

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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

CONECTIV INC

CIK: **1029590** | IRS No.: **510377417** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **10-K** | Act: **34** | File No.: **001-13895** | Film No.: **99574429**
SIC: **4931** Electric & other services combined

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

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 1-13895

CONNECTIV
(Exact name of registrant as specified in its charter)

<TABLE>
<CAPTION>
Delaware 51- 0377417
<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>
Common stock, \$0.01 par value New York Stock Exchange
Class A common stock, \$0.01 par
value New York Stock Exchange
</TABLE>

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

Indicate by check mark whether the registrant (1) has filed all reports re-
quired 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 reg-
istrant 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 the 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 []

The aggregate market value of Conectiv common stock and Conectiv Class A
common stock held by non-affiliates as of January 20, 1999, was \$2,522.5 mil-
lion based on the New York Stock Exchange Composite Transaction closing pric-

es.

The number of shares outstanding of each class of Conectiv's common stock, as of the latest practicable date, was as follows:

Class	Outstanding at January 31, 1999
Common stock, \$0.01 par value	100,516,768 shares
Class A common stock, \$0.01 par value	6,560,612 shares

Documents Incorporated by Reference

Part of Form 10-K	Documents Incorporated by Reference
III	Portions of the Definitive Proxy Statement for the Annual Meeting of Stockholders of Conectiv to be held March 30, 1999, which Definitive Proxy Statement was filed with the Securities and Exchange Commission on February 24, 1999.

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GLOSSARY

The following glossary lists the abbreviations used in this report.

<TABLE>
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Term	Definition
----	-----
<S>	<C>
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
APB.....	Accounting Principles Board
Bcf.....	Billion Cubic Feet
BGS.....	Basic Generation Service
CAM.....	Cost Accounting Manual
CCI.....	Conectiv Communications, Inc.
CICP.....	Conectiv Incentive Compensation Plan
Clean Water Act.....	Federal Water Pollution Control Act
CRP.....	Conectiv Resource Partners, Inc.
CES.....	Conectiv Energy Supply, Inc.
CSI.....	Conectiv Services, Inc.

CTS.....	Conectiv Thermal Systems, Inc.
CLEC.....	Competitive Local Exchange Carrier
Conectiv Charter.....	Conectiv's Restated Certificate of Incorporation
Debentures.....	Junior Subordinated Debentures
D&D Fund.....	Decontamination & Decommissioning Fund
DNREC.....	Delaware Department of Natural Resources and Environmental Control
DOE.....	United States Department of Energy
DPL.....	Delmarva Power & Light Company
DPSC.....	Delaware Public Service Commission
DRIP.....	Dividend Reinvestment and Common Share Purchase Plan
DSM.....	Demand Side Management Plan
EITF.....	Emerging Issues Task Force
FASB.....	Financial Accounting Standards Board
FERC.....	Federal Energy Regulatory Commission
GAAP.....	Generally Accepted Accounting Principles
Hope Creek.....	Hope Creek Nuclear Generating Station
HVAC.....	Heating, ventilation, and air conditioning
ILEC.....	Incumbent Local Exchange Carrier
IPP.....	Independent Power Producer
kWh.....	Kilowatt-hour
Litigation Reform Act.....	The Private Securities Litigation Reform Act of 1995
LLRW.....	Low Level Radioactive Waste
LMP.....	Locational Marginal Pricing
LTIP.....	Long-Term Incentive Plan
Mcf.....	Thousand Cubic Feet

</TABLE>

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Term ----	Definition -----
<S>	<C>
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
MTCC.....	Midtown Thermal Control Center
MPSC.....	Maryland Public Service Commission
MW.....	Megawatt
MWH.....	Megawatt-hour
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
ODEC.....	Old Dominion Electric Cooperative
PARS.....	Performance Accelerated Restricted Stock
PASO.....	Performance Accelerated Stock Options
Peach Bottom.....	Peach Bottom Atomic Power Station
PECO.....	PECO Energy Company
Petron.....	Petron Oil Corporation
PJM Interconnection.....	Pennsylvania-New Jersey-Maryland Interconnection Association
the Plan.....	Conectiv Stockholder Rights Plan
PPPP.....	Power Plant Performance Program
PSE&G.....	Public Service Electric and Gas Company
PUHCA.....	Public Utility Holding Company Act of 1935
PURPA.....	Public Utility Regulatory Policy Act of 1978
Ratepayer Advocate.....	Division of the Ratepayer Advocate
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
 </TABLE>

<TABLE>
 <CAPTION>

Term -----	Definition -----
<S>	<C>
TEFA.....	Transitional Energy Facility Assessment Tax
USEPA.....	United States Environmental Protection Agency
Vienna.....	Vienna Generating Station
VRDB.....	Variable Rate Demand Bonds
VSCC.....	Virginia State Corporation Commission
Westinghouse.....	Westinghouse Electric Corporation

</TABLE>

PART I

Item 1. Business

General

On March 1, 1998, Conectiv became a holding company after a series of merger transactions between Delmarva Power & Light Company (DPL), Atlantic Energy, Inc. (Atlantic), Conectiv, Inc., and DS Sub, Inc. (the Merger). As a result of the Merger, Atlantic ceased to exist and DPL, Atlantic City Electric Company (ACE), and the nonutility subsidiaries formerly held separately by DPL and Atlantic became wholly-owned subsidiaries of Conectiv. (For additional information about the Merger, refer to Note 4 to Conectiv's 1998 Consolidated Financial Statements included in Item 8 of Part II.) DPL and ACE are regulated public utilities which supply and deliver electricity to their customers; DPL also supplies and delivers natural gas to its customers. DPL and ACE hold the franchises necessary to provide regulated utility services in their service territories. As used in this document, references to Conectiv may mean the activities of one or more subsidiaries.

Conectiv is a registered holding company under the Public Utility Holding Company Act of 1935, as amended (PUHCA). PUHCA imposes certain restrictions on the operations of registered holding companies and their subsidiaries. Pursuant to PUHCA regulations, Conectiv formed a subsidiary service company, Conectiv Resource Partners, Inc. (CRP). 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 DPL and ACE.

DPL and ACE generate, purchase, deliver and sell electricity in connection with serving approximately 944,100 customers within their regulated service territories. DPL serves approximately 455,300 electric customers within its service territory, which has a population of approximately 1.2 million and covers an area of about 6,000 square miles on the Delmarva Peninsula (Delaware and portions of Maryland and Virginia). DPL also sells electricity outside its service territory (off-system), and in markets that are not subject to price regulation. ACE serves approximately 488,800 customers within 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.

DPL provides regulated gas service (supply and/or transportation) to approximately 105,700 customers located in a service territory which has a population of approximately 485,000 and covers an area of about 275 square miles in northern Delaware, including the City of Wilmington. DPL also sells gas off-system and in markets which are not subject to price regulation.

DPL's utility business is subject to regulation with respect to its retail electric sales by the Delaware Public Service Commission (DPSC), Maryland Public Service Commission (MPSC), and the Virginia State Corporation Commission (VSCC). 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 DPL's and ACE's electric utility businesses, 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. DPL and ACE are also subject to regulation by the Pennsylvania Public Utility Commission in limited respects concerning property and operations in Pennsylvania.

Conectiv's nonutility subsidiaries' principal businesses are as follows: heating, ventilation, and air conditioning (HVAC) construction and services; telecommunications, including local and long-distance phone services; construction and operation of thermal energy systems; power plant operations; and sales of petroleum products. In addition, the nonutility subsidiaries are involved in cogeneration power projects, real estate, leveraged leases, investments in energy-related technology growth companies, and gas marketing. The net assets of Conectiv's nonutility subsidiaries represented approximately 9.5% of Conectiv's common stockholders' equity as of December 31, 1998.

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The sources of Conectiv's 1998 consolidated revenues were as follows: regulated electricity sales-62.5%; non-regulated electricity sales-9.3%; regulated gas sales-3.5%; non-regulated gas sales-13.9%; and other services-10.8%. The regulated electric retail business currently provides most of Conectiv's earnings. In 1998, Conectiv's consolidated regulated electric retail revenues were earned from the following customer classes: residential-45.0%; commercial-38.1%; industrial-15.9%; and other-1.0%.

At December 31, 1998, Conectiv had 4,565 employees, including 1,677 employees represented by collective bargaining labor organizations. About 1,190 of Conectiv's 4,565 employees work in Conectiv's HVAC and telecommunications businesses.

For information concerning Conectiv's business segments, see Note 20 to Conectiv'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, Delaware, Maryland, and Virginia, see Note 6 to Conectiv's 1998 Consolidated Financial Statements included in Item 8 of Part II.

Generally, with restructuring, the supply component of the price charged to a customer for electricity will be deregulated, and electricity suppliers will compete to supply electricity to customers. 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 DPL's, ACE's, and other utilities' service territories, gross margins earned from supplying electricity are expected to decrease as competition to supply customers with electricity increases. Electric utility customers in New Jersey may choose an electric supplier beginning August 1, 1999, based on the recently enacted Electric Discount and Energy Competition Act (the Act). Delaware legislation is expected to be enacted which would begin phasing-in choice of electricity suppliers to customers beginning October 1, 1999. In Maryland, competition to supply electric customers is expected to be phased in beginning July 3, 2000, over a 3 year period. In Virginia, retail electric competition is expected to be phased-in beginning January 1, 2002.

Concurrent with the transition caused by electric utility industry restructuring, Conectiv has invested in the establishment and growth of new businesses, with the objective of providing new sources of earnings. Conectiv and its subsidiaries have also gained valuable business experience by participation in non-regulated energy markets during the past several years. In the future, a larger percentage of Conectiv's revenues are expected to be earned from businesses not subject to price regulation. As the unregulated component of Conectiv's businesses grows, financial risks and rewards, and the volatility of earnings are expected to increase. Conectiv's ability to continue reducing costs by streamlining operations, regulatory decisions pursuant to state restructuring initiatives, success of Conectiv's new businesses, retention of existing customers and the ability to gain new customers are significant de-

terminants of Conectiv's future success.

Business Lines

Conectiv's internal organization is organized around the business lines described below.

Electric Delivery and Gas Delivery

The Electric Delivery and Gas Delivery business lines are responsible for the transmission and distribution of electricity and natural gas to customers within Conectiv's service territories. Delivery services are structured into various forms of price regulated offers, some including energy supply, so that customers may choose the combination that provides the best value. As restructuring of the electric utility industry is implemented, there will be opportunities to serve new customers in the form of intermediate marketers, wholesalers, bundled services providers, and energy service companies. As delivery service providers, Electric Delivery and Gas Delivery will contract with energy suppliers to deliver energy across Conectiv's electric and natural gas transmission and distribution systems.

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Generation

The Generation business line manages the operations of Conectiv's wholly-owned electric generating units and Conectiv's interests in jointly-owned electric generating units. Generation's primary business activities are power plant operations, planned and unplanned maintenance, outage planning and execution, capital project planning and execution, and assurance of environmental compliance.

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

Merchant

The Merchant business line manages the output of Conectiv's energy supply assets, primarily through energy trading, including risk management and bulk energy-marketing activities. The Merchant business buys and sells electricity, natural gas, and petroleum products. Most of the Merchant business' customers are located in the Mid-Atlantic region.

The Merchant business actively participates in the wholesale energy markets to support wholesale utility and competitive retail marketing activities. Energy market participation results in exposure to commodity market risk when, at times, net open energy commodity positions are created or allowed to continue. To the extent that the Merchant business has net open positions, controls are in place that are intended to keep risk exposures within certain management approved risk tolerance levels.

Retail Energy

During 1998 and 1997, the retail energy business was conducted through DPL under the tradename, "Conectiv Energy." The retail energy business involves the sale of natural gas, electricity and energy-related products and services to residential and commercial customers in competitive markets within the Mid-Atlantic region. Retail customers' favorable response to the Conectiv brand coupled with competitive commodity prices have been a key to acquiring new customers in competitive markets. In 1998, Conectiv Energy added over 45,000 new customers, primarily located in Southeast Pennsylvania and the Maryland suburbs of Washington D.C. Close to 15,000 of these new customers are small commercial enterprises. The costs associated with acquiring new customers, the timing of the opening of new markets, the gross margin on commodity sales and the regulations governing the transition to competition are all critical to the success of this business.

Solutions

Solutions provides large commercial and industrial customers with energy and energy-related products and services designed to satisfy customer needs for occupant comfort, reliability, and cost effectiveness. Solutions also provides electric consulting services, mechanical consulting services, energy management and controls services, and energy procurement services.

Conectiv Services, Inc. (CSI)

CSI is a full-service HVAC business operating in the Mid-Atlantic region. Since CSI was formed in 1996 it has developed its HVAC business by acquiring other established HVAC businesses. CSI provides commercial customers with mechanical HVAC/piping construction and installation, design services, sheet metal fabrication, refrigeration services, preventative maintenance and repair services. CSI offers residential services such as HVAC installation, maintenance, repair and related plumbing services. The regional HVAC and plumbing industry is highly competitive, fragmented, and rapidly consolidating. The sales and earnings of the HVAC businesses are affected by construction cycles and weather conditions.

I-3

Conectiv Communications, Inc. (CCI)

During 1998, CCI operated as a full service telecommunications company providing local, regional and long distance voice and data services to business and residential customers in a 100-mile region around Wilmington, Delaware. CCI launched its services in Pennsylvania and Delaware in November 1997 and in New Jersey and Maryland in May 1998. CCI owns and operates a fiber optic network of more than 600 miles, and has collected its equipment in 35 Bell Atlantic Central Offices in order to provide facilities-based services through a 65,000 line Nortel DMS-500 switch. In the areas where CCI does not yet have its own facilities, CCI resells Bell Atlantic local and Frontier long distance services.

In 1998, over 20,000 new customers signed up for service with CCI. CCI believes that consumers are choosing CCI because of CCI's promise of superior customer care, product flexibility, ability to provide local and long distance services, and lower pricing. Most residential and business customers ordering service from CCI have chosen local and long distance service.

CCI has general tariffs on file in Delaware, Maryland, Pennsylvania, and New Jersey which detail the pricing and descriptions of each service offering. These tariffs are based on a market pricing system rather than the traditional cost-of-service based model. Tariff filings have also been made with the Federal Communications Commission for the provision of domestic and international long distance services.

Conectiv Thermal Systems, Inc. (CTS)

CTS develops, constructs, and operates thermal energy systems which provide heating, cooling, and other energy services to large commercial, industrial, and institutional consumers. CTS enters into long-term contracts with its customers who pay CTS for the heating, cooling, and other energy services provided by the thermal energy systems constructed, owned, and operated by CTS. CTS believes that the potential market for thermal energy projects in the continental United States is extensive. Targeted customer segments include hotels/casinos, convention centers, commercial real estate, large retail malls, industrials, hospitals, universities, and governmental entities.

CTS owns and operates the Midtown Thermal Control Center (MTCC), a district heating and cooling system built by CTS which serves eight customers, principally hotels/casinos, located in the midtown region of Atlantic City. The MTCC began commercial operations on January 1, 1998. CTS also has 50% interests in two other thermal energy system projects. The "Venetian" project, currently under construction, will provide heating, cooling, and back-up electric generation to a 3000-room hotel/casino, exposition center, and retail mall and entertainment complex in Las Vegas, Nevada. The other 50%-owned project has been operational for over a year, providing heating, cooling, and other energy services to the Dreamworks Animation Studio located in Glendale, California. CTS is also currently negotiating a comprehensive energy services agreement with the Griffis Air Force Base Redevelopment Authority, is involved in developing a central energy plant which would serve a planned large exposition and entertainment complex, and is soliciting various other proposals to the targeted customer segments discussed above.

I-4

Electric Business

Installed Capacity

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

<TABLE>
<CAPTION>

Sources of Capacity	DPL	ACE	Consolidated Conectiv
-----	----	----	-----
<S>	<C>	<C>	<C>
Coal-fired generating units.....	1,153	471	1,624
Oil-fired generating units.....	598	295	893
Combustion turbines/combined cycle generating units.....	674	524	1,198
Nuclear generating units.....	328	380	708
Diesel units.....	23	9	32
Long-term purchased capacity.....	237	828	1,065
Customer-owned capacity.....	57	--	57
	----	----	-----
Subtotal.....	3,070	2,507	5,577
Short-term purchased capacity.....	449	9	458
	----	----	-----
Total.....	3,519	2,516	6,035
	=====	=====	=====

</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.

DPL's and ACE's demand-side management programs provide peak load reduction capability of 302 MW in total.

Electricity Supply

As members of the Pennsylvania-New Jersey-Maryland Interconnection Association (PJM Interconnection), DPL and ACE are obligated to maintain capacity levels based on their allocated shares of estimated aggregate PJM Interconnection capacity requirements. (The PJM Interconnection is discussed on page I-6.) DPL and ACE periodically update their forecasts of peak demand and PJM Interconnection reserve requirements, and re-evaluate 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.

DPL's peak load in 1998 was 3,085 MW on July 23, an 8.0% increase from DPL's previous historical peak demand of 2,857 MW which occurred on July 15, 1997. 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. The capacity obligation to the PJM Interconnection, including a reserve margin, is based on normal weather conditions and full implementation of demand-side management programs. Under these conditions, DPL's and ACE's 1998 peak demands would have been approximately 2,952 MW and 2,115 MW, respectively. Installed capacities at the time of their peaks were 3,481 MW for DPL and 2,501 for ACE, which resulted in reserve margins (computed under PJM Interconnection guidelines) of 18% for DPL and ACE. DPL's and ACE's reserve obligations to the PJM Interconnection are approximately 18% and 20%, respectively.

In 1998, kilowatt-hour (kWh) output for load within ACE's and DPL's combined service territories was provided by 35% net purchased power, 31% coal generation, 21% nuclear generation, and 13% oil and gas generation.

Pennsylvania-New Jersey-Maryland Interconnection Association

As members of the PJM Interconnection, DPL's and 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's peak 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

In conjunction with its acquisition of Conowingo Power Company in 1995, DPL purchases from PECO Energy Company (PECO) 237 MW of base-load capacity and associated energy, which increases to 279 MW by 2006 when the contract expires. DPL is also currently purchasing 105 MW of capacity under one-year contracts and 344 MW of capacity through agreements with terms of less than one year.

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
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</TABLE>

ACE is also currently purchasing 125 MW of capacity and energy from 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

DPL's nuclear capacity is provided by Peach Bottom Atomic Power Station (Peach Bottom) Units 2 and 3 and by Salem Nuclear Generating Station (Salem) Units 1 and 2. ACE's nuclear capacity is provided by Peach Bottom, Salem, and the Hope Creek Nuclear Generating Station (Hope Creek). Peach Bottom is located in York County, Pennsylvania, is operated by PECO, and has a summer capacity of 2,186 MW. Public Service Electric and Gas (PSE&G) operates Salem and Hope Creek, which are located adjacent to each other in Salem County, New Jersey, and have summer capacities of 2,212 MW and 1,031 MW, respectively.

DPL's and ACE's shares of MW capacity and ownership interests in the nuclear power plants are shown below.

<TABLE>
<CAPTION>

Plant	DPL	ACE	Consolidated Conectiv
-----	----	----	-----
<S>	<C>	<C>	<C>
Peach Bottom			
Share of MW.....	164	164	328
Ownership %.....	7.51%	7.51%	15.02%
Salem			
Share of MW.....	164	164	328
Ownership %.....	7.41%	7.41%	14.82%
Hope Creek			
Share of MW.....	--	52	52
Ownership %.....	--	5.00%	5.00%

</TABLE>

DPL's and ACE's ownership interests in nuclear power plants provided approximately 12% of Conectiv's total installed capacity as of December 31, 1998. In 1998, output from the jointly-owned nuclear power plants provided 21% of the electricity used by Conectiv's customers. See Note 22 to Conectiv's 1998 Consolidated Financial Statements, included in Item 8 of Part II, for information about its 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-9.

For a discussion of funding DPL's and ACE's shares of the estimated future cost of decommissioning the Salem, Hope Creek, and Peach Bottom nuclear reactors, see Note 9 to Conectiv'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 DPL and ACE that they are on schedule to meet the July 1, 1999 response date and that their nuclear opera-

tions' 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 18 to Conectiv's 1998 Consolidated Financial Statements included in Part II, Item 8, for information concerning DPL's and 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.

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Fuel Supply for Electric Generation

DPL's and ACE's electric generating capacity by fuel type are shown under "Installed Capacity" on page I-5. To facilitate the purchase of adequate amounts of fuel at reasonable prices, DPL and ACE contract with various suppliers of coal, oil, and natural gas on both a long- and short-term basis. DPL's long-term coal contracts generally contain provisions for periodic and limited price adjustments, which are based on current market prices. Oil and natural gas contracts generally are of shorter term with prices determined by market-based indices.

Coal

Conectiv's coal fired generation includes DPL's wholly-owned Edge Moor Units 3 and 4 and the Indian River Station, and ACE's wholly-owned B.L. England Units 1 and 2 and Deepwater Unit 6. Coal is also the fuel source for the Keystone and Conemaugh generating plants, in which DPL and ACE have ownership interests. During 1998, 47% of DPL's coal supply was purchased under contracts less than three years in duration, 48% under long-term contracts (up to ten years), and the balance on the spot market. During 1998, 92% of ACE's coal supply was purchased under long-term contracts (up to ten years) and the balance was purchased on the spot market. Approximately 69% and 56% of DPL's and ACE's respective projected coal requirements are expected to be provided under supply contracts. DPL and ACE do not anticipate any difficulty in obtaining adequate amounts of coal at reasonable prices.

Oil

Currently, 100% of the residual oil used in DPL's Edge Moor Unit 5 is purchased on a spot basis. Natural gas is used when economically feasible. A two-year residual oil supply contract that expires in 1999 provides 90% to 100% of the fuel supply requirements for DPL's Vienna Generating Station (Vienna). Any

amount over 90% of Vienna's requirements may be purchased in the spot market. All of the residual oil used in ACE's 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.

