skill in its exercise thereof, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

(c) No provision of this Guarantee Agreement shall be construed to relieve the Guarantee Trustee from liability for its own negligent action, its

own negligent failure to act, or its own willful misconduct, except that:

(i) prior to the occurrence of any Event of Default and after the curing or waiving of all such Events of Default that may have occurred:

(A) the duties and obligations of the Guarantee Trustee shall be determined solely by the express provisions of this Guarantee Agreement, and the Guarantee Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Guarantee

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Agreement and no implied covenants or obligations shall be read into this Guarantee Agreement against the Guarantee Trustee; and

(B) in the absence of bad faith on the part of the Guarantee Trustee, the Guarantee Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or opinions furnished to the Guarantee Trustee and conforming to the requirements of this Guarantee Agreement; provided, however, that in the case of any such certificates or opinions that by any provision hereof are specifically required to be furnished to the Guarantee Trustee, the Guarantee Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Guarantee Agreement;

(ii) the Guarantee Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer of the Guarantee Trustee, unless it shall be proved that the Guarantee Trustee or such Responsible Officer was negligent in ascertaining the pertinent facts upon which such judgment was made;

(iii) the Guarantee Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in liquidation amount of the Preferred Securities relating to the time, method and place of conducting any proceeding for any remedy available to the Guarantee Trustee, or exercising any trust or power conferred upon the Guarantee Trustee under this Guarantee Agreement; and

(iv) no provision of this Guarantee Agreement shall require the Guarantee Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if the Guarantee Trustee shall have reasonable grounds for believing that the repayment of such funds or liability is not reasonably assured to it under the terms of this Guarantee Agreement or adequate indemnity against such risk or liability is not reasonably assured to it.

(d) Whether or not therein expressly provided, every provision of this Guarantee Agreement relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of

SECTION III.02 CERTAIN RIGHTS OF GUARANTEE TRUSTEE.

(a) Subject to the provisions of Section 3.01:

(i) the Guarantee Trustee may rely and shall be fully protected in acting or refraining from acting upon any resolution, certificate, statement, instrument,

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opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document reasonably believed by it to be genuine and to have been signed, sent or presented by the proper party or parties;

(ii) any direction or act of the Guarantor contemplated by this Guarantee Agreement shall be sufficiently evidenced by an Officer's Certificate;

(iii) whenever, in the administration of this Guarantee Agreement, the Guarantee Trustee shall deem it desirable that a matter be proved or established before taking, suffering or omitting to take any action hereunder, the Guarantee Trustee (unless other evidence is herein specifically prescribed) may, in the absence of bad faith on its part, request and rely upon an Officer's Certificate which, upon receipt of such request from the Guarantee Trustee, shall be promptly delivered by the Guarantor;

(iv) the Guarantee Trustee may consult with counsel of its choice, and the advice of such counsel or any Opinion of Counsel of such counsel with respect to legal matters shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in accordance with such advice or opinion; such counsel may be counsel to the Guarantor or any of its Affiliates and may include any of its employees; the Guarantee Trustee shall have the right at any time to seek instructions concerning the administration of this Guarantee Agreement from any court of competent jurisdiction;

(v) the Guarantee Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Guarantee Agreement at the request or direction of any Holder, unless such Holder shall have provided to the Guarantee Trustee such adequate security and indemnity as would satisfy a reasonable person in the position of the Guarantee Trustee, against the costs, expenses (including attorneys' fees and expenses) and liabilities that might be incurred by it in complying with such request or direction, including such reasonable advances as may be requested by the Guarantee Trustee; provided, however, that nothing contained in this Section 3.02(a)(v) shall be taken to relieve the Guarantee Trustee, upon the occurrence of an Event of Default, of its obligation under the last sentence of Section 3.01(b) hereof to exercise the rights and powers vested in it

by this Guarantee Agreement;

(vi) the Guarantee Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document reasonably believed by

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it to be genuine, but the Guarantee Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit;

(vii) the Guarantee Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys, and the Guarantee Trustee shall not be responsible for any misconduct or negligence on the part of any such agent or attorney appointed with due care by it hereunder;

(viii) whenever in the administration of this Guarantee Agreement the Guarantee Trustee shall deem it desirable to receive instructions with respect to enforcing any remedy or right or taking any other action hereunder, the Guarantee Trustee (A) may request instructions from the Holders of a majority in liquidation amount of the Preferred Securities, (B) may refrain from enforcing such remedy or right or taking such other action until such instructions are received, and (C) shall be protected in acting in accordance with such instructions;

(ix) the Guarantee Trustee shall have no duty to see to any recording, filing or registration of any instrument (including any financing or continuation statement or any tax or securities form) (or any rerecording, refiling or reregistration thereof); and

(x) the Guarantee Trustee shall not be liable for any action taken, suffered or omitted to be taken by it in good faith and reasonably believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Guarantee.