Gas

Natural gas is the primary fuel for the three combustion turbines for DPL's Hay Road combustion turbines and a secondary fuel for DPL's Edge Moor Units 3, 4, and 5. Natural gas for these DPL generating units is purchased on a firm or interruptible basis from suppliers such as marketers, producers, and utilities. The secondary fuel for DPL's Hay Road combustion turbines is low-sulfur diesel fuel, which is purchased in the spot market. Six of ACE's combustion turbines use natural gas as a primary fuel source and ACE's Deepwater Units 1 and 6 use natural gas as secondary fuel. Natural gas for ACE's gas-fired generating units is primarily purchased from the local gas distribution company on a firm basis and is also purchased from other suppliers such as marketers, producers, and utilities. Natural gas is delivered to both DPL and ACE through the interstate pipeline system under contracts that are a mix of long-term firm, short-term firm, and interruptible contracts.

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.

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PSE&G has informed DPL and ACE that 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. PSE&G has also informed ACE that it has similar contracts to satisfy the fuel requirements of Hope Creek. DPL and ACE have also been advised by PECO that it has contracts similar to PSE&G's 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, DPL and ACE pay the DOE one-tenth of one cent per 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 DPL and 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 DPL and 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 DPL and ACE that it is constructing an on-site dry storage facility, which is expected to be operational in 2000, to provide additional storage capacity.

Electric Regulatory Matters

For information concerning restructuring the electric utility industry in

New Jersey, Delaware, Maryland, and Virginia, see Note 6 to Conectiv's 1998 Consolidated Financial Statements included in Item 8 of Part II.

Electric Retail Rates

DPL's base rates for retail electric service are subject to the approval of the DPSC, MPSC, and VSCC. 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, Delaware, Maryland, and Virginia as discussed in Note 6 to Conectiv's 1998 Consolidated Financial Statements included in Item 8 of Part II.

For information concerning base rate decreases related to the Merger and base rate decreases expected in connection with electric utility industry restructuring, see Note 6 to Conectiv's 1998 Consolidated Financial Statements included in Part II, Item 8. Information concerning lower New Jersey customer rates due to corresponding New Jersey tax reductions is discussed in Note 3 to Conectiv's 1998 Consolidated Financial Statements included in Part II, Item 8.

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.

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For information concerning DPL's "Special Contract Rate Tariffs," see page I-13 herein.

Electric Energy Adjustment Clauses

DPL's and ACE's regulated retail electric tariffs include energy adjustment clauses that provide for collection from customers of fuel costs and the energy costs of purchased and net interchange power. ACE's energy adjustment clause also provides for the collection of capacity costs incurred under purchased power contracts with IPPs, which are discussed under Purchased Power on page I-6. DPL's purchased capacity costs are generally subject to base rate recovery. Any under- or over-collection of energy adjustment clause costs in the current period is generally deferred until customers' rates are adjusted to collect or return the under- or over-collection.

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 energy adjustment clause rates. A ruling on this matter is expected during 1999. For information concerning NOx emission regulations, see "Air Quality Regulations" on page I-15.

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 energy adjustment clause 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 recovery of IPP purchased power costs through energy adjustment clause rates. 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 current status or results of significant energy adjustment clause rate issues are discussed below. As of December 31, 1998, DPL's and ACE's accrued liabilities included amounts which are expected to adequately provide for disallowances of energy adjustment clause costs and penalties related to the issues discussed below.

Both Delaware and Maryland have programs that assess the overall performance of DPL's 15 major generating units. Under the DPSC's Power Plant Performance Program (PPPP), DPL can receive financial rewards or penalties, which will not exceed an estimated cap of \$1.7 million in 1998. The 1996 and 1997 PPPP results were not material to DPL's financial position or results of operations. If DPL does not meet an overall system performance standard set by Maryland's Generating Unit Performance Program, the MPSC can disallow certain fuel costs of units that operated below their individual performance standards. DPL did

not meet the 1996 or 1997 overall system standards due principally to the Salem outage.

DPL's long-term purchased power agreement with PECO has previously been the subject of regulatory litigation in Delaware as the result of disallowances proposed by DPSC Staff and the Delaware Division of the Public Advocate. No such disallowances were ordered for 1996 or 1997. Delaware's Division of the Public Advocate has proposed a total disallowance of \$17.7 million for 1998 and 1999. DPL will contest the proposed disallowance.

For information concerning ACE's nuclear performance standard, see "Other Rate Matters" in Note 6 to Conectiv's 1998 Consolidated Financial Statements included in Item 8 of Part II.

For information concerning replacement power costs not recovered through customer rates due to a prolonged outage at Salem, see Note 18 to Conectiv's 1998 Consolidated Financial Statements included in Item 8 of Part II.

Energy adjustment clauses are expected to be eliminated under state electric industry restructuring initiatives. Based on existing restructuring initiatives in Delaware, Maryland, and Virginia, profits or losses on the energy portion of electricity sales may affect DPL's earnings after restructuring becomes effective. The New Jersey energy adjustment clause 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

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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. For additional information concerning the Act, see Note 6 to Conectiv's 1998 Consolidated Financial Statements included in Item 8 of Part II.

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.

New Jersey Demand Side Management

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.

New Jersey Public Utility Fault Determination Act

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.

Gas Business

Deregulation

Effective April 1, 1996, a restructuring of natural gas pricing and service options enabled DPL's large and medium volume commercial and industrial customers to purchase gas from DPL, or directly from other suppliers and make arrangements for transporting gas purchased from these suppliers to their facilities. DPL's transportation customers pay a fee, which may be either fixed or negotiated, for the use of DPL's gas transmission and distribution facilities.

The restructuring mentioned above also authorized off-system gas sales and other "nonjurisdictional merchant sales and services." Earnings from gas sales which are off the Delmarva Peninsula and do not use DPL's gas system assets are not required to be shared with regulated customers through lower rates. For other off-system gas sales and nonjurisdictional merchant sales and services, 80% of the margin (revenues net of fuel costs) earned reduces energy rates charged to DPL's firm gas customers.

On December 1, 1998, DPL filed an application with the DPSC, seeking approval of a pilot program to provide transportation service and a choice of gas suppliers to a group of retail customers. DPL proposed a one-year pilot program, starting November 1, 1999, open to 15% of residential customers and 15% of small commercial customers. DPL and intervening parties are engaged in settlement discussions about the proposed pilot program.

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Gas Operations

DPL purchases gas supplies from marketers and producers under spot market, short-term, and long-term agreements. As shown in the table below, DPL's maximum 24-hour system capability, including natural gas purchases, storage deliveries, and the emergency sendout capability of its peak shaving plant, is 187,074 Mcf (thousand cubic feet).

<TABLE>
<CAPTION>

	Number of Contracts	Expiration Dates	Daily Mcf
<S>	<C>	<C>	<C>
Supply.....	1	2001	9,180
Transportation.....	5	2004-2016	82,810
Storage.....	6	1999-2011	50,084
Local Peak Shaving (emergency capability).....			45,000

Total.....			187,074
			=====

</TABLE>

DPL experienced an all-time daily peak in combined firm sales and transportation sendout of 158,810 Mcf on January 17, 1997. DPL's peak shaving plant liquefies, stores, and re-gasifies natural gas in order to provide supplemental gas in the event of pipeline supply shortfalls or system emergencies.

Gas Regulatory Matters

Similar to DPL's Delaware electric energy adjustment clause, a gas cost rate clause provides for the recovery of gas costs from DPL's regulated gas customers. Gas costs for regulated, on-system customers are charged to operations based on costs billed to customers under the gas cost rate clause. Any under- or over-collection of gas costs in a current period is generally deferred until customers' rates are adjusted to collect or return the under- or over-collection.

In 1998, DPL implemented a DPSC-approved gas price hedging/risk management program with respect to gas supply for regulated customers. The program seeks to limit regulated customers exposure to commodity price uncertainty. Costs and benefits of the program are included in the gas cost rate clause, resulting in no effect on DPL's earnings.

Other Regulatory Matters

Special Contract Rate Tariffs

Under programs approved by the MPSC and DPSC, DPL may enter into negotiated contracts with retail electric customers in Maryland and retail electric and natural gas customers in Delaware. Also, "Real Time Pricing" (RTP) tariffs are

available to customers in Maryland and in Delaware, and an experimental RTP tariff is effective in Virginia. The RTP tariffs provide additional flexibility in providing pricing and service to certain large customers.

Cost Accounting Manual/Code of Conduct

Conectiv and its subsidiaries have cost allocation and direct charging mechanisms in place to ensure that there is no cross-subsidization of competitive activities by regulated utility activities. In 1998, DPL made filings with the DPSC, the MPSC and VSCC to update and revise its Cost Accounting Manual (CAM) to reflect the holding company structure created in 1998. The CAM is subject to review and audit.

DPL is also subject to various Codes of Conduct that affect the relationship between DPL's regulated and non-regulated activities. In general, these Codes of Conduct limit information obtained through utility activities from being disseminated to employees engaged in non-regulated activities, require separate telephone numbers for competitive activities and restrict or prohibit sales leads, joint sales calls, or joint promotions.

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Requirements that separate operational and managerial employees be maintained, as required by the MPSC for non-regulated activities making retail sales of electricity or gas, could impact the way DPL and the Conectiv system of companies are organized and DPL's ability to capture economies of common management and deploy personnel efficiently, without duplicating personnel functions. Prohibitions or restrictions on joint promotions may adversely impact Conectiv's competitive businesses.

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 CAM and the Service Agreement between ACE and CRP with the NJBPU on October 28, 1998.

Affiliated Transactions

Certain types of transactions between DPL and ACE and their affiliates may require the prior approval of the VSCC and the NJBPU.

Federal Decontamination & Decommissioning Fund

The Energy Policy Act of 1992 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 DPL's and ACE's shares of the D&D Fund was \$11.0 million as of December 31, 1998. DPL and ACE are recovering this cost through energy adjustment clause revenues.

Capital Spending and Financing Program

For financial information concerning Conectiv's capital spending and financing program, refer to "Liquidity and Capital Resources" in Management's Discussion and Analysis of Financial Condition and Results of Operations, included in Item 7 of Part II, and Notes 12 to 14 to Conectiv's 1998 Consolidated Financial Statements, included in Item 8 of Part II.

Conectiv's ratios of earnings to fixed charges under the SEC Method for 1994-1998 are shown below.

<TABLE>

<CAPTION>

	Year Ended December 31,				
	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Conectiv's Ratio of Earnings to Fixed Charges (SEC Method).....	2.38	2.63	2.83	2.92	2.85

</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 preferred stock dividend requirements of subsidiaries. Preferred stock dividend requirements of subsidiaries for purposes of computing the ratio have been increased to an amount representing the pre-tax earnings which would be required to cover such dividend requirements. Excluding the Merger-related pre-tax charge to operating expenses of \$27.7 million, primarily attributable to DPL and discussed in Note 5 to Conectiv's 1998 Consolidated Financial Statements included in Item 8 of Part II, Conectiv's 1998 ratio of earnings to fixed charges was 2.53.

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DPL's ratios of earnings to fixed charges and earnings to fixed charges and preferred stock dividends under the SEC Methods for 1994-1998 are shown below. Excluding DPL's Merger-related pre-tax charge of \$27.4 million, DPL's 1998 ratio of earnings to fixed charges was 3.21 and its 1998 ratio of earnings to fixed charges and preferred stock dividends was 2.98.

<TABLE>

<CAPTION>

	Year Ended December 31,				
	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
DPL's Ratio of Earnings to Fixed Charges (SEC Method).....	2.92	2.83	3.33	3.54	3.49
DPL's Ratio of Earnings to Fixed Charges and Preferred Stock Dividends (SEC Method).....	2.72	2.63	2.83	2.92	2.85

</TABLE>

ACE's ratios of earnings to fixed charges and earnings to fixed charges and preferred stock dividends under the SEC Methods for 1994-1998 are shown below. Excluding ACE's Merger-related pre-tax charges of \$79.1 million in 1998 and \$22.2 million in 1997, ACE's Ratio of Earnings to Fixed Charges was 2.74 in 1998 and 3.15 in 1997, and ACE's Ratio of Earnings to Fixed Charges and Preferred Stock Dividends was 2.55 in 1998 and 2.86 in 1997.

<TABLE>

<CAPTION>

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

</TABLE>

Environmental Matters

Conectiv and its regulated utility subsidiaries, DPL and ACE, are 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 construction projects and the operation of existing facilities. Conectiv has incurred, and expects to continue to incur, capital expenditures and operating costs because of environmental considerations and requirements. Conectiv has a continuing program to assure compliance with the environmental standards adopted by various regulatory authorities.

Included in Conectiv's forecasted capital requirements are construction expenditures for compliance with environmental regulations, which are estimated to be \$12 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 (SO₂) and oxides of nitrogen (NO_x). Title IV of the Clean Air Act, the acid rain provisions, established a two-phase program which mandated reductions of SO₂ and NO_x emissions from certain utility units by 1995 (Phase I) and required other

utility units to begin reducing SO₂ and NO_x emissions in the year 2000 (Phase II). Phase I emission reduction requirements have been achieved by the jointly-owned Conemaugh generating station and ACE's B.L. England Units 1 and 2. The remainder of DPL's and ACE's wholly- and jointly-owned fossil-fuel units are required to comply with Phase II emission limits.

DPL's and ACE's facilities also must 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). To comply with RACT regulations, DPL has installed low NO_x burner technology on six of its generating units. DPL's RACT compliance program has not yet received final regulatory approvals by Delaware and Maryland. The New Jersey Department of Environmental Protection (NJDEP) has approved ACE's RACT compliance plan.

Additional "post-RACT" NO_x emission regulations are being pursued by states in the NOTR. Delaware has proposed post-RACT NO_x control regulations requiring attainment of summer seasonal emission reductions of up to 65% below 1990 levels by May 1999 through reduced emissions or the procurement of NO_x emission

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allowances. DPL's post-RACT compliance plan for its Delaware generating units includes capital expenditures of approximately \$12 million. In New Jersey, post-RACT NO_x control regulations require attainment of summer seasonal emission reductions, of up to 65% below 1990 levels by May 1999 and 90% by 2003. ACE anticipates spending approximately \$5 to \$8 million over the next five years to achieve compliance with New Jersey's post-RACT NO_x regulations.

In addition to the above requirements, the United States Environmental Protection Agency (USEPA) has proposed summer seasonal NO_x 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 the USEPA, the ACE facilities will most likely achieve compliance with the USEPA requirement by 2003. Because Delaware has not yet promulgated regulations to implement the reductions that the USEPA has mandated by 2003, DPL currently cannot determine the additional operating and capital costs that will be incurred to comply with these initiatives.

In July 1997, the USEPA adopted new federal air quality standards for particulate matter and ozone. The new particulate matter standard addresses fine particulate matter. Attainment of the fine particulate matter standard may require reductions in NO_x and SO₂. 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.

ACE holds New Jersey Pollution Discharge Elimination System (NJPDDES) permits issued by the NJDEP for the Deepwater and B.L. England power stations. The NJDEP has issued a draft revised NJPDDES permit for the Deepwater station which is currently under review. The NJPDDES 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.

Between 1976 and 1979, DPL submitted to the Delaware Department of Natural Resources and Environmental Control (DNREC) the results of environmental im-

pact studies which demonstrated compliance with the Clean Water Act. DNREC has required DPL to update its earlier studies to determine if the Indian River and Edge Moor power plants are still in compliance. In addition, in 1993, DNREC promulgated increased restrictions on thermal discharges. Studies assessing thermal water quality standards compliance will be completed in 1999 and studies assessing impacts of the cooling water intake structures will be completed in 2001. If the studies indicate an adverse environmental impact, then upgrades to the intake structures and/or environmental enhancement projects to offset adverse impacts will be required. Impact studies would cost up to \$2 million per plant. Costs for intake structure upgrades and enhancement projects would range from approximately \$1 million if little adverse impact is found, to \$45 million if cooling towers are required, which DPL considers to be an unlikely potential outcome.

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.

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Hazardous Substances

The nature of the electric and gas utility businesses 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. Conectiv's exposure is minimized by adherence to environmental standards for Conectiv-owned facilities and through a waste disposal contractor screening and audit process.

As of December 31, 1998, Conectiv's other accrued liabilities included \$3 million for clean-up and other potential costs related to federal and state superfund sites. Conectiv does not expect such future costs to have a material effect on Conectiv's financial position or results of operations. For additional information, see Note 19 to Conectiv's 1998 Consolidated Financial Statements included in Item 8 of Part II.

Executive Officers

The names, ages, and positions of all of the executive officers of Conectiv as of December 31, 1998, are listed below, along with their business experiences during the past five years. Officers are elected annually by the 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 Conectiv
(As of December 31, 1998)

<TABLE>

<CAPTION>

Name, Age and Position -----	Business Experience During Past 5 Years -----
<S>	<C>
Howard E. Cosgrove, 55..... Chairman of the Board and Chief Executive Officer	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..... 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.

</TABLE>
(continued on following page)

Executive Officers of Conectiv (continued)

<TABLE>
<CAPTION>

Name, Age and Position -----	Business Experience During Past 5 Years -----
<S>	<C>
Barbara S. Graham, 50..... Senior Vice President and Chief Financial Officer	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 from 1992 to 1994.
James P. Lavin, 51..... Controller and Chief Accounting Officer	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..... Senior Vice President and Chief Financial Officer*	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

Item 2. Properties

Substantially all utility plant and properties of DPL and ACE are subject to liens of the Mortgages under which First Mortgage Bonds are issued.

DPL's and ACE's electric properties are located in New Jersey, Delaware, Maryland, Virginia, and Pennsylvania. The following table sets forth the net installed summer electric capacity available to DPL and ACE on a combined basis to serve their peak loads as of December 31, 1998.

<TABLE>
<CAPTION>

Station -----	Location -----	Net Installed Capacity (kilowatts) -----
<S>	<C>	<C>
Coal-Fired		
Edge Moor.....	Wilmington, DE.....	260,000
Indian River.....	Millsboro, DE.....	767,000

B L England.....	Beesley's Pt., NJ.....	284,000
Conemaugh.....	New Florence, PA.....	128,000 (A)
Keystone.....	Shelocta, PA.....	105,000 (A)
Deepwater.....	Pennsville, NJ.....	80,000

		1,624,000

Oil-Fired		
Edge Moor.....	Wilmington, DE.....	445,000
B L England.....	Beesley's Pt., NJ.....	155,000
Vienna.....	Vienna, MD.....	153,000
Deepwater.....	Pennsville, NJ.....	140,000

		893,000

Combustion Turbines/Combined Cycle		
Hay Road.....	Wilmington, DE.....	511,000
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

</TABLE>

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<TABLE>
<CAPTION>

Station	Location	Net Installed Capacity (kilowatts)
-----	-----	-----
<S>	<C>	<C>
Missouri Avenue.....	Atlantic City, NJ.....	60,000
Mickleton.....	Mickleton, NJ.....	59,000
Christiana.....	Wilmington, DE.....	45,000
Deepwater.....	Pennsville, NJ.....	19,000
Edge Moor.....	Wilmington, DE.....	13,000
Madison Street.....	Wilmington, DE.....	11,000
West.....	Marshallton, DE.....	15,000
Delaware City.....	Delaware City, DE.....	16,000
Indian River.....	Millsboro, DE.....	17,000
Vienna.....	Vienna, MD.....	17,000
Tasley.....	Tasley, VA.....	26,000
Salem.....	Lower Alloways Creek Twp., NJ.....	6,000 (A)

		1,198,000

Nuclear		
Peach Bottom.....	Peach Bottom Twp., PA.....	328,000 (A)
Salem.....	Lower Alloways Creek Twp., NJ.....	328,000 (A)
Hope Creek.....	Lower Alloways Creek Twp., NJ.....	52,000 (A)

		708,000

Diesel Units		
Crisfield.....	Crisfield, MD.....	10,000
Bayview.....	Bayview, VA.....	12,000
B L England.....	Beesley's Pt., NJ.....	8,000
Keystone.....	Shelocta, PA.....	700 (A)
Conemaugh.....	New Florence, PA.....	800 (A)

		31,500

Customer-Owned Capacity Delaware City, DE		57,000 (B)
Long-term Capacity Purchases.....		1,065,000

Subtotal.....		5,576,500

Short-term Capacity Purchases.....		458,500

Total.....		6,035,000
		=====

</TABLE>

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

(B) Represents capacity owned by a refinery customer of DPL which is available to DPL to serve its peak load.

On a combined basis, DPL's and ACE's electric transmission and distribution systems includes 2,622 transmission poleline miles of overhead lines, 5 transmission cable miles of underground cables, 16,350 distribution poleline miles of overhead lines, and 6,738 distribution cable miles of underground cables.

DPL has a liquefied natural gas plant located in Wilmington, Delaware, with a storage capacity of 3.045 million gallons and an emergency sendout capability of 45,000 Mcf per day. DPL also owns four natural gas city gate stations at various locations in its gas service territory. These stations have a total sendout capacity of 125,000 Mcf per day.

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The following table sets forth DPL's gas pipeline miles:

<S>	<C>
Transmission Mains.....	114*
Distribution Mains.....	1,492
Service Lines.....	1,104

* Includes 11 miles of joint-use gas pipeline that is used 10% for gas operations and 90% for electric operations.

DPL, ACE, and other Conectiv subsidiaries also own and occupy a number of properties and buildings that are used for office, service, and other purposes.

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 the 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 18 to Conectiv's 1998 Consolidated Financial Statements included in Part II, Item 8 for information concerning DPL's and ACE's lawsuits against Westinghouse Electric Corporation, the designer and manufacturer of the Salem steam generators.

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

No matter was submitted during the fourth quarter of the fiscal year covered by this report to a vote of the security holders of Conectiv (the holding company), through the solicitation of proxies or otherwise.

On October 14, 1998, ACE shareholders approved an amendment to ACE's Charter, removing a restriction on the amount of securities representing unsecured indebtedness issuable by ACE. For additional information, see Item 4 of ACE's 1998 Report on Form 10-K.

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PART II

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

Conectiv common stock and Conectiv Class A common stock are listed on the New York Stock Exchange.

As of December 31, 1998, there were 78,600 holders of Conectiv's common stock and 35,133 holders of Conectiv's Class A common stock.