(b) No provision of this Guarantee Agreement shall be deemed to impose any duty or obligation on the Guarantee Trustee to perform any act or acts or exercise any right, power, duty or obligation conferred or imposed on it in any jurisdiction in which it shall be illegal, or in which the Guarantee Trustee shall be unqualified or incompetent in accordance with applicable law, to perform any such act or acts or to exercise any such right, power, duty or obligation. No permissive power or authority available to the Guarantee Trustee shall be construed to be a duty.

#### SECTION III.03 NOT RESPONSIBLE FOR RECITALS OR ISSUANCE OF GUARANTEE.

The recitals contained in this Guarantee Agreement shall be taken as the statements of the Guarantor, and the Guarantee Trustee does not assume any responsibility for their correctness. The Guarantee Trustee makes no

ARTICLE IV

GUARANTEE TRUSTEE

SECTION IV.01 GUARANTEE TRUSTEE; ELIGIBILITY.

(a) There shall at all times be a Guarantee Trustee which shall:

(i) not be an Affiliate of the Guarantor; and

(ii) be a corporation organized and doing business under the laws of the United States of America or any State or Territory thereof or of the District of Columbia, or a corporation or Person permitted by the Securities and Exchange Commission to act as an institutional trustee under the Trust Indenture Act, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least 50 million U.S. dollars (\$50,000,000), and subject to supervision or examination by Federal, State, Territorial or District of Columbia authority. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of the supervising or examining authority referred to above, then, for the purposes of this Section 4.01(a)(ii), the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

(b) If at any time the Guarantee Trustee shall cease to be eligible to so act under Section 4.01(a), the Guarantee Trustee shall immediately resign in the manner and with the effect set out in Section 4.03(c).

(c) If the Guarantee Trustee has or shall acquire any "conflicting interest" within the meaning of Section 310(b) of the Trust Indenture Act, the Guarantee Trustee and Guarantor shall in all respects comply with the provisions of Section 310(b) of the Trust Indenture Act. For the purposes of Section 310(b)(1) of the Trust Indenture Act and to the extent permitted thereby, the Guarantee Trustee, in its capacity as trustee in respect of the Securities of any series shall not be deemed to have a conflicting interest arising from its capacity as trustee in respect of Securities of any other series, or as trustee under the Junior Subordinated Indenture dated as of October 1, 1996, the Amended and Restated Trust Agreement dated as of October 1, 1996, the Guarantee Agreement dated as of October 1, 1996 relating to the Company's 8.25% Junior Subordinated Deferrable Interest Debentures, the Trust Agreement and the Indenture.

SECTION IV.02 COMPENSATION AND REIMBURSEMENT.

The Guarantor agrees:

(a) to pay the Guarantee Trustee from time to time such reasonable compensation as the Guarantor and the Guarantee Trustee shall from time to time agree for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(b) except as otherwise expressly provided herein, to reimburse the Guarantee Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Guarantee Trustee in accordance with the provisions of this Guarantee Agreement (including the reasonable compensation and expenses of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its negligence or bad faith; and

(c) to indemnify each of the Guarantee Trustee and any predecessor Guarantee Trustee for, and to hold it harmless from and against, any and all loss, damage, claim, liability or expense, including taxes (other than taxes based upon the income of the Guarantee Trustee) incurred without negligence or bad faith on its part, arising out of or in connection with the acceptance of the trust created by, or the administration of, this Guarantee Agreement, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any its powers or duties hereunder.

As security for the performance of the obligations of the Guarantor under this Section, the Guarantee Trustee shall have a lien prior to the Preferred Securities upon all the property and funds held or collected by the Guarantee Trustee as such, except funds held in trust for the payment of principal of, and premium (if any) or interest on, particular obligations of the Guarantor under this Guarantee Agreement.

In addition to the rights provided to each Trustee to the provisions of the immediately preceding paragraph of this Section 4.02, when a Trustee incurs expenses or renders services in connection with an Event of Default resulting from a Bankruptcy Event with respect to the Trust, the expenses (including the reasonable charges and expenses of its counsel) and the compensation for the services are intended to constitute expenses of administration under any applicable Federal or State bankruptcy, insolvency or other similar law.

The provisions of this Section shall survive the termination of this Guarantee Agreement.

#### SECTION IV.03 APPOINTMENT, REMOVAL AND RESIGNATION OF GUARANTEE TRUSTEE.

(a) Subject to Section 4.03(b), unless an Event of Default shall have occurred and be continuing, the Guarantee Trustee may be removed without cause at any time by the Guarantor.

(b) The Guarantee Trustee shall not be removed until a Successor Guarantee Trustee has been appointed and has accepted such appointment by



written instrument executed by such Successor Guarantee Trustee and delivered to the Guarantor.

(c) The Guarantee Trustee appointed to office shall hold office until a Successor Guarantee Trustee shall have been appointed or until its removal or resignation. The Guarantee Trustee may resign from office (without need for prior or subsequent accounting) by an instrument in writing executed by the Guarantee Trustee and delivered to the Guarantor, which resignation shall not take effect until a Successor Guarantee Trustee has been appointed and has accepted such appointment by instrument in writing executed by such Successor Guarantee Trustee and delivered to the Guarantor and the resigning Guarantee Trustee.

(d) If no Successor Guarantee Trustee shall have been appointed and accepted appointment as provided in this Section 4.03 within 60 days after delivery to the Guarantor of an instrument of resignation, the resigning Guarantee Trustee may petition any court of competent jurisdiction for appointment of a Successor Guarantee Trustee. Such court may thereupon, after prescribing such notice, if any, as it may deem proper, appoint a Successor Guarantee Trustee.

(e) The Guarantor shall give notice of each resignation and each removal of the Guarantee Trustee and each appointment of a successor Guarantee Trustee to all Holders in the manner provided in Section 8.03 hereof. Each notice shall include the name of the successor Guarantee Trustee and the address of its Corporate Trust Office.

## ARTICLE V

### GUARANTEE

SECTION V.01 GUARANTEE. The Guarantor irrevocably and unconditionally agrees to pay in full to the Holders the Guarantee Payments (without duplication of amounts theretofore paid by or on behalf of the Issuer), as and when due, regardless of any defense, right of set-off or counterclaim which the Issuer may have or assert. The Guarantor's obligation to make a Guarantee Payment may be satisfied by direct payment of the required amounts by the Guarantor to the Holders or by causing the Issuer to pay such amounts to the Holders.

SECTION V.02 WAIVER OF NOTICE AND DEMAND. The Guarantor hereby waives notice of acceptance of this Guarantee Agreement and of any liability to which it applies or may apply, presentment, demand for payment, any right to require a proceeding first against the Issuer or any other Person before proceeding against the Guarantor, protest, notice of nonpayment, notice of dishonor, notice of redemption and all other notices and demands.

SECTION V.03 OBLIGATIONS NOT AFFECTED. The obligation of the Guarantor to make the Guarantee Payments under this Guarantee Agreement shall in no way be affected or impaired by reason of the happening from time to time of any of the following:



(a) the release or waiver, by operation of law or otherwise, of the performance or observance by the Issuer of any express or implied agreement, covenant, term or condition relating to the Securities to be performed or observed by the Issuer;

(b) the extension of time for the payment by the Issuer of all or any portion of the Distributions, Redemption Price, Liquidation Distribution or any other sums payable under the terms of the Securities or the extension of time for the performance of any other obligation under, arising out of, or in connection with, the Securities (other than an extension of time for payment of Distributions, Redemption Price, Liquidation Distribution or other sum payable that results from the extension of any interest payment period on the Debentures permitted by the Indenture);

(c) any failure, omission, delay or lack of diligence on the part of the Holders to enforce, assert or exercise any right, privilege, power or remedy conferred on the Holders pursuant to the terms of the Securities, or any action on the part of the Issuer granting indulgence or extension of any kind;

(d) the voluntary or involuntary liquidation, dissolution, sale of any collateral, receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization, arrangement, composition or readjustment of debt of, or other similar proceedings affecting, the Issuer or any of the assets of the Issuer;

(e) any invalidity of, or defect or deficiency in, the Securities;

(f) the settlement or compromise of any obligation guaranteed hereby or hereby incurred; or

(g) any other circumstance whatsoever that might otherwise constitute a legal or equitable discharge or defense of a guarantor, it being the intent of this Section 5.03 that the obligations of the Guarantor hereunder shall be absolute and unconditional under any and all circumstances.