<TABLE>
<CAPTION>
Conectiv Common stock
(1)

	1998			1997		
	Dividend Declared	Price High Low		Dividend Declared	Price High Low	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
First Quarter.....	\$0.38 1/2	\$22 3/4	\$20 7/8	\$0.38 1/2	\$20 3/8	\$18 3/8
Second Quarter.....	0.38 1/2	22 9/16	19 7/8	0.38 1/2	19 3/8	16 7/8
Third Quarter.....	0.38 1/2	23 1/4	19 11/16	0.38 1/2	19	17 3/16
Fourth Quarter.....	0.38 1/2	24 1/2	21 7/8	0.38 1/2	23 7/16	18 9/16

</TABLE>

<TABLE>
<CAPTION>
Conectiv Class A common stock (2)

	1998		
	Dividend Declared	Price High Low	
<S>	<C>	<C>	<C>
First Quarter.....	\$0.80	\$34 1/2	\$29 9/16
Second Quarter.....	0.80	36 7/8	31 11/16
Third Quarter.....	0.80	37 3/8	34
Fourth Quarter.....	0.80	39 7/8	35 3/8

</TABLE>

- (1) Due to the Merger, the 1998 stock price represents DPL for January and February, and Conectiv for March through December. The 1997 stock price represents DPL.
- (2) Conectiv Class A common stock began trading on March 3, 1998.

Conectiv is in a transition caused by electric utility restructuring in New Jersey, Delaware, Maryland, Virginia and elsewhere in the region. Conectiv continues to invest in the establishment and growth of new businesses, with the objective of providing new sources of earnings in anticipation of the realization of lower margins on electricity sales as the generation portion of the utility business is restructured.

During this transition, management will remain focused on maximizing total shareholder return -- the combination of common stock price appreciation and dividends paid. Conectiv's financial policies will continue to be reviewed periodically throughout this transition and will reflect results of operations, financial condition, capital requirements, and other relevant considerations, such as the progress and outcome of restructuring activities in various states and the financial requirements of Conectiv's new competitive businesses.

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ITEM 6. SELECTED FINANCIAL DATA

<TABLE>
<CAPTION>

Year Ended December 31,				
1998(1)	1997	1996	1995	1994
-----	-----	-----	-----	-----

(Dollars in Thousands, Except Per Share Amounts)

<S>	<C>	<C>	<C>	<C>	<C>
Operating Results and Data					
Operating Revenues.....	\$ 3,071,606	\$ 1,415,367	\$ 1,168,664	\$ 1,055,725	\$ 1,033,442
Operating Income.....	\$ 386,915 (2)	\$ 226,294	\$ 250,389	\$ 254,425	\$ 233,244 (3)
Net Income.....	\$ 153,201 (2)	\$ 101,218	\$ 107,251	\$ 107,546	\$ 98,940 (3)
On System Electric Sales (kWh 000) (4).....	20,687,653	13,231,766	12,925,716	12,310,921	12,505,082
On System Gas Sold and Transported (Mcf 000)..	21,587	22,855	22,424	21,371	20,342
Common Stock Information Basic and Diluted					
Earnings Applicable to:					
Common Stock.....	\$ 141,292 (2)	\$ 101,218	\$ 107,251	\$ 107,546	\$ 98,940 (3)
Class A Common Stock..	\$ 11,909	--	--	--	--
Earnings Per Share of:					
Common Stock.....	\$ 1.50 (2)	\$ 1.66	\$ 1.77	\$ 1.79	\$ 1.67 (3)
Class A Common Stock..	\$ 1.82	--	--	--	--
Dividends Declared Per Share of:					
Common Stock.....	\$ 1.54	\$ 1.54	\$ 1.54	\$ 1.54	\$ 1.54
Class A Common Stock..	\$ 3.20	--	--	--	--
Average Shares					
Outstanding (000):					
Common Stock.....	94,338	61,122	60,698	60,217	59,377
Class A Common Stock..	6,561	--	--	--	--
Year-End Stock Price:					
Common Stock.....	\$ 24 1/2	\$ 23 1/16	\$ 20 3/8	\$ 22 3/4	\$ 18 9/64
Class A Common Stock..	\$ 39 1/2	--	--	--	--
Book Value Per Common Share(5).....	\$ 17.21	\$ 15.59	\$ 15.41	\$ 15.20	\$ 14.85
Return on Average Common Equity.....	8.3%	10.6%	11.4%	11.7%	11.1%
Capitalization					
Variable Rate Demand Bonds					
(VRDB) (6).....	\$ 125,100	\$ 71,500	\$ 85,000	\$ 86,500	\$ 71,500
Long-Term Debt.....	1,746,562	983,672	904,033	853,904	774,558
Preferred Stock of Subsidiaries:					
Subject to Mandatory Redemption.....					
	188,950	70,000	70,000	--	--
Not Subject to Mandatory Redemption.....					
	95,933	89,703	89,703	168,085	168,085
Common Stockholders' Equity.....					
	1,843,161	954,496	934,913	923,440	884,169
Total Capitalization with VRDB.....					
	\$ 3,999,706	\$ 2,169,371	\$ 2,083,649	\$ 2,031,929	\$ 1,898,312
Other Information					
Total Assets.....	\$ 6,087,674	\$ 3,015,481	\$ 2,931,855	\$ 2,866,685	\$ 2,669,785
Long-Term Capital Lease Obligation.....	\$ 36,603	\$ 19,877	\$ 20,552	\$ 20,768	\$ 19,660
Capital Expenditures....	\$ 224,831	\$ 156,808	\$ 165,595	\$ 142,833	\$ 166,938

</TABLE>

- (1) As discussed in Note 4 to the Consolidated Financial Statements, Delmarva Power & Light Company (DPL) and Atlantic City Electric Company (ACE) became wholly-owned subsidiaries of Conectiv (the Merger) on March 1, 1998. The Merger was accounted for under the purchase method of accounting, with DPL as the acquirer. Accordingly, the 1998 Consolidated Statement of Income includes 10 months of operating results for ACE and other former subsidiaries of Atlantic Energy, Inc.
- (2) Employee separation and other Merger-related costs in 1998 decreased operating income, net income, and earnings per share by \$27.7 million, \$16.8 million, and \$0.18, respectively.
- (3) An early retirement offer in 1994 decreased operating income, net income, and earnings per share by \$17.5 million, \$10.7 million, and \$0.18, respectively.
- (4) Excludes interchange deliveries.
- (5) Conectiv common stock and Conectiv Class A common stock have the same book value per common share.
- (6) Although Variable Rate Demand Bonds are classified as current liabilities, Conectiv intends to use the bonds as a source of long-term financing as

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

MERGER WITH ATLANTIC

On March 1, 1998, Delmarva Power & Light Company (DPL) and Atlantic City Electric Company (ACE) became wholly-owned subsidiaries of Conectiv (the Merger). DPL common stockholders received one share of Conectiv common stock in exchange for one share of DPL common stock, and Atlantic Energy, Inc. (Atlantic) common stockholders received 0.75 of one share of Conectiv common stock and 0.125 of one share of Conectiv Class A common stock in exchange for one share of Atlantic common stock. Effective with the Merger, Atlantic, which owned ACE and nonutility subsidiaries prior to the Merger, ceased to exist. The Merger also resulted in Conectiv owning (directly or indirectly) the non-utility subsidiaries formerly held separately by Atlantic and DPL.

As used in this document, references to Conectiv may mean the activities of one or more subsidiary companies.

Under the purchase method of accounting, with DPL as the acquirer as of March 1, 1998, the 1998 Consolidated Statement of Income includes ten months of results of operations for ACE and the nonutility subsidiaries formerly owned by Atlantic.

See Note 4 to the Consolidated Financial Statements for additional information concerning the Merger.

EARNINGS RESULTS SUMMARY

Results of operations for 1998 include a charge for DPL employee separation costs and other Merger-related costs of \$27.7 million before taxes, \$16.8 million after taxes, or \$0.18 per share. The Merger-related charge reflects certain costs associated with projected Merger-related cost savings of \$500 million over the next 10 years. Prior to the merger, DPL, Atlantic and their subsidiaries had approximately 4,600 employees. Employee separation programs reduced the number of employees by 785.

Reported earnings applicable to Conectiv common stock were \$141.3 million, or \$1.50 per average common share (94,338,000 average common shares) in 1998, compared to \$101.2 million, or \$1.66 per average common share (61,122,000 average common shares) in 1997. Excluding the impact of DPL employee separation costs and other Merger-related costs, earnings per common share for 1998 were \$1.68 versus \$1.66 in 1997. The dilution resulting from Conectiv common shares issued to Atlantic stockholders was about equal to the net earnings contributed by the former Atlantic companies. The \$0.02 increase in earnings per common share (as adjusted) was attributed to 2.5% higher DPL retail electric kilowatt-hour (kWh) sales and lower DPL utility operating and maintenance expenses, offset substantially by losses from Conectiv's investments in new businesses and participation in the competitive retail energy markets. These business activities resulted in a net loss of \$38.3 million after taxes in 1998 compared to a net loss of \$22.7 million after taxes in 1997. Earnings in 1997 also included a gain of \$13.7 million after taxes from the sale of a landfill and waste-hauling company.

Earnings applicable to Conectiv Class A common stock were \$11.9 million or \$1.82 per Conectiv Class A common share in 1998. For additional information, see Note 12 to the Consolidated Financial Statements.

Earnings per common share for 1997 were \$1.66 compared to \$1.77 for 1996. The \$0.11 per share earnings decrease was primarily attributed to losses from investments in new businesses and participation in the competitive energy markets (including branding expenditures), partly offset by the gain on the sale of the landfill and waste-hauling company. Regulated utility earnings were relatively flat in 1997 primarily because higher net electric revenues and lower outage expenses for the Salem nuclear generating units were offset by anticipated higher capital costs.

DIVIDENDS ON COMMON STOCK

In 1998, the Board of Directors declared a dividend on Conectiv common stock of \$1.54 per share (\$0.38 1/2 per quarter) and a dividend on Conectiv Class A common stock of \$3.20 per share (\$0.80 per quarter).

As discussed below, Conectiv is in a transition caused by electric utility industry restructuring in New Jersey, Delaware, Maryland, and elsewhere in the region. Conectiv continues to invest in the establishment and growth of new businesses, with the objective of providing new sources of earnings in anticipation of the realization of lower margins on electricity sales as the generation portion of the utility business is restructured.

During this transition, management will remain focused on maximizing total shareholder return--the combination of common stock price appreciation and dividends paid. Conectiv's financial policies will continue to be reviewed periodically throughout this transition and will reflect results of operations, financial condition, capital requirements, and other relevant considerations, such as the progress and outcome of restructuring activities in various states and the financial requirements of Conectiv's new competitive businesses.

ELECTRIC UTILITY INDUSTRY RESTRUCTURING

As discussed below, deregulation of the electric utility industry is underway in New Jersey, Delaware, Maryland, and Virginia. Generally, with restructuring, the supply component of the price charged to a customer for electricity would be deregulated, and electricity suppliers would compete to supply electricity to customers. Customers would 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. DPL and ACE have quantified stranded costs in Maryland and New Jersey regulatory filings, respectively, and have proposed plans seeking approval for recovery of those costs from customers during the transition to a competitive market.

When a specific plan that deregulates electricity supply becomes final, ACE or DPL, as appropriate, would cease applying SFAS No. 71 to its electricity supply business in the regulatory jurisdiction to which the plan applies. To the extent that a deregulation plan 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 legislation deregulating the electric utility industry in any of the jurisdictions in which Conectiv operates 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, Conectiv's management currently cannot predict the ultimate effects that electric utility industry deregulation may have on the financial statements of Conectiv and its subsidiaries, although deregulation may have a material adverse effect on Conectiv's results of operations.

New Jersey

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 New Jersey Board of Public Utilities (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 and Conectiv.

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.

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.

Delaware

The Alliance for Fair Electric Competition Today, which includes DPL, worked with Delaware executive branch representatives and representatives of the Delaware Public Service Commission (DPSC) Staff to develop consensus restructuring legislation. House Bill No. 10, with several amendments, passed the Delaware House of Representatives, and the Delaware Senate. The Governor of Delaware is expected to sign the legislation.

House Bill No. 10 would allow DPL's Delaware customers to choose their electricity suppliers beginning on October 1, 1999 (for customers with peak demands of 1,000 kilowatts or more), January 15, 2000 (for customers with peak demands of 300 kilowatts or more), and 18 months after the legislation is enacted (for all other customers). House Bill No. 10 also provides for a residential rate reduction of 7.5% beginning October 1, 1999. Thereafter, except for a deferred fuel balance "true-up" and increases for extraordinary costs, residential rates may not be changed for four years; rates for customers in commercial and industrial rate classes may not

be changed for three years. Under House Bill No. 10, certain low-income energy assistance and environmental programs are funded at an annual level of about \$1.6 million by a charge in electric rates.

Among other matters, unbundled rates to be charged by DPL during these "rate freeze" periods have been agreed upon by a number of participants in the restructuring plan proceeding contemplated by House Bill No. 10. Included within the agreement on unbundled rates, DPL would recover \$16 million (Delaware retail basis) of stranded costs, and electric rates would not be changed in the event DPL sells or transfers generating assets.

Maryland

In 1997, the Maryland Public Service Commission (MPSC) issued two orders which provide for retail electric competition to begin July 3, 2000, and be phased-in over a three-year period (one-third of the customers per year). Enabling legislation and resolution of complex issues such as stranded costs and utility taxation will be necessary for implementation of retail competition in Maryland.

On July 1, 1998, DPL filed with the MPSC its quantification of stranded costs and computation of unbundled rates, which are being considered in Case No. 8795. Stranded costs were estimated to be \$217 million on a DPL system-wide basis (\$69 million Maryland retail portion), including \$123 million attributable to generating units, \$54 million associated with purchased power contracts, \$21 million related to fuel inventory financing costs, and \$19 million of regulatory assets. DPL proposed full recovery of the Maryland portion of the stranded costs over a three-year period, starting with the commencement of retail competition on July 3, 2000.

The MPSC Staff and other parties contend that the market value of DPL generating assets exceeds their book value and thus that DPL has negative stranded costs, or so-called "stranded benefits." Proposals for rate reductions based on a sharing of these alleged benefits and other factors have been submitted to the MPSC in Case No. 8795. The proposed rate reductions vary widely, from 3% up to levels which, if adopted, would have a material adverse impact on Conectiv's results of operations.

Maryland's electric utilities, including DPL, continue to meet with the MPSC Staff and others to develop consensus enabling restructuring and related tax legislation for possible passage in the 1999 legislative session.

The MPSC is expected to issue its order on DPL's stranded cost recovery and unbundled rates by October 1, 1999.

Virginia

Comprehensive electric utility restructuring legislation has been introduced in the Virginia General Assembly. Senate Bill No. 1269 and identical House Bill No. 2615, introduced on January 21, 1999, were drafted by a joint House-Senate study committee created in 1996 to consider restructuring issues. Significant provisions of these Bills provide for:

- . Phase-in of retail electric competition beginning January 1, 2002
- . Rates in effect on January 1, 2001 to become "capped rates" to continue in effect through July 1, 2007, except for adjustments for changes in fuel costs and state tax rates
- . Customers choosing an electricity supplier other than their incumbent utility continue to pay capped transmission and distribution rates but, instead of the capped generation rate, they would pay a "wires" charge which would be the difference between the capped generation rate and projected market prices for electricity
- . Just and reasonable net stranded costs are to be recovered through capped rates and wires charges during the period January 1, 2001 through July 1, 2007

PRICE REGULATION OF ENERGY REVENUES

Through 1998, customer rates for non-energy costs have been established in

past base rate proceedings before utility regulatory commissions. Changes in non-energy (or base rate) revenues due to volume, or rate changes, generally affect the earnings of Conectiv.

Energy costs, including fuel and purchased energy, are currently billed to rate-regulated customers under regulated energy adjustment clause rates. These energy rates are adjusted periodically for cost changes and are subject to review by regulatory commissions. "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 utility customers.

Energy adjustment clauses are expected to be eliminated under electric industry restructuring initiatives. Thus, profits or losses on the energy portion of electricity sales are expected to affect the earnings of electric utilities, after restructuring becomes effective.

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 (PJM) Interconnection, which is an electric power pool. Interchange delivery revenues are currently reflected in the calculation of rates charged to customers under energy adjustment clauses and, thus, do not affect net income. Margins from interchange delivery revenues will impact earnings after deregulation due to elimination of energy adjustment clauses.

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 AND SALES

Conectiv's sources of electric revenues as a percentage of total electric revenues are shown in the table below. The percentage of Conectiv's consolidated electric revenues earned from sales not subject to price regulation has increased as Conectiv's participation in unregulated electricity markets has grown. Gross margin percentages earned in markets not subject to price regulation are generally lower than the gross margin percentages earned in regulated retail markets due to product differences, greater volume per customer, and unregulated pricing. However, incremental amounts of gross margin earned from sales not subject to price regulation enhance Conectiv's profitability.

Sources of Consolidated Electric Revenues

<TABLE>
<CAPTION>

	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Regulated retail revenues.....	76.7%	81.0%	85.7%
Resale revenues.....	3.1%	6.3%	6.7%
Interchange delivery revenues.....	7.3%	3.3%	7.6%
Revenues from sales not subject to price regulation.....	12.9%	9.4%	--

</TABLE>

The percentages of consolidated regulated retail electric revenues earned by customer sales class are shown in the table below. The addition of ACE's customer base in 1998 increased the percentages of revenues earned from residential and commercial customers.

Sources of Consolidated Regulated Retail Electric Revenues

<TABLE>
<CAPTION>

	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Residential.....	45.0%	44.0%	45.7%
Commercial.....	38.1%	34.9%	34.6%
Industrial.....	15.9%	20.2%	18.9%
Other.....	1.0%	0.9%	0.8%

</TABLE>

Changes in the various components of electric revenues are shown below.

Comparative Increase (Decrease) from Prior Year in Consolidated Electric Revenues

<TABLE>
<CAPTION>

	1998			1997
	Consolidated Conectiv	ACE	DPL	DPL
	(Dollars in Millions)			
<S>	<C>	<C>	<C>	<C>
Retail and Resale Revenues				
Non-Energy (Base Rate) Revenues.....	\$ 509.1	\$490.4	\$ 18.7	\$ 8.9
Energy Revenues.....	294.9	311.0	(16.1)	32.7
Interchange Delivery Revenues.....	124.9	62.1	62.8	(38.8)
Revenues from sales not subject to price regulation.....	182.7	10.6	172.1	102.4
	-----	-----	-----	-----
	\$1,111.6	\$874.1	\$237.5	\$105.2
	=====	=====	=====	=====

</TABLE>

As shown above, \$874.1 million of the \$1,111.6 million increase in Conectiv's consolidated 1998 electric revenues was due to the Merger. The addition of ACE's customer base doubled the number of electric customers served. On a pro forma basis, as though Conectiv's operating results included ACE's operations beginning January 1, 1997, regulated electric retail kWh sales and customers increased 2.9% and 1.3%, respectively. The pro forma sales increase was primarily due to favorable economic conditions, as reflected by a 5.0% increase in kWh sold to commercial customers, partly offset by the unfavorable effect of milder winter weather on residential heating sales. Conectiv's increase in non-energy (or base rate) revenues was reduced by approximately \$18.9 million due to the Merger-related customer base rate decreases discussed in Note 6 to the Consolidated Financial Statements.

For 1997 compared to 1996, DPL's regulated electric non-energy (base rate) revenues increased \$8.9 million due to a 2.6% retail kWh sales increase, mainly attributed to favorable economic conditions and a 1.4% increase in the number of regulated retail customers. Milder weather limited the sales increase.

In 1998 and 1997, revenues from electric sales not subject to price regulation increased \$182.7 million and \$102.4 million, respectively, mainly because DPL sold more output off-system through the Merchant business. Conectiv actively participates in the wholesale energy markets to support wholesale utility and competitive retail marketing activities. Energy market participation results in exposure to commodity market risk when, at times, net open energy commodity positions are created or allowed to continue. To the extent that Conectiv has net open positions, controls are in place that are intended to keep risk exposures within certain management approved risk tolerance levels.

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

Electric Resale Business

The ability of electric resale customers to choose their electric supplier has created a competitive electric resale market. If an electric resale customer selects a supplier other than the local utility, then the local utility receives a fee for delivering the electricity to the resale customer. DPL's contract with its largest electric resale customer, Old Dominion Electric Cooperative (ODEC), is discussed below. Other electric resale customers of DPL have electricity supply contracts with DPL which expire in 2001 to 2004.

Under notice provisions in its electricity supply contract, ODEC reduced its load by 60 megawatts (MW) on September 1, 1998, from approximately 200 MW to 140 MW. ODEC has also notified DPL that it will reduce its load to zero on September 1, 2001. The annualized reduction in Conectiv's earnings per common share expected to result from ODEC's 60 MW load reduction is approximately \$0.02 to \$0.03. If ODEC further

reduces its load to zero on September 1, 2001, then annualized earnings per share would decrease by approximately an additional \$0.07 to \$0.08. These pro-

jected earnings decreases are net of the expected savings from avoided capacity costs.

GAS REVENUES, SALES AND TRANSPORTATION

DPL earns gas revenues from on-system sales which generally are subject to price regulation, off-system sales which are not subject to price regulation, and from the transportation of gas for customers. Transportation customers may purchase gas from DPL or other suppliers.

Details of the changes in the various components of gas revenues are shown below.

Comparative Increase (Decrease) from Prior Year in Gas Revenues

<TABLE>
<CAPTION>

	1998	1997
	-----	-----
	(Dollars in Millions)	
<S>	<C>	<C>
Non-Energy (Base Rate) Revenues.....	\$ (4.0)	\$ (1.2)
Energy Revenues.....	(6.0)	8.8
Revenues from sales not subject to price regulation.....	341.0	82.2
	-----	-----
	\$ 331.0	\$ 89.8
	=====	=====

</TABLE>

As shown in the above table, total gas revenues increased \$331.0 million in 1998 and \$89.8 million in 1997 primarily due to higher volumes of gas sold in markets not subject to price regulation. The margin earned from non-price regulated gas sales in excess of related purchased gas costs is relatively small due to the competitive nature of bulk commodity sales.