There shall be no obligation of the Guarantee Trustee or the Holders to give notice to, or obtain consent of, the Guarantor with respect to the happening of any of the foregoing.

SECTION V.04 RIGHTS OF HOLDERS. The Guarantor expressly acknowledges that: (a) this Guarantee Agreement will be deposited with the Guarantee Trustee to be held for the benefit of the Holders; (b) if an Event of Default has occurred and is continuing, the Guarantee Trustee has the right to enforce this Guarantee Agreement on behalf of the Holders; (c)

the Holders of a majority in liquidation amount of the Outstanding Securities have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Guarantee Trustee in respect of this Guarantee Agreement or exercising any trust or power conferred upon the Guarantee Trustee under this Guarantee Agreement; and (d) any Holder may institute a legal

proceeding directly against the Guarantor to enforce its rights under this Guarantee Agreement without first instituting a legal proceeding against the Issuer, the Guarantee Trustee, or any other person or entity.

SECTION V.05 GUARANTEE OF PAYMENT. This Guarantee Agreement creates a guarantee of payment and not of collection. This Guarantee Agreement will not be discharged except by payment of the Guarantee Payments in full (without duplication).

SECTION V.06 SUBROGATION. The Guarantor shall be subrogated to all (if any) rights of the Holders against the Issuer in respect of any amounts paid to the Holders by the Guarantor under this Guarantee Agreement; provided, however, that the Guarantor shall not (except to the extent required by mandatory provisions of law) be entitled to enforce or exercise any rights which it may acquire by way of subrogation or any indemnity, reimbursement or other agreement, in all cases as a result of payment under this Guarantee Agreement, if, at the time of any such payment, any amounts of Guarantee Payments are due and unpaid under this Guarantee Agreement. If any amount shall be paid to the Guarantor in violation of the preceding sentence, the Guarantor agrees to hold such amount in trust for the Holders and to pay over such amount to the Holders.

SECTION V.07 INDEPENDENT OBLIGATIONS. The Guarantor acknowledges that its obligations hereunder are independent of the obligations of the Issuer with respect to the Securities and that the Guarantor shall be liable as principal and as debtor hereunder to make Guarantee Payments pursuant to the terms of this Guarantee Agreement notwithstanding the occurrence of any event referred to in subsections (a) through (g), inclusive, of Section 5.03.

## ARTICLE VI

### SUBORDINATION

SECTION VI.01 SUBORDINATION. This Guarantee Agreement will constitute an unsecured obligation of the Guarantor and will rank subordinate and junior in right of payment to all Senior Indebtedness of the Guarantor. Nothing in this Section 6.01 shall apply to claims of, or payments to, the Guarantee Trustee under or pursuant to Section 4.02.

If an Event of Default has occurred and is continuing under the Trust Agreement, the rights of the holders of the Common Securities to receive Guarantee Payments hereunder shall be subordinated to the rights of the Holders of the Preferred Securities to receive Guarantee Payments under this Guarantee.

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## ARTICLE VII

### TERMINATION

SECTION VII.01 TERMINATION. Subject to Section 4.02 hereof, this Guarantee Agreement shall terminate and be of no further force and effect upon: (a) full payment of the Redemption Price of all Securities, (b) the distribution of Debentures to Holders in exchange for all of the Securities or (c) full

payment of the amounts payable in accordance with the Trust Agreement upon liquidation of the Issuer. Notwithstanding the foregoing, this Guarantee Agreement will continue to be effective or will be reinstated, as the case may be, if at any time any Holder must restore payment of any sums paid with respect to the Securities or under this Guarantee Agreement.