The decreases in non-energy (base rate) gas revenues for 1998 and 1997 were primarily due to milder weather during the heating seasons of both years, which resulted in lower residential gas sales (based on cubic feet sold) of 13.2% and 9.8%, respectively. The weather-related gas revenue decrease was partly offset by additional gas revenues from new customers. The number of regulated gas customers served increased 2.4% in 1998 and 2.3% in 1997.

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

OTHER SERVICES REVENUES

Other service revenues were comprised of the following:

<TABLE>
<CAPTION>

	1998	1997	1996
	-----	-----	-----
	(Dollars in millions)		
<S>	<C>	<C>	<C>
Fuel oil and gasoline.....	\$ 145.0	\$ --	\$ --
HVAC.....	93.5	62.8	7.1
Thermal systems.....	22.0	--	--
Operation of power plants.....	24.9	23.5	21.5
Telecommunications.....	7.2	0.7	--
Landfill and waste hauling(1).....	--	12.7	14.1
Other.....	40.2	19.5	24.8
	-----	-----	-----
Total.....	\$ 332.8	\$ 119.2	\$ 67.5
	=====	=====	=====

</TABLE>

(1) Landfill and waste hauling operations were sold in the fourth quarter of 1997.

As shown in the preceding table, other services revenues increased to \$332.8 million in 1998 from \$119.2 million in 1997, mainly due to sales of fuel oil

and gasoline by Petron Oil Corporation (Petron), which was acquired by Conectiv in March 1998. Acquisitions of HVAC businesses, revenues from the district heating and cooling business of Conectiv Thermal Systems, Inc., start-up of Conectiv's telecommunications and energy solutions businesses, and other new businesses also contributed to revenue growth.

Fourth quarter 1998 revenues from Conectiv's telecommunications subsidiary, Conectiv Communications, Inc. (CCI), reached \$3.6 million. CCI began offering local and long distance service in November 1997. CCI has sold about 32,000 access line equivalents in Delaware, Maryland, New Jersey, and Pennsylvania.

In 1997, other services revenues increased to \$119.2 million from \$67.5 million in 1996, mainly due to HVAC business acquisitions.

ELECTRIC FUEL AND PURCHASED ENERGY EXPENSES

Electric fuel and purchased energy increased \$459.2 million in 1998. Inclusion of ACE's operations in the consolidated financial statements beginning March 1, 1998 accounted for \$254.8 million of the increase, and the remaining increase was due to more energy supplied for greater volumes of electricity sold off-system and within DPL's service territory. In 1997, DPL's electric fuel and purchased energy expenses increased \$89.2 million compared to 1996 primarily due to greater volumes of energy sold off-system and lower amounts of energy expenses deferred under energy adjustment clauses.

For information concerning the Salem outage's impact on electric fuel and purchased energy expenses, see Note 18 to the Consolidated Financial Statements.

The kWh output required to serve load within ACE's and DPL's service territories is substantially equivalent to total output less interchange deliveries and off-system sales. In 1998, kWh output for load within ACE's and DPL's service territories was provided by 35% net purchased power, 31% coal generation, 21% nuclear generation and 13% oil and gas generation.

GAS PURCHASED

Primarily due to larger volumes of gas purchased for resale off-system, gas purchased increased \$333.4 million in 1998 and \$91.8 million in 1997.

OTHER SERVICES' COST OF SALES

Other services cost of sales increased by \$178.1 million in 1998 and \$29.9 million in 1997 primarily due to the business acquisitions discussed under "Other Services Revenues."

PURCHASED ELECTRIC CAPACITY

Purchased electric capacity costs increased \$154.2 million in 1998 primarily due to ACE's purchased electric capacity costs which are recovered through an energy adjustment clause.

OPERATION AND MAINTENANCE EXPENSES

Excluding \$191.0 million of operation and maintenance expenses of the former Atlantic-owned companies, which are included only in the 1998 reporting period, consolidated Conectiv operation and maintenance expenses increased \$9.6 million in 1998. This increase reflects a \$54.9 million increase due to expansion of telecommunication, HVAC, and other new, nonutility businesses, substantially offset by lower utility operating expenses. Utility operating expenses decreased due to fewer employees and the absence of last year's re-start activities at the Salem nuclear power plant.

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In 1997, DPL's operation and maintenance expenses increased \$53.9 million mainly due to the start-up of the HVAC, telecommunications, retail energy, and merchant businesses, and costs associated with establishing the Conectiv brand name and gaining new customers. Lower pension cost and Salem outage expenses mitigated the total increase in operation and maintenance expenses.

DEPRECIATION AND TAXES OTHER THAN INCOME TAXES

In 1998, depreciation and taxes other than income taxes increased mainly due to the ten months of 1998 operating results for the former Atlantic-owned com-

panies. Depreciation expense for 1998 also reflects an increase of \$6.2 million from amortization of goodwill associated with the Merger. In 1997, DPL's depreciation expense increased \$7.8 million due to completion of on-going construction projects and installation of new systems.

OTHER INCOME

Other income for 1998 includes \$17.7 million of equity in earnings of a non-utility generation joint venture. Other income for 1997 includes a \$22.9 million pre-tax gain on the sale of the Pine Grove landfill and related waste-hauling operations.

FINANCING COSTS

Financing costs reflected in the consolidated income statement include interest charges, allowance for funds used during construction (AFUDC), and preferred stock dividend requirements of subsidiaries.

Financing costs increased \$7.0 million in 1998 (excluding increases attributed to the operating results of ACE and former Atlantic-owned nonutility subsidiaries for 1998) mainly due to financing requirements associated with investments in new nonutility businesses. In 1997, financing costs increased \$9.9 million mainly due to financing requirements related to the utility business.

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 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, delivering natural gas 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 the other systems continuing based on their relative importance to Conectiv's businesses.

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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 business. 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	Inventory and Corrective Action/ Assessment	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>

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

Distribution of electricity is dependent on the overall reliability of the electric grid. ACE and DPL are cooperating with the North American Electric Reliability Council (NERC) and the PJM Interconnection in Year 2000 remediation and remediation planning efforts, and have accelerated their 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 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 Conectiv'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, Conectiv 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, Conectiv cannot with certainty determine whether the Year 2000 issue might cause disruptions to its operations and have impacts on related costs and revenues. Conectiv 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 program, as well as reports from NERC and other utilities, Conectiv's management believes it is unlikely that significant Year 2000 related disruptions will occur. However, any substantial disruption to Conectiv's operations could negatively impact Conectiv's revenues, significantly impact its customers and could generate legal claims against Conectiv. Conectiv'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

Conectiv's primary sources of capital are internally generated funds (net cash provided by operating activities less common dividends) and external financings. Capital requirements generally include utility construction expenditures, expansion of new businesses, and repayment of debt and capital lease obligations. In the foreseeable future, Conectiv's management expects that incremental demand for electricity will be supplied with purchased power.

Net cash inflows from operating activities increased to \$372.3 million in 1998 from \$217.0 million in 1997, mainly due to cash flow provided by ACE's operations (from March 1998 to December 1998), partly offset by

more cash used by the operations of Conectiv's new businesses. Cash inflows from operating activities in 1997 remained at about the same level as in 1996. In 1997, cash used by new businesses offset higher cash flows from regulated energy revenues, net of amounts paid for energy.

Total assets as of December 31, 1998 reflect an increase of \$2.9 billion, which resulted from the Merger. The Merger-related increase in assets included \$1.9 billion of property, plant, and equipment and \$289 million of goodwill, which is being amortized over 40 years. Total long-term capitalization increased from \$2.1 billion as of December 31, 1997 to \$3.9 billion as of December 31, 1998, primarily due to the Merger. Dividends payable increased from \$23.8 million to \$47.7 million, due to declared dividends payable on common stock which was issued to Atlantic stockholders in conjunction with the Merger.

The amount of cash used for business acquisitions (net of cash acquired) was \$2.6 million in 1998, \$32.0 million in 1997, and \$8.3 million in 1996. In 1998, business acquisition expenditures were net of \$34.5 million of cash acquired in the Merger. The 1998 nonutility businesses acquired by Conectiv included HVAC businesses, a fuel oil distributor (Petron), and a gas marketing enterprise (Enerval LLC). Business acquisition expenditures in 1997 and 1996 resulted primarily from the purchase of HVAC businesses and direct Merger costs.

Capital expenditures increased to \$224.8 million in 1998 from \$156.8 million in 1997 mainly due to ACE's utility capital expenditures from March 1998 to December 1998. In 1997, capital expenditures decreased \$8.8 million from 1996 principally due to a \$40.5 million decrease in utility construction expenditures, partly offset by \$35.2 million of capital expenditures for expansion of Conectiv Communications, Inc.'s fiber optic network.

"Investments in partnerships" of \$28.6 million in 1998 included an investment by Conectiv Thermal Systems, Inc. in a thermal energy system being constructed for a Las Vegas casino, investments in new joint ventures involving gas marketing and operation of a liquefied natural gas storage facility, and other investments.

"Sales of nonutility assets" in 1997 included \$33.4 million of pre-tax proceeds from the sale of Pine Grove Inc.'s landfill and related waste-hauling operations.

Common dividend payments were \$154.1 million in 1998, \$93.8 million in 1997, and \$93.3 million in 1996. Common dividend payments increased in 1998 due to common stock issued to Atlantic stockholders in conjunction with the Merger. After subtracting common dividend payments from operating activities' net cash in-flows, internally generated funds were \$218.2 million in 1998, \$123.2 million in 1997, and \$120.3 million in 1996. Internally generated funds provided 119%, 107%, and 77% of the cash required for utility construction in 1998, 1997, and 1996, respectively.

During 1996-1998, short-term debt provided \$266.7 million of funds, and long-term financing activities (debt, preferred equity, and common equity) used net cash of \$59.0 million (\$371.6 million of redemptions net of \$312.6 million of issuances). Short-term debt outstanding increased from \$23.3 million as of December 31, 1997 to \$376.1 million as of December 31, 1998. The \$352.8 million increase was primarily due to refinancing \$158.2 million of nonutility revolving credit facilities of Atlantic and its former subsidiaries, and nonutility business expansions and acquisitions. By early- to mid-1999, Conectiv plans to refinance a significant portion of its short-term debt balance with long-term debt. On a consolidated basis, Conectiv had \$590 million in short-term credit lines as of December 31, 1998, of which \$235 million was available for borrowing.

Long-term debt issued during 1996 to 1998 amounted to \$199.2 million, which consisted entirely of Medium Term Notes with interest rates ranging from 6.6% to 7.72% and maturities ranging from 5 to 30 years. Redemptions of long-term debt during 1996 to 1998 amounted to \$230.1 million, which included \$158.2 million of nonutility revolving credit facilities of Atlantic and its former subsidiaries, \$31.0 million of Medium Term Notes (5.5%-5.69%), \$25.0 million of 6 3/8% First Mortgage Bonds, and \$15.9 million of other debt.

Scheduled maturities of long-term debt over the next five years are as follows: 1999--\$80.8 million; 2000--\$48.7 million; 2001--\$43.7 million; 2002--\$99.3 million; 2003--\$162.4 million.

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Preferred securities issued through subsidiaries included \$25 million of 7 3/8% preferred securities in 1998 and \$70 million of 8.125% preferred securities in 1996. On a consolidated basis, these preferred securities provide a tax benefit equivalent to the tax effect of a deduction for distributions on the preferred securities. Redemptions of preferred stock of subsidiaries were \$33.8 million (average dividend rate of 5.5%) in 1998 and \$78.4 million (average dividend rate of 6.9%) in 1996. A gain of \$2.5 million was realized on redemption of preferred stock in 1998 and is reflected in the 1998 Consolidated Statement of Income as a reduction of preferred dividends.

Depending on its financing needs, Conectiv periodically raises cash by issuing common stock through its Dividend Reinvestment and Common Share Purchase Plan (DRIP). Alternatively, Conectiv at times provides DRIP shares to invest-

ing stockholders by purchasing its common shares in the open market.

Conectiv'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.....	46.8%	48.6%
Preferred stock of subsidiaries.....	7.1%	7.4%
Common stockholders' equity.....	46.1%	44.0%

</TABLE>

Conectiv's estimated requirements during 1999 for capital expenditures and business acquisitions are \$327 million. The uncertainty of the impact of electric utility industry restructuring, and the extent to which Conectiv retains or divests 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. Conectiv'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 Conectiv. Nevertheless, because of the inherent unpredictability of interest rates, equity market prices, and energy commodity prices as well as other factors, actual results could differ materially from those projected in such forward-looking information. For a description of Conectiv's significant accounting policies associated with these activities see Notes 1 and 8 to the Consolidated Financial Statements.

Interest Rate Risk

Conectiv is subject to the risk of fluctuating interest rates in the normal course of business. Conectiv 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 result in a \$2.7 million change in interest costs and earnings before taxes related to short-term and variable rate debt.

Equity Price Risk

ACE and DPL maintain trust funds, as required by the Nuclear Regulatory Commission, to fund certain costs of nuclear decommissioning (See Note 9 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 and DPL are maximizing the returns to be utilized to fund nuclear decommissioning costs. However, the equity securities included in ACE's and DPL's portfolios are exposed to price fluctuations in equity markets, and the fixed-rate, fixed income securities are exposed to changes in interest rates. ACE and DPL actively monitor their portfolios by benchmarking the performance of their investments against certain indexes and by maintaining, and periodically reviewing, established target asset allocation percentages of the assets in their trusts. Because the account-

ing for nuclear decommissioning recognizes that costs are recovered through electric rates, fluctuations in equity prices and interest rates do not affect the earnings of ACE and DPL.

Commodity Price Risk

Conectiv is exposed to the impact of market fluctuations in the price and transportation costs of natural gas, electricity, and petroleum products. Conectiv engages in commodity hedging activities to minimize the risk of market fluctuations associated with the purchase and sale of energy commodities (natural gas, petroleum and electricity). Some hedging activities are conducted using energy derivatives (futures, option, and swaps). The remainder of Conectiv's hedging activity is conducted by backing physical transactions

with offsetting physical positions. The hedging objectives include the assurance of stable and known minimum cash flows and the fixing of favorable prices and margins when they become available. Conectiv also engages in energy commodity trading and arbitrage activities, which expose Conectiv to commodity market risk when, at times, Conectiv creates net open energy commodity positions or allows net open positions to continue. To the extent that Conectiv has net open positions, controls are in place that are intended to keep risk exposures within management-approved risk tolerance levels.

Conectiv uses a value-at-risk model to assess the market risk of its electricity, gas, and petroleum commodity activities. The model includes fixed price sales commitments, physical forward contracts, and commodity derivative instruments. Value at risk represents the potential gain or loss on instruments or portfolios due to changes in market factors, for a specified time period and confidence level. Conectiv estimates value-at-risk across its power, gas, and petroleum commodity business using a delta-normal variance/covariance model with a 95 percent confidence level and assuming a five-day holding period. At December 31, 1998, Conectiv's calculated value at risk with respect to its commodity price exposure was approximately \$0.7 million.

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 disclosures 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; future litigation results; costs of construction; operating restrictions; increased costs 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. Conectiv 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 Conectiv prior to the effective date of the Litigation Reform Act.

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CONECTIV

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF MANAGEMENT

Management is responsible for the information and representations contained in Conectiv's consolidated financial statements. 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.

Conectiv 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.

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

/s/ Howard E. Cosgrove

/s/ John C. van Roden

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

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
Conectiv
Wilmington, Delaware

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in common stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Conectiv and subsidiary companies as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of Conectiv's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits provide 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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CONNECTIV

CONSOLIDATED STATEMENTS OF INCOME

<TABLE>
<CAPTION>

	Year Ended December 31,		
	1998	1997	1996
	(Dollars in Thousands)		
<S>	<C>	<C>	<C>
OPERATING REVENUES			
Electric.....	\$2,203,748	\$1,092,144	\$ 986,921
Gas.....	535,082	204,057	114,284
Other services.....	332,776	119,166	67,459
	3,071,606	1,415,367	1,168,664
OPERATING EXPENSES			
Electric fuel and purchased power.....	875,816	416,640	327,464
Gas purchased.....	486,411	153,027	61,208
Other services' cost of sales.....	263,319	85,192	55,276
Purchased electric capacity.....	182,676	28,470	32,126
Employee separation and other merger-			

related costs.....	27,704	--	--
Operation and maintenance.....	532,419	331,770	277,893
Depreciation.....	241,420	136,340	128,571
Taxes other than income taxes.....	74,926	37,634	35,737
	-----	-----	-----
	2,684,691	1,189,073	918,275
	-----	-----	-----
OPERATING INCOME.....	386,915	226,294	250,389
	-----	-----	-----
OTHER INCOME			
Allowance for equity funds used during construction.....	2,609	1,337	1,338
Other income.....	34,251	36,322	14,506
	-----	-----	-----
	36,860	37,659	15,844
	-----	-----	-----
INTEREST EXPENSE			
Interest charges.....	153,644	83,398	74,242
Allowance for borrowed funds used during construction and capitalized interest...	(4,213)	(2,996)	(3,926)
	-----	-----	-----
	149,431	80,402	70,316
	-----	-----	-----
PREFERRED STOCK DIVIDEND REQUIREMENTS OF SUBSIDIARIES.....	15,326	10,178	10,326
	-----	-----	-----
INCOME BEFORE INCOME TAXES.....	259,018	173,373	185,591
INCOME TAXES.....	105,817	72,155	78,340
	-----	-----	-----
NET INCOME.....	\$ 153,201	\$ 101,218	\$ 107,251
	=====	=====	=====
EARNINGS APPLICABLE TO COMMON STOCK			
Common stock.....	\$ 141,292	\$ 101,218	\$ 107,251
Class A common stock.....	11,909	--	--
	=====	=====	=====
	\$ 153,201	\$ 101,218	\$ 107,251
	=====	=====	=====
Common Stock			
Average Shares Outstanding (000)			
Common stock.....	94,338	61,122	60,698
Class A common stock.....	6,561	--	--
Earnings per average share--basic and diluted			
Common stock.....	\$ 1.50	\$ 1.66	\$ 1.77
Class A common stock.....	\$ 1.82	--	--
Dividends declared per share			
Common stock.....	\$ 1.54	\$ 1.54	\$ 1.54
Class A common stock.....	\$ 3.20	--	--

</TABLE>

See accompanying Notes to Consolidated Financial Statements.

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CONNECTIV

CONSOLIDATED BALANCE SHEETS

<TABLE>

<CAPTION>

	As of December 31,	
	1998	1997

	(Dollars in Thousands)	
<S>	<C>	<C>
ASSETS		
Current Assets		
Cash and cash equivalents.....	\$ 65,884	\$ 35,339
Accounts receivable, net.....	455,088	197,561
Inventories, at average cost		
Fuel (coal, oil and gas).....	71,701	37,425
Materials and supplies.....	73,047	40,518
Prepaid New Jersey sales and excise taxes.....	20,078	--
Prepayments.....	17,278	11,255
Deferred energy costs.....	--	18,017

Deferred income taxes, net.....	20,796	776
	-----	-----
	723,872	340,891
	-----	-----
Investments		
Investment in leveraged leases.....	122,256	46,375
Funds held by trustee.....	174,509	48,086
Other investments.....	90,913	9,500
	-----	-----
	387,678	103,961
	-----	-----
Property, Plant and Equipment		
Electric utility plant.....	5,649,827	3,010,060
Gas utility plant.....	249,383	241,580
Common utility plant.....	169,883	154,791
	-----	-----
	6,069,093	3,406,431
Less: Accumulated depreciation.....	2,499,915	1,373,676
	-----	-----
Net utility plant in service.....	3,569,178	2,032,755
Utility construction work-in-progress.....	236,830	93,017
Leased nuclear fuel, at amortized cost.....	63,328	31,031
Nonutility property, net.....	208,215	74,811
Goodwill, net.....	402,836	92,602
	-----	-----
	4,480,387	2,324,216
	-----	-----
Deferred Charges and Other Assets		
Unrecovered purchased power costs.....	48,274	--
Deferred recoverable income taxes.....	184,434	88,683
Unrecovered New Jersey state excise tax.....	35,594	--
Deferred debt refinancing costs.....	44,223	18,760
Deferred other postretirement benefit costs.....	34,978	--
Prepaid employee benefits costs.....	16,132	58,111
Unamortized debt expense.....	27,375	12,911
License fees.....	24,706	--
Other.....	80,021	67,948
	-----	-----
	495,737	246,413
	-----	-----
Total Assets.....	\$6,087,674	\$3,015,481
	=====	=====

</TABLE>

See accompanying Notes to Consolidated Financial Statements.

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CONNECTIV

CONSOLIDATED BALANCE SHEETS

<TABLE>

<CAPTION>

	As of December 31,	
	1998	1997
	-----	-----
	(Dollars in Thousands)	
	<C>	<C>
<S>		
CAPITALIZATION AND LIABILITIES		
Current Liabilities		
Short-term debt.....	\$ 376,061	\$ 23,254
Long-term debt due within one year.....	80,822	33,318
Variable rate demand bonds.....	125,100	71,500
Accounts payable.....	240,775	103,607
Taxes accrued.....	41,299	10,723
Interest accrued.....	37,346	19,902
Dividends payable.....	47,743	23,775
Deferred energy costs.....	15,990	--
Current capital lease obligation.....	28,314	12,516
Accrued employee separation and other merger-related costs.....	12,173	--
Other.....	76,168	35,819
	-----	-----

	1,081,791	334,414
	-----	-----
Deferred Credits and Other Liabilities		
Other postretirement benefits obligation.....	102,268	--
Deferred income taxes, net.....	862,179	492,792
Deferred investment tax credits.....	79,525	39,942
Long-term capital lease obligation.....	36,603	19,877
Other.....	50,702	30,585
	-----	-----
	1,131,277	583,196
	-----	-----
Capitalization		
Common stock: per share par value--\$0.01 in 1998, and \$2.25 in 1997; 150,000,000 shares authorized; shares outstanding--100,516,768 in 1998, and 61,210,262 in 1997.....	1,007	139,116
Class A common stock, \$0.01 par value; 10,000,000 shares authorized; shares outstanding--6,560,612 in 1998, None in 1997.....	66	--
Additional paid-in capital--common stock.....	1,462,675	526,812
Additional paid-in capital--Class A common stock....	107,095	--
Retained earnings.....	276,939	300,757
	-----	-----
	1,847,782	966,685
Treasury shares, at cost:		
185,030 shares in 1998; 619,237 shares in 1997....	(3,797)	(11,687)
Unearned compensation.....	(824)	(502)
	-----	-----
Total common stockholders' equity.....	1,843,161	954,496
Preferred stock of subsidiaries:		
Not subject to mandatory redemption.....	95,933	89,703
Subject to mandatory redemption.....	188,950	70,000
Long-term debt.....	1,746,562	983,672
	-----	-----
	3,874,606	2,097,871
	-----	-----
Commitments and Contingencies (Notes 16 and 19)		
	-----	-----
Total Capitalization and Liabilities.....	\$6,087,674	\$3,015,481
	=====	=====

</TABLE>

See accompanying Notes to Consolidated Financial Statements.

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CONNECTIV

CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>

<CAPTION>

	Year Ended December 31,		
	1998	1997	1996
	-----	-----	-----
	(Dollars in Thousands)		
<S>	<C>	<C>	<C>
Cash Flows From Operating Activities			
Net income.....	\$ 153,201	\$ 101,218	\$ 107,251
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization.....	261,457	142,734	134,109
Allowance for equity funds used during construction.....	(2,609)	(1,337)	(1,338)
Investment tax credit adjustments, net....	(4,002)	(2,560)	(2,560)
Deferred income taxes, net.....	4,620	7,169	33,218
Net change in:			
Accounts receivable.....	(118,578)	(53,911)	(5,030)
Inventories.....	(9,691)	4,763	(4,489)
Prepaid New Jersey sales and excise tax- es.....	(20,078)	--	--
Accounts payable.....	107,005	16,394	18,418
Other current assets & liabilities(1)...	26,996	43,708	(48,549)
Gains on sales of assets.....	(2,795)	(22,896)	(380)
Other, net.....	(23,217)	(18,250)	(17,100)

Net cash provided by operating activities.....	372,309	217,032	213,550
Cash Flows From Investing Activities			
Acquisition of businesses, net of cash ac- quired.....	(2,590)	(31,994)	(8,301)
Capital expenditures.....	(224,831)	(156,808)	(165,595)
Investments in partnerships.....	(28,594)	(1,800)	--
Sales of nonutility assets.....	5,617	34,880	793
Sales of utility assets.....	3,804	--	--
Deposits to nuclear decommissioning trust funds.....	(10,676)	(4,240)	(4,238)
Other, net.....	(2,082)	3,189	3,478
Net cash used by investing activities.....	(259,352)	(156,773)	(173,863)
Cash Flows From Financing Activities			
Common dividends paid.....	(154,101)	(93,811)	(93,290)
Issuances: Long-term debt.....	33,000	166,200	--
Common stock.....	63	17,807	486
Preferred stock.....	25,000	--	70,000
Redemptions: Long-term debt.....	(200,078)	(28,540)	(1,504)
Variable rate demand bonds.....	--	(1,800)	(1,500)
Common stock.....	(13,232)	(7,323)	(5,466)
Preferred stock.....	(33,769)	--	(78,383)
Principal portion of capital lease pay- ments.....	(20,037)	(6,813)	(5,538)
Net change in short-term debt.....	282,889	(102,671)	86,498
Cost of issuances and refinancings.....	(2,147)	(4,502)	(3,408)
Net cash used by financing activities.....	(82,412)	(61,453)	(32,105)
Net change in cash and cash equivalents.....	30,545	(1,194)	7,582
Beginning of year cash and cash equivalents...	35,339	36,533	28,951
End of year cash and cash equivalents.....	\$ 65,884	\$ 35,339	\$ 36,533

</TABLE>

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

See accompanying Notes to Consolidated Financial Statements.

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CONNECTIV

CONSOLIDATED STATEMENTS OF CHANGES IN
COMMON STOCKHOLDERS' EQUITY

<TABLE>

<CAPTION>

	Par Value		Additional Paid-in Capital		Retained Earnings	Treasury Stock	Unearned Compen- sation	Total	
	Common Shares Outstanding	Common Stock (1)	Class A Common Stock (1)	Common Stock					Class A Common Stock
				(Dollars in Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	
Balance as of December 31, 1995.....	60,759,365	\$136,713		\$ 506,328		\$281,862	\$ (30)	\$ (1,433)	\$ 923,440
Net income.....					107,251				107,251
Cash dividends declared Common stock (\$1.54 per share).....					(93,294)				(93,294)
Issuance of common stock Business acquisitions..	212,350					4,396			4,396
DRIP (2)	21,465	47		388					435
LTIP (3)	2,400	5		45					50
Expenses.....				(72)					(72)
Reacquired common stock.....	(312,861)			532		(6,504)		363	(5,609)
Amortization of unearned compensation.....				687				(548)	139

Refinancing of preferred stock.....				392		(2,215)			(1,823)
Balance as of December 31, 1996.....	60,682,719	136,765	--	508,300	--	293,604	(2,138)	(1,618)	934,913
Net income.....						101,218			101,218
Cash dividends declared Common stock (\$1.54 per share).....						(94,065)			(94,065)
Issuance of common stock DRIP(2).....	965,655	2,173		15,485					17,658
LTIP(3).....	76,553	172		1,288			(1,360)		100
Other issuance.....	2,741	6		47					53
Reacquired common stock.....	(517,406)			230			(9,549)	2,162	(7,157)
Amortization of unearned compensation.....				1,462				314	1,776
Balance as of December 31, 1997.....	61,210,262	139,116	--	526,812	--	300,757	(11,687)	(502)	954,496
Net income.....						153,201			153,201
Cash dividends declared Common stock (\$1.54 per share).....						(155,302)			(155,302)
Class A common stock (\$3.20 per share)....						(20,994)			(20,994)
Issuance of common stock Business acquisitions..	488,473						9,090		9,090
LTIP(3).....	78,381	7		(427)			1,613	(1,130)	63
Atlantic common stockholders(4)(5)....	45,924,284	394	66	813,135	107,095				920,690
DPL common stockholders(5).....	61,832,699	618		665,423			(4,580)	(502)	660,959
Expenses.....				(4,836)					(4,836)
DPL common stock canceled(5).....	(61,832,699)	(139,123)		(526,918)			4,580	502	(660,959)
Reacquired common stock.....	(598,862)	(5)		(10,947)			(2,280)		(13,232)
Redemption of preferred stock.....				136			(723)		(587)
Incentive compensation Expense recognition....				309				263	572
Forfeited common shares.....	(25,158)			(12)			(533)	545	--
Balance as of December 31, 1998(4).....	107,077,380	\$ 1,007	\$66	\$1,462,675	\$107,095	\$276,939	\$(3,797)	\$(824)	\$1,843,161

</TABLE>

- (1) 150,000,000 and 10,000,000 shares of Conectiv common stock and Conectiv Class A common stock, respectively, are authorized. The common stock had a par value of \$2.25 per share prior to the Merger and \$0.01 per share after the Merger on March 1, 1998.
- (2) Dividend Reinvestment and Common Share Purchase Plan (DRIP)--As of December 31, 1998, 4,077,300 shares remained available under Conectiv's registration statement filed with the Securities and Exchange Commission for issuance of shares through the DRIP.
- (3) Long-term Incentive Plan (LTIP)--includes restricted common shares granted and stock options exercised.
- (4) Includes 6,560,612 shares of Conectiv Class A common stock.
- (5) Conectiv common stock and Conectiv Class A common stock were issued to former Atlantic and DPL common stockholders pursuant to the Merger discussed in Note 4 to the Consolidated Financial Statements.

See accompanying Notes to Consolidated Financial Statements.

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CONNECTIV

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

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

As used in this document, references to Conectiv may mean the activities of one or more subsidiary companies.

Conectiv's utility businesses are conducted by DPL and ACE. Conectiv also conducts nonutility businesses primarily through subsidiaries which include Conectiv Services, Inc. (CSI), Conectiv Communications, Inc. (CCI), Conectiv Energy Supply, Inc. (CES), Conectiv Thermal Systems, Inc. (CTS), and other subsidiaries.

DPL and ACE provide regulated electric service (supply and delivery) to approximately 944,100 customers located on the Delmarva Peninsula (Delaware and portions of Maryland and Virginia) and in Southern New Jersey. Their electric service territory covers an area consisting of about 8,700 square miles with a population of approximately 2.0 million. Conectiv also sells electricity outside its service territory (off-system) and in markets which are not subject to price regulation.

DPL provides regulated gas service (supply and/or transportation) to approximately 105,700 customers located in a service territory that covers about 275 square miles with a population of approximately 485,000 in northern Delaware. Conectiv also sells gas off-system and in markets which are not subject to price regulation.

Other services, which are not subject to price regulation, are provided primarily by Conectiv's nonutility subsidiaries and, to a lesser extent, by DPL and ACE. Other services include: sales of petroleum products; heating, ventilation, and air-conditioning (HVAC) construction and services; construction and operation of thermal energy systems; power plant operations; local and long-distance phone service; and various other services.

Regulation of Utility Operations

Conectiv's utility business is subject to regulation with respect to retail electric sales by the Delaware and Maryland Public Service Commissions (DPSC and MPSC, respectively), the New Jersey Board of Public Utilities (NJBPU) and the Virginia State Corporation Commission (VSCC), which have authority over rate matters, accounting, and terms of service. Retail gas sales are subject to regulation by the DPSC. The Federal Energy Regulatory Commission (FERC) also has regulatory authority over certain aspects of Conectiv's utility business, including the transmission of electricity and gas, the sale of electricity to municipalities and electric cooperatives, and interchange and other purchases and sales of electricity involving other utilities. Excluding off-system sales not subject to price regulation, the percentage of electric and gas utility operating revenues regulated by each regulatory commission for the year ended December 31, 1998, was as follows: NJBPU, 41.8%; DPSC, 38.9%; MPSC, 14.5%; VSCC, 1.4%; and FERC, 3.4%.

DPL and ACE are subject to the requirements of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." Regulatory commissions occasionally provide 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 expenses are recovered from customers. Similarly, regulatory liabilities may also be created due to the economic impact of an action taken by regulatory commissions.

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Refer to Note 10 to the Consolidated Financial Statements for a discussion of regulatory assets arising from the financial effects of rate regulation and Note 6 to the Consolidated Financial Statements for a discussion on the impact and current status of electric utility industry restructuring.

Financial Statement Presentation

The consolidated financial statements include the accounts of Conectiv and its majority-owned subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation.

Ownership interests of 20% to 50% in other entities are accounted for by the equity method of accounting. Investments in entities accounted for under the equity method are included in "Other investments" on the Consolidated Balance Sheets. Earnings from equity method investees are included in "Other income" in the Consolidated Statements of Income.

Dividends on preferred stock of DPL for 1997 and 1996 have been reclassified to Preferred Stock Dividend Requirements of Subsidiaries, resulting in a deduction before (rather than after) net income. This reclassification reflects the current organizational structure in which DPL is a subsidiary of Conectiv. Certain other prior year amounts have been reclassified to conform with the current year presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Revenue Recognition

At the end of each month, there is an amount of electric and gas 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 accrued by Conectiv.

When interim utility rates are placed in effect subject to refund, Conectiv recognizes utility revenues based on expected final rates.

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

Deferred Energy Costs

Energy costs charged to Conectiv's results of operations generally are adjusted to match energy costs billed to customers (energy revenues) under tariffs for regulated energy sales. The difference between energy revenues and actual energy costs incurred is reported on the Consolidated Balance Sheets as "Deferred energy costs." The deferred balance is subsequently recovered from or returned to utility customers.

Nuclear Fuel

Conectiv'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.

Energy Trading and Risk Management Activities

In December 1998, the Emerging Issues Task Force (EITF), which evaluates accounting issues under the direction of the Financial Accounting Standards Board (FASB), concluded that, effective for financial statements issued for fiscal years beginning after December 15, 1998, contracts entered into in connection with energy trading activities should be marked to market, with gains and losses (unrealized and realized) included in earnings (EITF No. 98-10).

Conectiv uses futures, options and swap agreements to hedge firm commitments or anticipated transactions of energy commodities and also creates net open energy commodity positions. Conectiv used "hedge accounting" as subsequently described, to account for certain energy trading activities during 1996 to 1998. As discussed above, beginning January 1, 1999, EITF No. 98-10 requires mark to market accounting for energy trading contracts, including derivatives. Conectiv currently uses derivatives mainly in conjunction with energy trading activities.

Under hedge accounting, a derivative, at its inception and on an ongoing basis, is expected to substantially offset adverse price movements in the firm commitment or anticipated transaction that it is hedging. Gains and losses related to qualifying hedges are deferred and are recognized in income when the underlying transaction occurs. If, subsequent to being hedged, underlying transactions are no longer likely to occur or the hedge is no longer effective, the related derivatives gains or losses are recognized currently in earnings. Gains and losses on derivatives that do not qualify for hedge accounting are recognized currently in revenues.

Premiums paid for options are included as current assets in the consolidated balance sheet until they are exercised or expire. Margin requirements for futures contracts are also recorded as current assets. Under hedge accounting, unrealized gains and losses on all futures contracts are deferred on the consolidated balance sheet as either current assets or deferred credits. The cash flows from derivatives are included in the cash flows from operations section of the cash flow statement.

In June 1998, the FASB issued SFAS No. 133, 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.

Conectiv currently cannot determine the effect that SFAS No. 133 will have on its financial statements. However, the adoption of EITF 98-10 prior to the implementation of SFAS No. 133 is expected to reduce the impact of SFAS No. 133.

Depreciation Expense

The annual provision for depreciation on utility property is computed on the straight-line basis using composite rates by classes of depreciable property. Accumulated depreciation is charged with the cost of depreciable property retired, including removal costs less salvage and other recoveries. The relationship of the annual provision for depreciation for financial accounting purposes to average depreciable property was 3.8% for 1998, 3.7% for 1997, and 3.6% for 1996. Depreciation expense includes a provision for Conectiv's share of the estimated cost of decommissioning nuclear power plant reactors based on amounts billed to customers for such costs. Refer to Note 9 to the Consolidated Financial Statements for additional information on nuclear decommissioning.

Nonutility property is generally depreciated on a straight-line basis over the useful lives of the assets.

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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 Conectiv's federal and state income tax returns. Deferred income taxes are discussed below.

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 Conectiv'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 \$184.4 million and \$88.7 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. Investment tax credits associated with leveraged leases are being amortized over the lives of the related leases during the periods in which the net investment is positive.

Deferred Debt Refinancing Costs

Costs of refinancing debt of DPL and ACE are deferred and amortized over the period during which the refinancing costs are recovered in utility rates.

License Fees

License fees represent the unamortized balance of amounts previously paid by Atlantic Thermal Systems (CTS' predecessor) for the right to operate heating and cooling systems of certain hotel casinos in Atlantic City, New Jersey, over a 20-year period. These fees are classified as License Fees on the balance sheet and are being amortized over 20 years.

Interest Expense

The amortization of debt discount, premium, and expense, including refinancing expenses, is included in interest expense.

Utility Plant and Allowance for Funds Used During Construction

Utility plant is generally stated at original cost, including property additions. Utility plant is generally 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 was capitalized on utility plant construction at the rates of 8.8% in 1998, 7.5% in 1997, and 6.7% in 1996.

Stock-based Employee Compensation

Refer to Note 11 to the Consolidated Financial Statements for Conectiv's accounting policy on stock-based employee compensation.

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Cash Equivalents

In the consolidated financial statements, Conectiv considers highly liquid marketable securities and debt instruments purchased with a maturity of three months or less to be cash equivalents.

Goodwill

Conectiv amortizes goodwill arising from business acquisitions over the shorter of the estimated useful life or 40 years.

Leveraged Leases

Conectiv's investment in leveraged leases includes the aggregate of rentals receivable (net of principal and interest on nonrecourse indebtedness) and estimated residual values of the leased equipment less unearned and deferred income (including investment tax credits). Unearned and deferred income is recognized at a level rate of return during the periods in which the net investment is positive. Refer to Note 16 to the Consolidated Financial Statements for additional information on leveraged leases.

Funds Held By Trustee

Funds held by trustee are stated at fair market value and primarily include deposits in Conectiv's external nuclear decommissioning trusts and unexpended, restricted, tax-exempt bond proceeds.

Earnings Per Share

Earnings per share has been computed in accordance with SFAS No. 128, "Earn-

ings Per Share." Under SFAS No. 128, basic earnings per share are computed based on earnings applicable to common stock divided by the weighted average number of common shares outstanding for the period. Diluted earnings per share are computed based on earnings applicable to common stock divided by the weighted average number of shares of common stock outstanding during the period after giving effect to securities considered to be dilutive common stock equivalents. The effect of dilutive common stock equivalents was not significant, and thus, for 1998, 1997, and 1996, Conectiv's basic and diluted earnings per share were the same amounts.

2. SUPPLEMENTAL CASH FLOW INFORMATION

See the Consolidated Statement of Changes in Common Stockholders' Equity and Note 4 to the Consolidated Financial Statements for information concerning the issuance of Conectiv common stock and Conectiv Class A common stock in exchange for DPL and Atlantic common stock.

Cash Paid During the Year

<TABLE>
<CAPTION>

	1998	1997	1996
	-----	-----	-----
	(Dollars in Thousands)		
<S>	<C>	<C>	<C>
Interest, net of capitalized amount.....	\$112,549	\$73,211	\$67,596
Income taxes, net of refunds.....	\$107,755	\$53,550	\$56,582

</TABLE>

3. INCOME TAXES

Conectiv files a consolidated federal income tax return which includes its wholly-owned subsidiaries. Income taxes are allocated to Conectiv's subsidiaries based upon the taxable income or loss of each subsidiary.

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Components of Consolidated Income Tax Expense

<TABLE>
<CAPTION>

	1998	1997	1996
	-----	-----	-----
	(Dollars in Thousands)		
<S>	<C>	<C>	<C>
Federal:Current.....	\$ 80,408	\$58,737	\$40,953
Deferred.....	7,387	6,589	26,131
State:Current.....	24,791	8,810	6,729
Deferred.....	(2,767)	579	7,087
Investment tax credit adjustments, net.....	(4,002)	(2,560)	(2,560)
	-----	-----	-----
	\$105,817	\$72,155	\$78,340
	-----	-----	-----

</TABLE>

Reconciliation of Effective Income Tax Rate

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	
	-----	-----	-----	-----	-----	-----
	Amount	Rate	Amount	Rate	Amount	Rate
	-----	-----	-----	-----	-----	-----
	(Dollars in Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Statutory federal income tax expense..	\$ 90,656	35%	\$60,681	35%	\$64,957	35%
Increase due to State income taxes, net of federal tax benefit.....	14,316	6	6,102	4	8,980	5
Other, net.....	845	--	5,372	3	4,403	2
	-----	-----	-----	-----	-----	-----
Total income tax expense.....	\$105,817	41%	\$72,155	42%	\$78,340	42%
	=====	=====	=====	=====	=====	=====

</TABLE>

Components of Deferred Income Taxes

The tax effects of temporary differences that give rise to Conectiv's net deferred tax liability are shown below.

<TABLE>
<CAPTION>

	As of December 31,	
	1998	1997
	(Dollars in Thousands)	
<S>	<C>	<C>
Deferred Tax Liabilities		
Plant basis differences.....	\$ 692,780	\$409,861
Leveraged leases.....	116,481	38,288
Deferred recoverable income taxes.....	72,448	41,061
Deferred energy costs.....	(1,931)	7,054
Other.....	134,678	81,482
Total deferred tax liabilities.....	1,014,456	577,746
Deferred Tax Assets		
Deferred investment tax credits.....	36,494	14,815
Other.....	136,579	70,915
Total deferred tax assets.....	173,073	85,730
Total deferred taxes, net.....	\$ 841,383	\$492,016

</TABLE>

Valuation allowances for deferred tax assets were not material as of December 31, 1998 and 1997.

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 electricity

and gas. A transitional energy facility assessment tax (TEFA) will be applied for a limited time to electric and natural gas utilities and 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, this 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.

4. MERGERS AND ACQUISITIONS

Merger with Atlantic

On March 1, 1998, DPL and ACE became wholly-owned subsidiaries of Conectiv. Before the Merger, Atlantic owned ACE, an electric utility serving the southern one-third of New Jersey, and nonutility subsidiaries. As a result of the Merger, Atlantic ceased to exist, 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 accordance with the terms of the Merger, DPL common stockholders received one share of Conectiv common stock in exchange for each share of DPL common stock, and Atlantic common stockholders received 0.75 of one share of Conectiv common stock and 0.125 of one share of Conectiv Class A common stock in exchange for each share of Atlantic common stock. Atlantic stockholders and DPL stockholders received 39,363,672 and 61,832,699 shares of Conectiv common stock, respectively. Atlantic stockholders received 6,560,612 shares of Conectiv Class A common stock. See Note 12 to the Consolidated Financial Statements for information concerning Conectiv Class A common stock and the apportionment of earnings between Conectiv Class A common stock and Conectiv

common stock.

The Merger was accounted for under the purchase method of accounting, with DPL as the acquirer. Based on the Merger date of March 1, 1998, the Consolidated Statement of Income for the year ended December 31, 1998, includes ten months of results of operations for ACE and the formerly Atlantic-owned non-utility subsidiaries.

The total consideration paid to Atlantic's common stockholders, measured by the average daily closing market price of Atlantic's common stock for the three trading days immediately preceding and the three trading days immediately following the public announcement of the Merger, was \$920.7 million. In connection with the Merger, \$289.0 million of goodwill was recorded, which is being amortized over 40 years. As a result of the Merger, the following increases occurred in the Consolidated Balance Sheet.

Balance Sheet Increases Due to Merger

<TABLE>
<CAPTION>

	(Dollars in Thousands)
<S>	<C>
Current assets.....	\$ 223,577
Investments.....	226,251
Property, plant and equipment.....	2,151,251
Deferred charges.....	257,977

Total assets.....	\$2,859,056
	=====
Current liabilities.....	\$ 215,447
Noncurrent liabilities.....	582,108
Capitalization.....	2,061,501

Total capitalization and liabilities.....	\$2,859,056
	=====

</TABLE>

Pro Forma Information (unaudited)

Pro forma unaudited financial information for Conectiv on a consolidated basis, giving effect to the Merger as if it had occurred on January 1, 1997, is shown below. The pro forma information presented below is not necessarily indicative of the results that would have occurred, or that will occur in the future.