## ARTICLE VIII

### MISCELLANEOUS

SECTION VIII.01 SUCCESSORS AND ASSIGNS. All guarantees and agreements contained in this Guarantee Agreement shall bind the successors, assigns, receivers, trustees and representatives of the Guarantor and shall inure to the benefit of the Holders of the Securities then outstanding. Except in connection with a consolidation, merger or sale involving the Guarantor that is permitted under Article Eleven of the Indenture, the Guarantor shall not assign its obligations hereunder.

SECTION VIII.02 AMENDMENTS. This Guarantee Agreement may be amended only by an instrument in writing entered into by the Guarantor and the Guarantee Trustee. Except with respect to any changes which do not materially adversely affect the rights of Holders (in which case no consent of Holders will be required), this Guarantee Agreement may only be amended with the prior written approval of the Holders of not less than 66 2/3% of the aggregate liquidation amount of all of the outstanding Securities. The provisions of Article VI of the Trust Agreement concerning meetings of Holders shall apply to the giving of such approval. Nothing herein contained shall be deemed to require that the Guarantee Trustee enter into any amendment of this Guarantee Agreement.

SECTION VIII.03 NOTICES. Any notice, request or other communication required or permitted to be given hereunder shall be in writing, duly signed by the party giving such notice, and delivered, telecopied or mailed by first class mail as follows:

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(a) if given to the Guarantor, to the address set forth below or such other address as the Guarantor may give notice of to the Guarantee Trustee and the Holders of the Preferred Securities:

Atlantic City Electric Company  
800 King Street  
Wilmington, DE 19899  
Facsimile No: (302) 429-3367  
Attention: Treasurer

(b) if given to the Issuer, in care of the Administrative Trustees, at the Issuer's (and the Administrative Trustees') address set forth below or such other address as the Administrative Trustees on behalf of the Issuer may give notice of to the Guarantee Trustee and the Holders:

Atlantic Capital II  
c/o Treasury Department,

Atlantic City Electric Company  
800 King Street  
Wilmington, DE 19899  
Facsimile No: (302) 429-3367  
Attention: Administrative Trustees

(c) if given to the Guarantee Trustee, to the address set forth below or such other address as the Guarantee Trustee may give notice of to the Guarantor and the Holders of the Preferred Securities:

The Bank of New York  
101 Barclay Street - 21W  
New York, New York 10286  
Facsimile No: (212) 815-5915  
Attention: Corporate Trust Administration

(d) if given to any Holder, at the address set forth on the Securities Register.

All notices hereunder shall be deemed to have been given when received in person, telecopied with receipt confirmed, or mailed by first class mail, postage prepaid except that if a notice or other document is refused delivery or cannot be delivered because of a changed address of which no notice was given, such notice or other document shall be deemed to have been delivered on the date of such refusal or inability to deliver.

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SECTION VIII.04 BENEFIT. This Guarantee Agreement is solely for the benefit of the Holders and, subject to Section 3.01(a), is not separately transferable from the Preferred Securities.

SECTION VIII.05 INTERPRETATION. In this Guarantee Agreement, unless the context otherwise requires:

(a) a term defined anywhere in this Guarantee Agreement has the same meaning throughout;

(b) all references to "the Guarantee Agreement" or "this Guarantee Agreement" are to this Guarantee Agreement as modified, supplemented or amended from time to time;

(c) all references in this Guarantee Agreement to Articles and Sections are to Articles and Sections of this Guarantee Agreement unless otherwise specified;

(d) a term defined in the Trust Indenture Act has the same meaning when used in this Guarantee Agreement unless otherwise defined in this Guarantee Agreement or unless the context otherwise requires;

(e) a reference to the singular includes the plural and vice versa;  
and

(f) the masculine, feminine or neuter genders used herein shall

include the masculine, feminine and neuter genders.

SECTION VIII.06 GOVERNING LAW. This Guarantee Agreement shall be governed by and construed and interpreted in accordance with the laws of the State of New York (without regard to conflict of laws principles).

This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

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THIS GUARANTEE AGREEMENT is executed as of the day and year first above written.