<TABLE>
<CAPTION>

	For the Year Ended December 31	
	1998	1997
	(Dollars in Thousands except per share amounts)	
<S>	<C>	<C>
Operating Revenues.....	\$3,236,791	\$2,525,862
Operating Income.....	\$ 407,949	\$ 442,550
Net Income.....	\$ 155,332	\$ 186,466
Earnings Applicable to Common Stock:		
Common stock.....	\$ 143,270	\$ 170,548
Class A common stock.....	\$ 12,062	\$ 15,918
Average common shares outstanding (000)		
Common stock.....	100,918	101,005
Class A common stock.....	6,561	6,561
Basic and Diluted Earnings per average share outstanding of:		
Common stock.....	\$1.42	\$1.69
Class A common stock.....	\$1.84	\$2.43

</TABLE>

The pro forma information shown above has not been adjusted to exclude the effects of employee separation and other Merger-related costs incurred by DPL. For the year ended December 31, 1998, these costs reduced operating income, net income, and earnings applicable to common stock by \$27.7 million, \$16.8 million, and \$16.8 million, respectively. See Note 5 to the Consolidated Financial Statements for additional information.

Acquisition of Other Service Companies

Conectiv's expenditures to acquire HVAC and Other Service businesses in 1998, 1997, and 1996 were \$15.3 million, \$17.6 million and \$9.3 million (including non-cash consideration), respectively.

5. EMPLOYEE SEPARATION AND OTHER MERGER-RELATED COSTS

To reduce the workforce by 785 employees in conjunction with the Merger, Conectiv utilized enhanced retirement offers and other employee separation programs. Prior to the Merger, DPL, Atlantic, and their subsidiaries had approximately 4,600 employees. The costs of the workforce reduction programs were determined in accordance with SFAS No. 88, "Employers' Accounting for Settlement and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." The SFAS No. 88 costs for separated DPL employees and other Merger-related costs expensed in 1998 were \$27.7 million before taxes, reducing net income and earnings per common share by \$16.8 million and \$0.18, respectively. The \$27.7 million pre-tax charge was reduced by a net \$45.5 million gain from curtailments and settlements of pension and other postretirement benefits.

Employee separation, relocation, and other Merger-related costs for Atlantic's former subsidiaries in 1998 were \$80.8 million before taxes (\$48.3 million after taxes) and were capitalized as costs of the Merger.

Of the \$108.5 million of costs discussed above for DPL and Atlantic's former subsidiaries, \$57.5 million were paid as of December 31, 1998, \$38.8 million will not require the use of operating funds, and \$12.2 million remains to be paid from operating funds.

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6. RATE MATTERS

Merger Rate Decrease

ACE and DPL are sharing a portion of the net cost savings expected to result from the Merger with their customers through reduced electric and gas 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; (2) \$9.9 million effective March 1, 1998, and (3) \$0.8 million effective January 1, 1999. DPL's total Merger-related base rate decrease of \$13.0 million is being phased-in as follows: (1) \$11.5 million effective March 1, 1998, (2) \$1.1 million effective March 1, 1999, and (3) \$0.4 million effective March 1, 2000.

Electric Utility Industry Restructuring

As discussed below, deregulation of the electric utility industry is underway in New Jersey, Delaware, Maryland, and Virginia. Generally, with restructuring, the supply component of the price charged to a customer for electricity would be deregulated, and electricity suppliers would compete to supply electricity to customers. Customers would 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. DPL and ACE have quantified stranded costs in Maryland and New Jersey regulatory filings, respectively, and have proposed plans seeking approval for recovery of those costs from customers during the transition to a competitive market.

When a specific plan that deregulates electricity supply becomes final, ACE or DPL, as appropriate, would cease applying SFAS No. 71 to its electricity

supply business in the regulatory jurisdiction to which the plan applies. To the extent that a deregulation plan 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 legislation deregulating the electric utility industry in any of the jurisdictions in which Conectiv operates 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, Conectiv's management currently cannot predict the ultimate effects that electric utility industry deregulation may have on the financial statements of Conectiv and its subsidiaries, although deregulation may have a material adverse effect on Conectiv's results of operations.

New Jersey

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

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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 and Conectiv.

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.

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.

Delaware

The Alliance for Fair Electric Competition Today, which includes DPL, worked with Delaware executive branch representatives and representatives of the DPSC Staff to develop consensus restructuring legislation. House Bill No. 10, with several amendments, passed the Delaware House of Representatives, and the Delaware Senate. The Governor of Delaware is expected to sign the legislation.

House Bill No. 10 would allow DPL's Delaware customers to choose their electricity suppliers beginning on October 1, 1999 (for customers with peak demands of 1,000 kilowatts or more), January 15, 2000 (for customers with peak demands of 300 kilowatts or more), and 18 months after the legislation is enacted (for all other customers). House Bill No. 10 also provides for a residential rate reduction of 7.5% beginning October 1, 1999. Thereafter, except for a deferred fuel balance "true-up" and increases for extraordinary costs, residential rates may not be changed for four years; rates for customers in commercial and industrial rate classes may not be changed for three years. Under House Bill No. 10, certain low-income energy assistance and environmental programs are funded at an annual level of about \$1.6 million by a charge in electric rates.

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Among other matters, unbundled rates to be charged by DPL during these "rate freeze" periods have been agreed upon by a number of participants in the restructuring plan proceeding contemplated by House Bill No. 10. Included within the agreement on unbundled rates, DPL would recover \$16 million (Delaware retail basis) of stranded costs, and electric rates would not be changed in the event DPL sells or transfers generating assets.

Maryland

In 1997, the MPSC issued two orders which provide for retail electric competition to begin July 3, 2000, and be phased-in over a three-year period (one-third of the customers per year). Enabling legislation and resolution of complex issues such as stranded costs and utility taxation will be necessary for implementation of retail competition in Maryland.

On July 1, 1998, DPL filed with the MPSC its quantification of stranded costs and computation of unbundled rates, which are being considered in Case No. 8795. Stranded costs were estimated to be \$217 million on a DPL system-wide basis (\$69 million Maryland retail portion), including \$123 million attributable to generating units, \$54 million associated with purchased power contracts, \$21 million related to fuel inventory financing costs, and \$19 million of regulatory assets. DPL proposed full recovery of the Maryland portion of the stranded costs over a three-year period, starting with the commencement of retail competition on July 3, 2000.

The MPSC Staff and other parties contend that the market value of DPL generating assets exceeds their book value and thus that DPL has negative stranded costs, or so-called "stranded benefits." Proposals for rate reductions based on a sharing of these alleged benefits and other factors have been submitted to the MPSC in Case No. 8795. The proposed rate reductions vary widely, from 3% up to levels which, if adopted, would have a material adverse impact on Conectiv's results of operations.

Maryland's electric utilities, including DPL, continue to meet with the MPSC Staff and others to develop consensus enabling restructuring and related tax legislation for possible passage in the 1999 legislative session.

The MPSC is expected to issue its order on DPL's stranded cost recovery and unbundled rates by October 1, 1999.

Comprehensive electric utility restructuring legislation has been introduced in the Virginia General Assembly. Senate Bill No. 1269 and identical House Bill No. 2615, introduced on January 21, 1999, were drafted by a joint House-Senate study committee created in 1996 to consider restructuring issues. Significant provisions of these Bills provide for:

- . Phase-in of retail electric competition beginning January 1, 2002
- . Rates in effect on January 1, 2001 to become "capped rates" to continue in effect through July 1, 2007, except for adjustments for changes in fuel costs and state tax rates
- . Customers choosing an electricity supplier other than their incumbent utility continue to pay capped transmission and distribution rates but, instead of the capped generation rate, they would pay a "wires" charge which would be the difference between the capped generation rate and projected market prices for electricity
- . Just and reasonable net stranded costs are to be recovered through capped rates and wires charges during the period January 1, 2001 through July 1, 2007

Other Rate Matters

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

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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.

7. SALE OF PINE GROVE LANDFILL AND WASTE HAULING COMPANIES

In the fourth quarter 1997, a subsidiary of Conectiv sold the Pine Grove Landfill and a related waste-hauling company. The subsidiaries, which were sold, had a net book value of approximately \$11.3 million and reported revenues in 1997 of approximately \$12.7 million. Pre-tax proceeds received from the sale were \$34.2 million (\$33.4 million net of cash sold), resulting in a pre-tax gain of \$22.9 million (\$13.7 million after income taxes) or \$0.22 per common share.

8. ENERGY HEDGING AND TRADING ACTIVITIES

Conectiv actively participates in the wholesale energy markets to support its wholesale utility and competitive retail marketing activities. Conectiv engages in commodity hedging activities to minimize the risk of market fluctuations associated with the purchase and sale of energy commodities (natural gas, petroleum and electricity). Some hedging activities are conducted using energy derivatives. The remainder of Conectiv's hedging activity is conducted by backing physical transactions with offsetting physical positions. The hedging objectives include the assurance of stable and known minimum cash flows and the fixing of favorable prices and margins when they become available. Conectiv also engages in energy commodity trading and arbitrage activities, which expose Conectiv to commodity market risk when, at times, Conectiv creates net open energy commodity positions or allows net open positions to continue. To the extent that Conectiv has net open positions, controls are in place that are intended to keep risk exposures within management-approved risk tolerance levels.

Conectiv utilizes futures, options and swap agreements to manage risk. Futures help manage commodity price risk by fixing purchase or sales prices. Options provide a floor or ceiling on future purchases or sales prices while allowing Conectiv to benefit from favorable price movements. Swaps are structured to provide the same risk protection as futures and options. Basis swaps are used to manage risk by fixing the basis differential that exists between a

delivery location index and the commodity futures price.

Exposed commodity positions may be "long" or "short." A long position indicates that Conectiv has an excess of the commodity available for sale. A short position means Conectiv will have to obtain additional commodity to fulfill its sales requirements. A "delta" position is the conversion of an option into futures contract equivalents. The option delta is dependent upon the strike price, volatility, current market price and time-value of the option.

Natural Gas Activities

At December 31, 1998, Conectiv had 1,314 (2,697 long, 1,383 short) net open futures contracts, representing a notional quantity of 13.1 billion cubic feet (Bcf) through February of 2001. In addition, Conectiv had a net long commodity swap position equivalent to 459 futures contracts (4.6 Bcf) and a net long basis swaps position equivalent to 531 futures contracts (5.3 Bcf).

Conectiv entered into 1,474 of the net long open futures contracts in order to hedge the gas marketing activities of various Conectiv business units. Other gas commodity hedges at December 31, 1998, included a net long commodity swap position equivalent to 262 futures contracts and a net long basis swap position equivalent to 471 futures contracts. During the year ended December 31, 1998, \$4.0 million of losses were recognized on the settlement of natural gas futures, swaps and options hedging contracts for the unregulated business units. These losses were offset by gains on the physical commodity transactions being hedged. A total of \$8.6 million

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of unrealized losses were deferred in the Consolidated Balance Sheet as of December 31, 1998. These losses are offset by gains on the physical commodity transactions being hedged.

During the year ended December 31, 1998, a trading gain of \$0.2 million was realized on natural gas financial derivative activities that were not classified as hedges. Unrealized gains in forward gas trading positions (physical and financial) totaled \$0.8 million at December 31, 1998. The annual average unrealized loss on trading activities, based on month-end averages, was \$0.1 million.

At December 31, 1997, there were 220 open futures contracts and 30 open options contracts to purchase natural gas, representing a notional quantity of 2.5 Bcf through October 1999 and 60 open options contracts, to sell natural gas, representing a notional quantity of 0.6 Bcf through July 1998. A total of \$0.5 million of unrealized losses were deferred in the Consolidated Balance Sheet as of December 31, 1997.

Electricity Activities

At December 31, 1998, Conectiv had a total short exposure of 102,400 megawatt-hours (MWH) (84,700 on peak, 17,700 off-peak) through December 1999. The overall position included a long option delta exposure of 2,300 MWH. The remaining exposure was comprised of forward contracts.

During the year ended December 31, 1998, a net gain of \$0.1 million was recognized on the settlement of electric hedging options and swaps. This gain was offset by losses on the physical commodity transactions being hedged. A total of \$0.3 million of unrealized losses were deferred in the Consolidated Balance Sheet as of December 31, 1998. During the year ended December 31, 1998, realized gains of \$10.2 million were recorded on power trading activities (physical and financial) not classified as hedges. At December 31, 1998, unrealized gains on power trading activities amounted to \$1.2 million. The annual average unrealized gain on trading activities, based on month-end averages, was \$1.3 million.

At December 31, 1997, there was one swap contract to sell electricity, representing a notional quantity of 68,000 MWH, through August 1998. A total of \$0.2 million of unrealized losses were deferred on the Consolidated Balance Sheet as of December 31, 1997.

Petroleum Activities

Conectiv markets petroleum products through its subsidiary, Petron Oil Corporation. Total petroleum exposure (all grades) at December 31, 1998 was 222,500 barrels (short) extending through December 31, 2000, with an unrealized gain of \$2.3 million. Conectiv was net long 315 petroleum futures

contracts (234 Heating Oil & 81 Unleaded Gasoline) on December 31, 1998, extending through May 2000. \$3.1 million of unrealized losses on petroleum financial derivatives were offset by a combination of physical forward contracts and inventory amounting to 537.5 contracts (short) at an unrealized gain of \$5.4 million.

Credit Exposure

Counterparties to its various hedging and trading contracts expose Conectiv to credit losses in the event of nonperformance. Management has evaluated such risk and implemented credit checks and has established reserves for credit losses. A large portion of the hedging and trading activities are conducted on national exchanges backed by exchange clearinghouses. Management believes that the overall business risk is minimized as a result of these procedures.

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9. NUCLEAR DECOMMISSIONING

Conectiv's subsidiaries, DPL and ACE, record liabilities for their share of the estimated cost of decommissioning the Peach Bottom, Salem, and Hope Creek nuclear reactors over the remaining lives of the plants based on amounts collected in rates charged to electric customers. For utility rate-setting purposes, ACE estimates its share of future nuclear decommissioning costs (\$185 million) based on site specific studies filed with and approved by the NJBPU. DPL estimates its share of future nuclear decommissioning costs (\$157 million) based on Nuclear Regulatory Commission (NRC) regulations concerning the minimum financial assurance amount for nuclear decommissioning.

Conectiv's consolidated accrued nuclear decommissioning liability, which is reflected in the accumulated reserve for depreciation, was \$167.7 million as of December 31, 1998. The provision reflected in depreciation expense for nuclear decommissioning was \$10.6 million in 1998, \$4.2 million in 1997, and \$4.2 million in 1996. External trust funds established by DPL and ACE for the purpose of funding nuclear decommissioning costs had an aggregate book balance (stated at fair market value) of \$155.9 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 ultimate cost of nuclear decommissioning for the Peach Bottom, Salem, and Hope Creek reactors may exceed the current estimates, which are updated periodically.

The staff of the Securities and Exchange Commission has questioned certain of the current accounting practices of the electric utility industry, including Conectiv, 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 plans to issue a revised Exposure Draft in the second quarter of 1999.

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10. REGULATORY ASSETS

In conformity with generally accepted accounting principles, Conectiv's accounting policies reflect the financial effects of rate regulation and decisions by regulatory commissions having jurisdiction over Conectiv's utility business. In accordance with the provisions of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," Conectiv defers expense recognition of certain costs and records an asset, 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 Conectiv's Consolidated Balance Sheets under "Deferred Charges and Other Assets." The costs of these assets are either being recovered or are probable of being re-

covered through customer rates. Generally, the costs of these assets are recognized in operating expenses over the period the cost is recovered from customers. See Note 6 to the Consolidated Financial Statements for information about the impact of electric utility restructuring on the accounting for regulatory assets. The table shown below details total regulatory assets (liabilities), at December 31, 1998, and 1997.

<TABLE>
<CAPTION>

	1998	1997
	-----	-----
	(Dollars in millions)	
<S>	<C>	<C>
Deferred recoverable income taxes.....	\$ 184.4	\$ 88.7
Deferred debt refinancing costs.....	44.2	18.8
Unrecovered state excise taxes.....	35.6	--
Deferred other postretirement benefit costs.....	35.0	--
Unrecovered purchased power capacity costs.....	30.6	--
Unrecovered purchased power contract renegotiation costs.....	17.7	--
Deferred costs for nuclear decommissioning/decontamination.....	11.9	6.3
Asbestos removal costs.....	8.5	--
Deferred recoverable plant costs.....	7.6	7.8
Deferred demand-side management costs.....	5.7	6.2
Deferred energy costs.....	(16.0)	18.0
Other.....	12.5	1.9
	-----	-----
Total.....	\$ 377.7	\$ 147.7
	=====	=====

</TABLE>

Deferred Recoverable Income Taxes: Represents the portion of Conectiv's deferred tax liability applicable to utility operations that has not been recovered from utility customers and is recoverable in the future. As temporary differences between the financial statement and tax bases of assets reverse, deferred recoverable income taxes are amortized.

Unrecovered State Excise Taxes: Represents additional amounts paid, by ACE, as a result of prior legislative changes in the computation of New Jersey state excise taxes. These costs are included in current customer rates, with the remaining balance scheduled for full recovery over the next 4 years.

Deferred Other Postretirement Benefit Costs: Represents the non-cash portion of other postretirement benefit costs deferred by ACE during 1993 through 1997. This cost is being recovered over a 15-year period which began on January 1, 1998.

Unrecovered Purchased Power Capacity Costs: Represents prior deferrals by ACE of capacity costs which had exceeded the related recovery from customers. These costs are included in current customer rates and are scheduled for full recovery over the next 2 years.

Unrecovered Purchased Power Contract Renegotiation Costs: Represents costs incurred by ACE through renegotiation of a long-term capacity and energy contract. These costs are included in current customer rates with the balance scheduled for full recovery over the next 16 years.

Deferred Energy Costs: Represents the difference between energy revenues and actual energy costs incurred. The deferred balance is generally recovered from or returned to utility customers within one year.

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Deferred Debt Refinancing Costs: The costs of refinancing debt of the utility business are deferred and amortized over the period during which the costs are recovered in rates, which is generally the life of the new debt.

Deferred Recoverable Plant Costs: Represents utility plant construction costs excluded from plant in-service which are being recovered in customer rates over the next 21 years.

Deferred Costs for Nuclear Decontamination/Decommissioning: Represents amounts being amortized through fuel adjustment clause revenues for Conectiv's liability under the Energy Policy Act of 1992 for clean-up of gaseous diffusion enrichment facilities of the U.S. government.

Asbestos Removal Costs: Represents costs incurred by ACE to remove asbestos insulation from a wholly-owned generating station. These costs are included in current customer rates with the balance scheduled for full recovery over the next 31 years.

Deferred Demand-Side Management Costs: Represents deferred costs of programs which allow DPL to reduce the peak demand for power. These costs are being recovered over 5 years.

11. CONECTIV COMMON STOCK

In conjunction with the Merger, DPL common stockholders received one share of Conectiv common stock in exchange for each share of DPL common stock, and Atlantic common stockholders received 0.75 of one share of Conectiv common stock and 0.125 of one share of Conectiv Class A common stock in exchange for each share of Atlantic common stock. See Note 4 to the Consolidated Financial Statements for additional information concerning the Merger.

For additional information concerning issuances and redemptions of common stock during 1996 through 1998, see the Consolidated Statements of Changes in Common Stockholders' Equity.

Conectiv's common dividends paid to public stockholders are funded from the common dividends DPL and ACE pay to Conectiv. DPL's and ACE's certificates of incorporation require payment of all preferred dividends in arrears (if any) prior to payment of common dividends to Conectiv, and have certain other limitations on the payment of common dividends to Conectiv.

Through the effective date of the Merger (March 1, 1998), DPL's Long-Term Incentive Plan (LTIP) provided long-term incentives to key employees through contingent awards of performance-based restricted stock, dividend rights, and stock options. The DPL common stock options outstanding as of the Merger date were converted to Conectiv common stock options and included in the Conectiv Incentive Compensation Plan (CICP). The restricted common stock previously granted under DPL's LTIP is earned and payable at the end of a four-year period to the extent that stock performance compares favorably with the stock performance of a peer group of utility companies. The 1994 awards were forfeited in early 1998 when the required performance targets were not met. Restrictions on shares contingently granted in 1995 and 1996 lapsed upon the Merger and the shares became fully vested. The restricted DPL common stock contingently granted in 1997 was exchanged for Conectiv common stock upon the Merger and is included in the CICP. As of December 31, 1998, there were 97,455 shares of the 1997 awards outstanding which had a \$19 1/8 per share fair value on the date of grant.

The CICP provides long-term awards to key employees and directors through awards of stock-based compensation. Up to 5,000,000 shares of common stock may be issued under the CICP during the ten-year period from March 1, 1998, through February 28, 2008. Awards granted in 1998 under the CICP, which can be settled in common stock, include performance accelerated restricted stock (PARS), stock options, and performance accelerated stock options (PASO's).

In 1998, Conectiv granted 30,700 shares of PARS, which are earned by participants over a seven-year vesting period. Conectiv also granted participants 22,000 additional shares of PARS, which are earned over seven

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years if a total stockholder return of 8% is achieved. Vesting of the 22,000 shares granted may be accelerated after three years, in whole or in part, based on Conectiv's stock price reaching certain levels. All 52,700 shares of the PARS had a \$22.84 per share fair value on the grant date.

In 1998, Conectiv issued 289,000 stock options, which do not contain performance acceleration features and have an exercise price of \$22.84 per share. These stock options have a ten-year life. 50% of the options vest after two years and the remaining 50% vest after three years. Conectiv also issued 750,000 PASO's in 1998 which have an exercise price of \$22.84 per share. The PASO's have a ten-year life and vest after nine and a half years. One third of the PASO's will vest if Conectiv's common stock price closes at or above \$26 per share for ten consecutive days, two thirds will vest if the stock price closes at or above \$28 per share for ten consecutive days, and all of the PASO's will vest if the stock price closes at or above \$30 per share for ten consecutive days.