Atlantic City Electric Company

By: \_\_\_\_\_  
Name: Barbara S. Graham  
Title: Senior Vice President  
and Chief Financial Officer

The Bank of New York,  
as Guarantee Trustee

By: \_\_\_\_\_  
Name:  
Title:

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EXHIBIT 12-A

Ratio of Earnings to Fixed Charges

Exhibit 12-A

Atlantic City Electric Company

Ratio of Earnings to Fixed Charges

(Dollars in Thousands)

<TABLE>  
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	12 Months Ended December 31,				
	1998	1997	1996	1995	1994
	<C>	<C>	<C>	<C>	<C>
Net income	\$ 30,276	\$ 85,747	\$ 75,017	\$ 98,752	\$ 93,174
Income taxes	18,178	50,442	36,958	48,277	36,130
Fixed charges:					
Interest on long-term debt	63,940	64,501	64,847	62,879	58,460
Other interest	3,435	3,574	4,019	4,364	4,148
Preferred stock dividend requirements of subsidiaries	6,052	5,775	1,428	-	-
Total fixed charges	73,427	73,850	70,294	67,243	62,608
Earnings before income taxes and fixed charges	\$121,881	\$210,039	\$182,269	\$214,272	\$191,912
Ratio of earnings to fixed charges	1.66	2.84	2.59	3.19	3.07

</TABLE>

For purposes of computing the ratio, earnings are net income plus income taxes and fixed charges. Fixed charges consist of interest on long- and short-term debt, amortization of debt discount, premium, and expense, dividends on preferred securities of a subsidiary trust, and the interest factor associated with the Company's major leases.

EXHIBIT 12-B

Computation of ratio of earnings to fixed charges and preferred dividends

Exhibit 12-B

Atlantic City Electric Company

Ratio of Earnings to Fixed Charges and Preferred Dividends

(Dollars in Thousands)

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	12 Months Ended December 31,				
	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Net income	\$ 30,276	\$ 85,747	\$ 75,017	\$ 98,752	\$ 93,174
Income taxes	18,178	50,442	36,958	48,277	36,130
Fixed charges:					
Interest on long-term debt	63,940	64,501	64,847	62,879	58,460
Other interest	3,435	3,574	4,019	4,364	4,148
Preferred stock dividend requirements of subsidiaries	6,052	5,775	1,428	-	-
Total fixed charges	73,427	73,850	70,294	67,243	62,608
Earnings before income taxes and fixed charges	\$121,881	\$210,039	\$182,269	\$214,272	\$191,912
Fixed charges	73,427	73,850	70,294	67,243	62,608



Preferred dividend requirement	5,289	7,506	14,214	20,839	22,212
	-----	-----	-----	-----	-----
	\$ 78,716	\$ 81,356	\$ 84,508	\$ 88,082	\$ 84,820
	=====	=====	=====	=====	=====
Ratio of earnings to fixed charges & Preferred dividends	1.55	2.58	2.16	2.43	2.26
	-----	-----	-----	-----	-----

</TABLE>

For purposes of computing the ratio, earnings are net income plus income taxes and fixed charges. Fixed charges consist of interest on long- and short-term debt, amortization of debt discount, premium, and expense, dividends on preferred securities of a subsidiary trust, and the interest factor associated with the Company's major leases. Preferred dividend requirements represent annualized preferred dividend requirements multiplied by the ratio that pre-tax income bears to net income.

EXHIBIT 23

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Consent of Independent Accountants

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statements of Conectiv on Form S-3 (File Nos. 333-72251 and 333-44219) and Form S-8 (File No. 333-50063), of our report dated February 5, 1999, on our audit of the consolidated financial statements and the financial statement schedule of Atlantic City Electric Company as of December 31, 1998 and for the year ended December 31, 1998, which report is included in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

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PricewaterhouseCoopers LLP  
Philadelphia, Pennsylvania  
March 26, 1999

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EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statements of Conectiv on Form S-3 (File Nos. 333-72251 and 333-44219) and Form S-8 (File No. 333-50063), of our report dated February 2, 1998 (March 1, 1998 as to Note 4 to the Financial Statements), appearing in this Annual Report on Form 10-K of Atlantic City Electric Company for the year ended December 31, 1998.

/s/ Deloitte & Touche LLP

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Deloitte & Touche LLP

Parsippany, New Jersey  
March 26, 1999

-2-

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM ATLANTIC CITY ELECTRIC COMPANY'S 1998 REPORT ON FORM 10-K AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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<F1>Preferred Stock Dividends are shown net of \$2,545 gain on redemption of preferred stock.

</FN>

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