Changes in stock options are summarized below.

<TABLE>
<CAPTION>

	1998		1997		1996	
	Number of Shares	Weighted Average Price	Number of Shares	Weighted Average Price	Number of Shares	Weighted Average Price
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Beginning-of-year balance.....	38,500	\$20.55	43,950	\$20.19	46,350	\$20.16
Options exercised.....	3,200	\$19.89	5,450	\$17.61	2,400	\$19.69
Options forfeited.....	2,150	\$19.73	--	--	--	--
Options issued.....	1,039,000	\$22.84	--	--	--	--
End-of-year balance.....	1,072,150	\$22.77	38,500	\$20.55	43,950	\$20.19
Exercisable.....	33,150	\$20.67	38,500	\$20.55	43,950	\$20.19

For options outstanding as of December 31, 1998, the range of exercise prices was \$18.13 to \$22.84, and the weighted average remaining contractual life was 8.8 years.

Conectiv recognizes compensation costs for its stock-based employee compensation plans based on the accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees." Stock-based employee compensation costs charged to expense were \$0.9 million in 1998, \$2.2 million in 1997, and \$0.3 million in 1996. Pro forma net income, based on the application of SFAS No. 123, "Accounting for Stock-Based Compensation," would have changed by \$0.6 million or less in 1998, 1997 and 1996. Earnings per share would have changed by less than \$0.01 per share in 1998, 1997 and 1996.

The fair value of each option and PASO granted in 1998 was estimated on the date of grant using the Black Scholes option pricing model. The weighted-average fair value of the options was \$2.64 based on the following weighted-average assumptions: risk-free interest rate of 5.59 percent; dividend yield of 6.0 percent; expected volatility of 20.0 percent; and a weighted average expected life of 3.5 years. The weighted-average fair value of the PASOs was \$2.87 based on the following weighted-average assumptions: risk-free interest rate of 5.55 percent; dividend yield of 6.0 percent; expected volatility of 20.0 percent; and a weighted average expected life of 5.33 years.

On April 23, 1998, Conectiv's Board of Directors adopted a Stockholders Rights Plan (the Plan). Under the Plan, holders of Conectiv common stock and holders of Conectiv Class A common stock were granted preferred stock purchase rights on May 11, 1998, by means of a dividend at the rate of one Right for each share of common stock and one Right for each share of Class A common stock held. The Rights expire in 10 years.

The purpose of the Plan is to guard against partial tender offers or abusive or unfair tactics that might be used in an attempt to gain control of Conectiv without paying all stockholders a fair price for their shares. The Plan will not prevent takeovers, but is designed to deter coercive, abusive, or unfair takeover tactics and to encourage individuals or entities attempting to acquire Conectiv to first negotiate with the Board of Directors.

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Each Right would, after the Rights become exercisable, entitle the holder to purchase from Conectiv one one-hundredth of one share of Series One Junior Preferred Stock or one one-hundredth of one share of Series Two Junior Preferred Stock at an initial price of \$65. The Rights will be exercisable only if a person or group acquires beneficial ownership of 15% or more of the aggregate voting power represented by Conectiv's outstanding securities (i.e., becomes an "Acquiring Person" as defined in the Plan) or commences a tender or exchange offer to acquire beneficial ownership of 15% or more of the aggregate voting power represented by Conectiv's outstanding securities. Conectiv generally will be entitled to redeem the Rights at \$.01 per Right at any time before a person or group becomes an Acquiring Person.

12. CONECTIV CLASS A COMMON STOCK

Conectiv Class A common stock provides its holders a proportionately greater opportunity to share in the growth prospects of, and a proportionately greater exposure to the uncertainties associated with, the electric utility business

of ACE. Earnings applicable to Conectiv Class A common stock are equal to 30% of the net of (1) earnings attributable to ACE's regulated electric utility business, as the business existed on August 9, 1996, less (2) \$40 million per year. Earnings applicable to Conectiv common stock are the consolidated earnings of Conectiv less earnings applicable to Conectiv Class A common stock.

Presented below and on the following page are summarized ACE financial information and the calculation of earnings applicable to Conectiv Class A common stock. The ACE income statement amounts are for the ten months ended December 31, 1998, which is the period included in the 1998 Consolidated Statement of Income under the purchase method of accounting.

Summarized Financial Information of ACE

<TABLE>
<CAPTION>

Income Statement Information -----	Ten Months Ended December 31, 1998 ----- (Dollars in Thousands)
<S>	<C>
Operating Revenues.....	\$ 875,741
Operating Income(1).....	\$ 105,099
Net Income(1).....	\$ 23,742

<CAPTION>

Balance Sheet Information -----	December 31, 1998 -----
<S>	<C>
Current assets.....	\$ 236,177
Noncurrent assets.....	2,131,045
Total assets.....	\$2,367,222 =====
Current liabilities.....	\$ 247,023
Noncurrent liabilities.....	1,264,925
Preferred stock.....	125,181
Common stockholders' equity.....	730,093
Total capitalization and liabilities.....	\$2,367,222 =====

</TABLE>

Computation of Earnings Applicable to Conectiv Class A Common Stock

<TABLE>
<CAPTION>

	Ten Months Ended December 31, 1998 ----- (Dollars in Thousands)
<S>	<C>
Net Income of ACE(1).....	\$ 23,742
Exclude:	
Employee separation and other Merger-related costs(1).....	47,886
Net loss of nonutility activities.....	1,402
Pro-rata portion of fixed amount of \$40 million per year.....	(33,333)
Subtotal.....	39,697
Percentage applicable to Conectiv Class A common stock.....	30% -----
Earnings applicable to Conectiv Class A common stock.....	\$ 11,909 =====

</TABLE>

(1) The amounts shown above and on the prior page reflect employee separation and other Merger-related costs for ACE, which reduced ACE's operating income and net income for the ten months ended December 31, 1998, by \$80.1 million and \$47.9 million, respectively. In the Conectiv Consolidated Financial Statements, these costs were capitalized as costs of the Merger,

as discussed in Note 5 to the Consolidated Financial Statements.

Conversion and Redemption Provisions Relating to Class A Common Stock

Conversion at the Option of Conectiv

Conectiv may at any time convert each share of Conectiv Class A common stock into the number of shares of Conectiv common stock equal to the specified percentage set forth in Conectiv's Restated Certificate of Incorporation (Conectiv Charter) of the Market Value Ratio of the Conectiv Class A common stock to the Conectiv common stock (as defined in the Conectiv Charter).

Redemption or Conversion Following a Tender or Exchange Offer

In the case of a tender offer by Conectiv for all of the Conectiv Class A common stock for cash (as defined in the Conectiv Charter) or an offer to exchange each share of Conectiv Class A common stock into a number of shares of Conectiv common stock equal to at least 110% of the Market Value Ratio of the Class A common stock to Conectiv common stock (as of the trading day immediately preceding the date of such offer) which is accepted by the holders of more than 50% of the Conectiv Class A common stock, Conectiv may either (1) redeem each share of Conectiv Class A common stock remaining outstanding in exchange for cash (in an amount equal to the highest cash price paid per share by Conectiv pursuant to such tender offer or to the value of the highest number of shares of Conectiv common stock per share issued in exchange for any share of Conectiv Class A common stock pursuant to such exchange offer (as such value is determined in accordance with the Conectiv Charter), as the case may be,) or (2) convert each share of Conectiv Class A common stock remaining outstanding into shares of Conectiv common stock on the basis set forth in the Conectiv Charter.

If any person (including Conectiv) makes a tender offer for all of the outstanding shares of Conectiv common stock at an all cash price that is accepted by the holders of more than 50% of Conectiv common stock, Conectiv may either redeem each share of Conectiv Class A common stock for cash in an amount calculated pursuant to a formula set forth in the Conectiv Charter, or convert each share of Conectiv Class A common stock into shares of Conectiv common stock on the basis set forth in the Conectiv Charter.

Participation in a Tender Offer

If any person (including Conectiv) makes a tender offer to purchase shares of Conectiv common stock for cash, property, or other securities, any holder of Conectiv Class A common stock may elect to convert shares of

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Conectiv Class A common stock into shares of Conectiv common stock on the basis set forth in the Conectiv Charter.

Dividend, Redemption, or Conversion upon Disposition of All or Substantially All Assets Attributed to the Atlantic Utility Group

The Conectiv Charter also provides for the payment of dividends with respect to, and/or the redemption or conversion of, the Conectiv Class A common stock upon the disposition, by Conectiv and/or its subsidiaries of all or substantially all of the assets attributed to the Atlantic Utility Group to one or more entities.

Conectiv may, if there are assets of Conectiv legally available therefor and the Atlantic Utility Group Available Dividend Amount (as defined in the Conectiv Charter) is sufficient therefor, pay to the holders of Conectiv Class A common stock a dividend in cash and/or in securities as defined in the Conectiv Charter, or; subject to certain limitations set forth in the Conectiv Charter, if such disposition involves all of the assets attributed to the Atlantic Utility Group, redeem all of the Conectiv Class A common stock for cash and/or for securities, Conectiv common stock or other property as defined in the Conectiv Charter, or redeem a number of whole shares of Conectiv Class A common stock (which may be all of such shares outstanding) on the basis set forth in the Conectiv Charter, or convert each share of Conectiv Class A common stock into shares of Conectiv common stock on the basis set forth in the Conectiv Charter.

In the event of a dividend or redemption as described in the preceding clauses, the Board of Directors of Conectiv may convert the remaining Conectiv Class A common stock into shares of Conectiv common stock on the basis set

forth in the Conectiv Charter. If less than all of the outstanding shares of Conectiv Class A common stock are to be redeemed in connection with a disposition of substantially all (but less than all) of the assets attributed to the Atlantic Utility Group, the shares to be redeemed by Conectiv will be selected on a pro rata basis or by lot or by such other method as the Board of Directors of Conectiv may determine to be equitable.

13. PREFERRED STOCK

Conectiv (the parent holding company), ACE, and DPL are each authorized to separately issue preferred stock. Conectiv is authorized to issue 20,000,000 shares of \$0.01 per share par value preferred stock, none of which has been issued. ACE is authorized to issue 799,979 shares of \$100 par value Cumulative Preferred Stock, 2,000,000 shares of No Par Preferred Stock, and 3,000,000 shares of Preference Stock. DPL has \$1, \$25, and \$100 par value per share preferred stock for which 10,000,000, 3,000,000, and 1,800,000 shares are authorized, respectively. Dividends on ACE and DPL preferred stock are cumulative. Information concerning shares of preferred stock outstanding is shown on the following page.

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Preferred Stock of Subsidiaries Not Subject to Mandatory Redemption

The amounts outstanding as of December 31, 1998, and 1997 of Conectiv's subsidiaries preferred stock not subject to mandatory redemption are presented below.

<TABLE>
<CAPTION>

Issuer	Series	Current Redemption Price	Shares Outstanding		Amount	
			1998	1997	1998	1997
(Dollars in Thousands)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
ACE (1)	\$100 per share par value 4.00%-5.00%	\$100.00-\$105.50	62,305	--	\$ 6,230	--
DPL	\$25 per share par value 7 3/4%	(2)	316,500	316,500	7,913	7,913
DPL	\$100 per share par value 3.70%-5.00%	\$103.00-\$105.00	181,698	181,698	18,170	18,170
DPL	6 3/4%	(3)	35,000	35,000	3,500	3,500
DPL	Adjustable rate (4)	\$100	151,200	151,200	15,120	15,120
DPL	Auction rate (5)	\$100	450,000	450,000	45,000	45,000
					\$ 95,933	\$ 89,703

</TABLE>

- (1) Under purchase accounting for the Merger, ACE and its wholly-owned trusts were consolidated in Conectiv's financial statements beginning March 1, 1998. In the fourth quarter of 1998, ACE purchased and retired 237,695 shares, or \$23.77 million, of various series of preferred stock, which had an average dividend rate of 4.4%. A \$2.5 million gain on the redemption is presented in the Consolidated Statement of Income as a reduction of Preferred Stock Dividend Requirements of Subsidiaries.
- (2) Redeemable beginning September 30, 2002, at \$25 per share.
- (3) Redeemable beginning November 1, 2003, at \$100 per share.
- (4) Average dividend rates were 5.5% during 1998 and 1997.
- (5) Average dividend rates were 4.2% during 1998 and 4.1% during 1997.

Preferred Stock of Subsidiaries Subject to Mandatory Redemption

The amounts outstanding as of December 31, 1998, and 1997 of Conectiv's subsidiaries preferred stock subject to mandatory redemption are presented below.

<TABLE>
<CAPTION>

Issuing Company	Series	Shares Outstanding		Amount	
		1998	1997	1998	1997
(Dollars in thousands)					

<S>	<C>	<C>	<C>	<C>	<C>
DPL financing trust(1)	\$25 per share, 8.125%	2,800,000	2,800,000	\$ 70,000	\$70,000
ACE(2),(3)	\$100 per share, \$7.80	239,500	--	23,950	--
ACE financing trust(1),(3)	\$25 per share, 8.25%	2,800,000	--	70,000	--
ACE financing trust(1)	\$25 per share, 7.375%	1,000,000	--	25,000	--
				-----	-----
				\$188,950	\$70,000
				=====	=====

</TABLE>

-
- (1) Per share value is stated liquidation value. See additional information on the following page.
 - (2) No par value; stated value is \$100 per share. Beginning May 1, 2001, 115,000 shares are subject to mandatory redemption annually.
 - (3) Under purchase accounting for the Merger, ACE and its wholly-owned trusts were consolidated in Conectiv's financial statements beginning March 1, 1998.

On August 3, 1998, ACE redeemed the remaining 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).

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DPL and ACE have established wholly-owned subsidiary trusts for the purposes of issuing common and preferred trust securities and holding Junior Subordinated Debentures (the Debentures). The Debentures held by the trusts are their only assets. The trusts use interest payments received on the Debentures they hold to make cash distributions on the trust securities.

DPL and ACE's obligations pursuant to the Debentures and guarantees of distributions with respect to the trusts' securities, to the extent the trusts have funds available therefor, constitute full and unconditional guarantees of the obligations of the trusts under the trust securities the trusts have issued. DPL and ACE own all of the common securities of the trusts, which constitute approximately 3% of the liquidation amount of all of the trust securities issued by the trusts.

For consolidated financial reporting purposes, the Debentures are eliminated in consolidation against the trust's investment in the Debentures. The preferred trust securities are subject to mandatory redemption upon payment of the Debentures at maturity or upon redemption. The Debentures mature in 2026 to 2036. The Debentures are subject to redemption, in whole or in part, at the option of DPL and/or 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.

In November 1998, Atlantic Capital II issued \$25 million (1,000,000 shares) of 7 3/8% preferred stock.

In October 1996, Delmarva Power Financing I issued \$70 million (2,800,000 shares) of 8.125% preferred stock. DPL used part of the proceeds received from the trust to purchase and retire \$32.1 million of its \$25 par value, 7.75% series preferred stock, and \$31.3 million of various series of its \$100 par value preferred stock which had an average dividend rate of 5.68%. In December 1996, DPL redeemed its entire 7.52% preferred stock series which had a total par value of \$15.0 million.

14. DEBT

Substantially all utility plant of DPL and ACE are subject to the liens of the Mortgages collateralizing DPL and ACE's First Mortgage Bonds.

As of December 31, 1998, Conectiv and its subsidiaries had \$590 million of bank lines of credit, of which \$235 million was available for borrowing. At December 31, 1998, Conectiv's short-term debt balance was comprised of commercial paper and lines of credit. The weighted average interest rates on short-term debt outstanding as of December 31, 1998, and 1997, were 6.0% and 6.6%, respectively.

Maturities of long-term debt and sinking fund requirements during the next five years are as follows: 1999--\$80.8 million; 2000--\$48.7 million; 2001--\$43.7 million; 2002--\$99.3 million; 2003--\$162.4 million.

In December 1998, DPL redeemed \$6.0 million of 5.75% pollution Control Bonds

at maturity.

In June 1998, DPL repaid at maturity \$25.0 million of 5.69% Medium-Term Notes and \$1.0 million of 6.95% Amortizing First Mortgage Bonds.

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 March 1998, borrowings under Conectiv's revolving credit facilities were primarily used for repayment of debt as follows: (1) \$53.5 million was used to repay the balance outstanding under Atlantic's revolving credit and term loan facility; (2) \$92.2 million was used to repay the balance outstanding under the revolving credit and term loan facility of Atlantic Thermal Systems, Inc. (now CTS) and (3) \$12.5 million was used to repay the balance outstanding under the revolving credit and term loan facility of ATE Investments Inc.

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In January 1998, DPL issued \$33.0 million of 6.81% unsecured Medium-Term Notes which mature in 20 years. DPL used \$25.4 million of the proceeds to refinance short-term debt. In recognition of this refinancing, \$25.4 million of short-term debt was reclassified to long-term debt on the consolidated balance sheet as of December 31, 1997.

In the fourth quarter of 1997, DPL issued \$42 million of unsecured Medium-Term Notes with maturities of 5 to 9 years and interest rates of 6.6% to 6.8%. The proceeds were used to refinance short-term debt.

In September 1997, DPL redeemed \$25 million of 6 3/8% First Mortgage Bonds at maturity through the issuance of short-term debt.

In February 1997, DPL issued \$124.2 million of unsecured Medium-Term Notes with maturities of 10 to 30 years and interest rates of 7.06% to 7.72%. The proceeds were used to refinance short-term debt.

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Long-term debt outstanding as of December 31, 1998, and 1997 is presented below:

<TABLE>
<CAPTION>

	Interest Rates	Due	1998	1997
			(Dollars in Thousands)	
<S>	<C>	<C>	<C>	<C>
First Mortgage Bonds:.....	6.95%	2002	\$ 30,000	\$ 30,000
	6.40%	2003	90,000	90,000
	6.625%-8.15%	2011-2015	190,500	115,500
	5.90%-7.60%	2017-2021	163,200	163,200
	6.85%-8.50%	2022-2025	240,000	165,000
	6.05%-7.00%	2028-2032	90,000	15,000
Amortizing First Mortgage Bonds.....	6.95%	1999-2008	24,149	25,103
			827,849	603,803
Pollution Control Bonds and Notes:.....	5.75%	1998	--	6,000
	7.125%-7.25%	1999-2006	2,800	2,900
	6.375%	2006	2,350	--
	6.80%	2021	38,865	--
	5.60%-7.20%	2025-2029	58,650	--
			102,665	8,900
Medium-Term Notes (secured):.....	7.52%	1999	30,000	--
	6.83%	2000	46,000	--
	6.86%	2001	40,000	--
	7.02%	2002	30,000	--
	6.00%-7.18%	2003	40,000	--
	6.19%-7.98%	2004-2008	223,000	--

	7.25%-7.63%	2010-2014	8,000	--
	7.68%	2015-2016	17,000	--
			434,000	--

Medium-Term Notes				
(unsecured):.....	5.69%	1998	--	25,000
	7.50%	1999	30,000	30,000
	6.46%-9.29%	2002	36,000	16,000
	6.63%	2003	30,000	--
	8.30%	2004	35,000	35,000
	6.84%	2005	10,000	10,000
	6.75%	2006	20,000	20,000
	7.06%-8.125%	2007	106,500	91,500
	7.54%-7.62%	2017	40,700	40,700
	6.59%-6.84%	2018	33,000	25,430
	7.61%-9.95%	2019-2021	73,000	73,000
	7.72%	2027	30,000	30,000
			444,200	396,630

Other Obligations:.....	7.44%	1999	15,000	--
	8.00%	1999	3,351	3,660
	6.00%-9.50%	1999-2002	193	232
	9.65%	2002(1)	4,441	5,354
Unamortized premium and discount, net.....			(4,315)	(1,589)
Current maturities of long-term debt.....			(80,822)	(33,318)

Total long-term debt.....			1,746,562	983,672
Variable Rate Demand Bonds(2).....			125,100	71,500

Total long-term debt and Variable Rate Demand Bonds.....			\$1,871,662	\$1,055,172
=====				

</TABLE>

(1) Repaid through monthly payments of principal and interest over 15 years ending November 2002.

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(2) Conectiv's debt obligations included Variable Rate Demand Bonds (VRDB) in the amounts of \$125.1 million and \$71.5 million as of December 31, 1998 and 1997, respectively. The VRDB are classified as current liabilities because the VRDB are due on demand by the bondholder. However, bonds submitted to Conectiv for purchase are remarketed by a remarketing agent on a best efforts basis. Conectiv expects that bonds submitted for purchase will continue to be remarketed successfully due to Conectiv's credit worthiness and the bonds' interest rates being set at market. Conectiv also may utilize one of the fixed rate/fixed term conversion options of the bonds. Thus, Conectiv considers the VRDB to be a source of long-term financing. The \$125.1 million balance of VRDB outstanding as of December 31, 1998, matures in 2009 (\$12.5 million), 2014 (\$18.2 million), 2017 (\$30.4 million), 2028 (\$15.5 million), 2029 (\$30.0 million) and 2031 (\$18.5 million). Average annual interest rates on the VRDB were 3.4% in 1998 and 3.8% in 1997.

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

<TABLE>
<CAPTION>

	1998		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(Dollars in Thousands)				
<S>	<C>	<C>	<C>	<C>

Funds held by trustee.....	\$ 174,509	\$ 174,509	\$ 48,086	\$ 48,086
Preferred stock of subsidiaries				
subject to mandatory redemption....	\$ 188,950	\$ 194,178	\$ 70,000	\$ 72,464
Long-term debt.....	\$1,746,562	\$1,878,044	\$983,672	\$1,053,810

16. COMMITMENTS

Conectiv's expected capital and acquisition expenditures are estimated to be approximately \$327 million in 1999.

As of December 31, 1998, ACE and DPL's commitments under long-term purchased power contracts were as follows: ACE-828 megawatts(MW) of capacity; DPL-237 MW of capacity; and DPL-100 MW of energy. Currently, most of ACE's capacity charges are recovered under the Levelized Energy Clause and DPL's capacity charges are recovered through base rates. Historical information is presented below for these contracts, including ACE from March 1, 1998, forward and a 48 MW capacity contract which was suspended in October 1996.

<TABLE>
<CAPTION>

	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Percent of system capacity.....	17.6%	6.4%	6.4%
Percent of energy output.....	26.2%	12.1%	10.6%
Capacity charges (\$ in millions).....	\$182.7	\$28.5	\$32.1
Energy charges (\$ in millions).....	\$166.5	\$38.1	\$32.5

</TABLE>

Based on existing contracts as of December 31, 1998, Conectiv's future commitments for capacity and energy under long-term purchased power contracts are estimated to be \$353.1 million in 1999; \$365.8 million in 2000; \$360.4 million in 2001; \$363.4 million in 2002; and \$367.5 million in 2003. Due to uncertainties surrounding the restructuring of the electric utility industry, Conectiv has not forecasted its long-term power purchase commitments beyond 2003.

Conectiv's share of nuclear fuel at Peach Bottom, Salem, and Hope Creek is financed through a nuclear fuel energy contract, which is accounted for as a capital lease. Payments under the contract are based on the quantity of nuclear fuel burned by the plants. Conectiv's obligation under the contract is generally the net book value of the nuclear fuel financed, which was \$63.3 million as of December 31, 1998.

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Conectiv leases an 11.9% interest in the Merrill Creek Reservoir. The lease is considered an operating lease and payments over the remaining lease term, which ends in 2032, are \$150.5 million in aggregate. Conectiv also has long-term leases for certain other facilities and equipment. Minimum commitments as of December 31, 1998, under all such lease agreements (excluding payments under the nuclear fuel energy contracts, which cannot be reasonably estimated) are as follows: 1999--\$10.2 million; 2000--\$9.0 million; 2001--\$8.8 million; 2002--\$7.9 million; 2003--\$9.7 million; after 2003--\$131.5 million; total--\$177.1 million. Approximately 85% of the minimum lease commitments shown above are payments due under the Merrill Creek Reservoir lease.

Rentals Charged To Operating Expenses

The following amounts were charged to operating expenses for rental payments under both capital and operating leases.

<TABLE>
<CAPTION>

	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Interest on capital leases.....	\$ 2,468	\$ 1,548	\$ 1,628
Amortization of capital leases.....	19,554	6,499	5,653
Operating leases.....	17,443	11,590	13,795
	-----	-----	-----
	\$39,465	\$19,637	\$21,076
	=====	=====	=====

</TABLE>

Leveraged Leases

The leveraged leases of Conectiv's subsidiaries included eight aircraft leases and two containership leases as of December 31, 1998 and five aircraft leases as of December 31, 1997. The net investment in leveraged leases as of December 31, 1998, and 1997 was as follows:

<TABLE>
<CAPTION>

	1998	1997
	-----	-----
	(Dollars in Thousands)	
<S>	<C>	<C>
Rentals receivable (net of principal and interest on nonrecourse debt).....	\$ 46,312	\$ 19,588
Estimated residual value.....	75,944	26,787
	-----	-----
Investment in leveraged leases.....	122,256	46,375
Deferred income taxes.....	116,481	38,288
	-----	-----
Net investment in leveraged leases.....	\$ 5,775	\$ 8,087
	=====	=====

</TABLE>

17. PENSION and OTHER POSTRETIREMENT BENEFITS

Assumptions

<TABLE>
<CAPTION>

	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%
Expected long-term rates of return on assets.....	9.00%	9.00%	9.00%
Rates of increase in compensation levels.....	4.50%	5.00%	5.00%
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 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 \$20.3 million and would increase annual aggregate service and interest costs by \$2.1 million. Decreasing the health-care cost trend rates of future years by one percentage point would decrease the accumulated postretirement benefit obligation by \$17.9 million and would decrease annual aggregate service and interest costs by \$1.8 million.

The following schedules reconcile the beginning and ending balances of the pension and other postretirement benefit obligations and related plan assets for Conectiv. 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
	-----	-----	-----	-----
	(Dollars in Thousands)			
<S>	<C>	<C>	<C>	<C>
Benefit obligation at beginning of year.....	\$ 515,590	\$ 450,640	\$ 80,500	\$ 73,841
Merger with Atlantic.....	316,700	--	125,300	--
Service cost.....	20,193	12,779	5,828	2,393
Interest cost.....	51,721	34,173	15,105	5,547
Plan participants' contributions.....	--	--	497	304

Plan amendments.....	(21,392)	--	--	--
Actuarial (gain) loss.....	59,046	40,492	(2,863)	4,781
Special termination benefits..	59,610	--	2,682	--
Curtailment (gain) loss.....	(10,256)	--	6,614	--
Settlement (gain) loss.....	(45,291)	--	6,457	--
Benefits paid.....	(197,232)	(22,494)	(7,746)	(6,366)
	-----	-----	-----	-----
Benefit obligation at end of year.....	\$ 748,689	\$515,590	\$ 232,374	\$ 80,500
	=====	=====	=====	=====

</TABLE>

Change in Plan Assets

<TABLE>
<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.....	\$771,257	\$676,189	\$ 48,591	\$ 36,075
Merger with Atlantic.....	260,200	--	19,700	--
Actual return on plan assets..	117,249	117,562	6,263	9,984
Employer contributions.....	--	--	27,859	8,594
Plan participant contributions.....	--	--	497	304
Benefits paid.....	(197,232)	(22,494)	(7,746)	(6,366)
	-----	-----	-----	-----
Fair value of assets at end of year.....	\$951,474	\$771,257	\$ 95,164	\$ 48,591
	=====	=====	=====	=====

</TABLE>

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....	\$202,785	\$255,667	\$ (137,210)	\$ (31,909)
Unrecognized net actuarial (gain).....	(173,243)	(205,732)	(9,094)	(18,238)
Unrecognized prior service cost.....	2,361	26,945	248	317
Unrecognized net transition (asset) obligation.....	(15,773)	(23,199)	43,787	54,259
	-----	-----	-----	-----
Net amount recognized at end of year.....	\$ 16,130	\$ 53,681	\$ (102,269)	\$ 4,429
	=====	=====	=====	=====

</TABLE>

Based on fair values as of December 31, 1998, the pension plan assets were comprised of publicly traded equity securities (\$637.5 million or 67%) and fixed income obligations (\$314.0 million or 33%). Based on fair values as of December 31, 1998, the other postretirement benefit plan assets included equity securities (\$43.4 million or 46%) and fixed income obligations (\$51.8 million or 54%).

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.....	\$ 18,933	\$ 12,779	\$ 13,172	\$ 5,221	\$ 2,393	\$ 2,512
Interest cost.....	48,291	34,173	32,531	13,636	5,547	5,213
Expected return on assets.....	(81,259)	(60,020)	(54,485)	(4,845)	(2,580)	(1,722)
Amortization of:						
Transition obligation (asset).....	(2,764)	(3,314)	(3,314)	3,244	3,617	3,617
Prior service cost.....	1,911	2,035	2,048	50	53	53
Actuarial (gain).....	(9,165)	(7,814)	(4,573)	(567)	(712)	(500)
Benefit cost before items below.....	\$ (24,053)	\$ (22,161)	\$ (14,621)	\$ 16,739	\$ 8,318	\$ 9,173
Special termination benefits.....	59,610	--	--	2,682	--	--
Curtailment (gain) loss.....	(10,256)	--	--	6,614	--	--
Settlement (gain) loss..	(45,291)	--	--	6,457	--	--
Total net periodic benefit cost.....	\$ (19,990)	\$ (22,161)	\$ (14,621)	\$ 32,492	\$ 8,318	\$ 9,173
Portion of net periodic benefit cost included in results of operations.....	\$ (22,258)	\$ (16,621)	\$ (10,966)	\$ 20,440	\$ 6,239	\$ 6,880

</TABLE>

The special termination benefits and curtailment and settlement gains and losses shown above for 1998 resulted from Merger-related employee separation programs discussed in Note 5 to the Consolidated Financial Statements.

Effective January 1, 1999, Conectiv adopted a "cash balance" pension plan for covered employees. Conectiv will make contributions, which vary based on a covered employee's age and years of service, to individual employee accounts provided for under the plan. The "cash balance" of each employee's account increases based on Conectiv's contributions and interest income credited to the accounts. The aggregate of the employee's accounts will be Conectiv's pension obligation.

Conectiv also maintains 401(k) savings plans for covered employees. Conectiv contributes to the plan, in the form of Conectiv stock, at varying levels up to \$0.50 for each dollar contributed by employees, for up to 6% of employee base pay. The amount expensed for Conectiv's matching contributions was \$4.9 million in 1998, \$3.0 million in 1997, and \$2.4 million in 1996.

18. SALEM NUCLEAR GENERATING STATION

Conectiv, through DPL and ACE, owns 14.82% of Salem, which consists of two pressurized water nuclear reactors operated by Public Service Electric & Gas Company (PSE&G). 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. After receiving NRC authorization, PSE&G returned Unit 2 to service on August 30, 1997, and Unit 1 to service on April 17, 1998. The net increase in fuel expenses due to unrecovered replacement power and other costs, net of the benefit of lawsuit settlement proceeds received in 1997, was \$3.1 million in 1998, \$3.1 million in 1997, and \$10.1 million in 1996. The Salem outages also caused increases in operation and maintenance costs of approximately \$4 million in 1997 and \$9 million in 1996.

As previously reported, on February 27, 1996, the co-owners of Salem, including DPL and ACE, 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.

19. CONTINGENCIES

Environmental Matters

Conectiv's subsidiaries are subject to regulation with respect to the environmental effects of their operations, including air and water quality control, solid and hazardous waste disposal, and limitations on land use by various federal, regional, state, and local authorities. Federal and state statutes authorize governmental agencies to compel responsible parties to clean up certain abandoned or uncontrolled hazardous waste sites. Costs may be incurred to clean up facilities found to be contaminated due to past disposal practices. Conectiv's current liabilities include \$3.0 million and \$2.0 million as of December 31, 1998, and 1997, respectively, for potential clean-up and other costs related to sites at which a Conectiv subsidiary is a potentially responsible party or alleged to be a third party contributor. Conectiv does not expect such future costs to have a material effect on its financial position or results of operations.

Nuclear Insurance

In conjunction with DPL and ACE's ownership interests in Peach Bottom, Salem, and Hope Creek, they 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), they could be assessed up to \$57.0 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, Conectiv 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, Conectiv is subject to potential retrospective loss experience assessments of up to \$9.4 million on an aggregate basis.

20. BUSINESS SEGMENTS

The following information is presented in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." In accordance with SFAS No. 131, Conectiv's business segments were determined from Conectiv's internal organization and management reporting, which are based primarily on differences in products and services. Conectiv's business segments under SFAS No. 131 are as follows: Generation--produces electricity and operates power plants; Merchant--purchases and sells bulk energy; Power Delivery--delivers electricity and gas to customers at regulated prices over transmission and distribution systems; Other--includes HVAC, plumbing, telephone and other services provided to homes and businesses; thermal heating and cooling systems for large commercial and industrial customers; and various other businesses which are not subject to price regulation. All revenues of Conectiv's business segments are from customers located in the United States. Also, all assets of Conectiv's business segments are located in the United States. Segment information for 1997 and 1996 has been restated to conform with the current presentation.

Billings to electric and gas customers under regulated tariffs include amounts for services provided by the Generation, Merchant, and Power Delivery business segments. These revenues are allocated directly to the

Generation, Merchant, and Power Delivery business segments based on the cost of services provided. The Merchant business segment's revenues also include revenues from bulk energy sales to off-system customers in markets not subject

to price regulation.

The services provided by one business segment to another business segment are recorded as a transfer of costs, based on the fully-distributed cost of the service provided. Common services which are shared by the business units (shared services) are assigned directly or allocated based on various cost causative factors, depending on the nature of the service provided. The depreciation associated with shared services' assets is allocated to the business segments; however, the assets and related capital expenditures are not allocated.

The business segments' operating results are evaluated based on a profit measure called "contribution to corporate," which is equal to operating revenues and other income less operating expenses, excluding corporate expenses. Contribution to corporate for 1998 includes the January and February 1998 operating results of the former Atlantic-owned companies and excludes Merger-related costs. Contribution to corporate in 1997 excludes the gain on the sale of the Pine Grove landfill and its related waste-hauling company.

For internal management reporting purposes, Investments and Property, Plant and Equipment are assigned to business segments, but Current Assets and Deferred Charges and Other Assets are not.

<TABLE>
<CAPTION>

Business Segments	Year Ended December 31, 1998				As of December 31, 1998
	Revenues	Depreciation	Contribution to Corporate	Capital Expenditures	Investments and Property, Plant & Equipment
(Dollars in Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>
Energy:					
Generation.....	\$ 917,636	\$127,536	\$316,184	\$ 40,845	\$1,976,335
Merchant.....	1,473,513	267	3,703	--	9,621
Power Delivery.....	666,163	88,612	319,860	102,651	2,139,111
All Other.....	169,764	8,039	(47,189)	41,097	428,637
	===== \$3,227,076 (1)	===== \$224,454 (2)	===== \$592,558 (3)	===== \$184,593 (4)	===== \$4,553,704 (5)

</TABLE>

- (1) Includes \$155,470 of revenues for January to February 1998 of the formerly Atlantic-owned companies which are excluded from consolidated revenues of \$3,071,606.
- (2) Includes \$14,629 of depreciation for January to February 1998 of the formerly Atlantic-owned companies which is excluded from consolidated depreciation expense of \$241,420. Excludes \$6,174 of goodwill amortization pursuant to the Merger and \$25,421 of depreciation classified in business segment operating expenses which are included in consolidated depreciation expense.
- (3) The following items are subtracted from contribution to corporate to arrive at consolidated income before income taxes: \$20,914 for the January to February 1998 contribution to corporate of the formerly Atlantic-owned companies; \$27,704 of employee separation and other Merger-related costs; \$124,704 of corporate expenses; \$6,174 of goodwill amortization associated with the Merger; and \$154,044 of interest expense and preferred dividends deducted after contribution to corporate.
- (4) Consolidated capital expenditures of \$224,831 include \$53,862 of shared services' capital expenditures which are excluded above and exclude \$13,624 of January to February 1998 capital expenditures of the formerly Atlantic-owned companies which are included above.
- (5) Excludes \$314,361 of shared services' property, plant & equipment and certain investments, all Current Assets (\$723,872), and all Deferred Charges and Other Assets (\$495,737) which are included in total consolidated assets of \$6,087,674. Amounts invested in equity method investees as of December 31, 1998 were \$27,004 by Generation, \$5,353 by Merchant, and \$47,448 by All Other business segments.

<TABLE>
<CAPTION>

Business Segments	Year Ended December 31, 1997				As of December 31, 1997
	Revenues	Depreciation	Contribution to Corporate	Capital Expenditures	Investments and Property, Plant & Equipment
(Dollars in Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>
Energy:					
Generation.....	\$ 527,998	\$ 63,554	\$144,765	\$ 27,579	\$ 968,115
Merchant.....	426,848	--	3,046	--	1,782
Power Delivery.....	351,454	49,292	167,763	76,581	1,145,872
All Other.....	109,067	8,148	(18,898)	41,980	130,973
	-----	-----	-----	-----	-----
	\$1,415,367	\$120,994 (1)	\$296,676 (2)	\$146,140 (3)	\$2,246,742 (4)
	=====	=====	=====	=====	=====

</TABLE>

- (1) Excludes \$15,346 of depreciation expense classified in business segment operating expenses which is included in total consolidated depreciation expense of \$136,340.
- (2) Excludes the following items which are reflected in consolidated income before income taxes of \$173,373: \$55,633 of corporate expenses; a \$22,910 pre-tax gain on the sale of the Pine Grove landfill and waste-hauling company; \$80,402 of interest expense; and \$10,178 of preferred stock dividends.
- (3) Excludes \$10,668 of shared services' capital expenditures included in consolidated capital expenditures of \$156,808.
- (4) Excludes \$181,435 of shared services' property, plant & equipment and certain investments, all Current Assets (\$340,891), and all Deferred Charges and Other Assets (\$246,413) which are included in total consolidated assets of \$3,015,481.

<TABLE>

<CAPTION>

Business Segments	Year Ended December 31, 1996				As of December 31, 1996
	Revenues	Depreciation	Contribution to Corporate	Capital Expenditures	Investments and Property, Plant & Equipment
(Dollars in Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>
Energy:					
Generation.....	\$ 528,998	\$ 58,522	\$144,646	\$ 50,504	\$ 981,629
Merchant.....	242,652	--	--	--	--
Power Delivery.....	351,012	50,612	170,242	78,033	1,140,864
All Other.....	46,002	4,826	6,142	10,252	97,323
	-----	-----	-----	-----	-----
	\$1,168,664	\$113,960 (1)	\$321,030 (2)	\$138,789 (3)	\$2,219,816 (4)
	=====	=====	=====	=====	=====

</TABLE>

- (1) Excludes \$14,611 of depreciation expense classified in business segment operating expenses which is included in total consolidated depreciation expense of \$128,571.
- (2) Excludes the following items which are reflected in consolidated income before income taxes of \$185,591: \$54,797 of corporate expenses; \$70,316 of interest expense; and \$10,326 of preferred stock dividends.
- (3) Excludes \$26,806 of shared services' capital expenditures included in consolidated capital expenditures of \$165,595.
- (4) Excludes \$190,543 of shared services' property, plant & equipment and certain investments, all Current Assets (\$308,200), and all Deferred Charges and Other Assets (\$213,296) which are included in total consolidated assets of \$2,931,855.

21. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The quarterly data presented below reflect all adjustments necessary in the

opinion of Conectiv management for a fair presentation of the interim results. Quarterly data normally vary seasonally because of temperature variations, differences between summer and winter rates, the timing of rate orders, and the scheduled downtime and maintenance of electric generating units.

<TABLE>
<CAPTION>

Quarter Ended	Operating Revenue	Operating Income	Net Income	Earnings per Common Share (1)	Earnings per Class A Share (2)
(Dollars in Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>
1998					
March 31.....	\$ 503,591	\$ 22,163	\$ (3,978)	\$ (0.06)	\$ 0.02
June 30.....	684,039	109,429	39,344	0.37	0.31
September 30.....	1,012,479	200,755	93,668	0.83	1.44
December 31.....	871,497	54,568	24,167	0.24	0.04
	-----	-----	-----	-----	-----
	\$3,071,606	\$386,915	\$153,201	\$ 1.50	\$1.82
	=====	=====	=====	=====	=====
1997					
March 31.....	\$ 346,079	\$ 63,150	\$ 24,578	\$ 0.40	--
June 30.....	310,968	51,376	16,913	0.28	--
September 30.....	400,502	85,509	38,319	0.63	--
December 31.....	357,818	26,259	21,408	0.35	--
	-----	-----	-----	-----	-----
	\$1,415,367	\$226,294	\$101,218	\$ 1.66	--
	=====	=====	=====	=====	=====

</TABLE>

(1) The total of 1998 quarterly earnings per share does not equal annual earnings per share for 1998 due to different amounts for average quarterly common shares outstanding. Average Conectiv common shares outstanding by quarter in 1998 were as follows: first quarter-- 74,684,396; second quarter--101,063,174; third quarter--101,011,261; and fourth quarter--100,591,529.

(2) Due to rounding, the sum of the quarterly earnings per share does not equal the annual earnings per share.

Employee separation programs for DPL employees and other Merger-related costs expensed in 1998 (as discussed in Note 5 to the Consolidated Financial Statements) had the effects shown below on 1998 quarterly operating results.

<TABLE>
<CAPTION>

Quarter Ended	Operating Income	Net Income	Earnings Per Common Share (*)
(Dollars in millions)			
<S>	<C>	<C>	<C>
March 31.....	\$ (40.6)	\$ (24.6)	\$ (0.33)
June 30.....	14.3	8.6	0.09
September 30.....	(0.7)	(0.4)	--
December 31.....	(0.7)	(0.4)	--
	-----	-----	-----
	\$ (27.7)	\$ (16.8)	\$ (0.18)
	=====	=====	=====

</TABLE>

* See note 1 above.

As discussed in Note 7 to the Consolidated Financial Statements, in the fourth quarter of 1997, net income was increased by \$13.7 million (\$0.22 per average common share) due to the sale of the Pine Grove Landfill and its related waste-hauling company.

22. JOINTLY OWNED PLANT

Conectiv's Consolidated Balance Sheets include its proportionate share of assets and liabilities related to jointly owned plant. Conectiv's share of operating and maintenance expenses of the jointly owned plant is included in the

corresponding expenses in the Consolidated Statements of Income. Conectiv is responsible for providing its share of financing for the jointly owned facilities. Information with respect to Conectiv's share of jointly owned plant as of December 31, 1998 was as follows:

<TABLE>
<CAPTION>

	Ownership Share	Megawatt Capability Owned	Plant in Service	Accumulated Depreciation	Construction Work in Progress
	<C>	<C>	<C>	<C>	<C>
(Dollars in Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>
Nuclear					
Peach Bottom.....	15.02%	328 MW	\$ 271,819	\$125,728*	\$26,987
Salem.....	14.82%	328 MW	492,723	179,145*	12,310
Hope Creek.....	5.00%	52 MW	241,062	82,854*	1,251
Coal-Fired					
Keystone.....	6.17%	105 MW	34,421	13,060	122
Conemaugh.....	7.55%	128 MW	67,163	20,020	701
Transmission					
Facilities.....	Various		4,567	2,407	--
Other Facilities.....	Various		2,159	295	4,340
			-----	-----	-----
Total.....			\$1,113,914	\$ 423,509	\$45,711
			=====	=====	=====

</TABLE>

* Excludes nuclear decommissioning reserve.

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

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

"Proposal No. 1--Election of Directors" is incorporated by reference herein from the Definitive Proxy Statement which was filed with the SEC on February 24, 1999.

Information about Conectiv's executive officers is included under Item 1.

Information about late filings of Form 3, Initial Statement of Beneficial Ownership of Securities, is incorporated by reference herein from the "Section 16(a) Beneficial Ownership Compliance" section of the Definitive Proxy Statement which was filed with the SEC on February 24, 1999.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 of Form 10-K is incorporated herein by reference from Conectiv's Definitive Proxy Statement, which was filed with the SEC on February 24, 1999, except that the Report of the Compensation Committee and the Stock Performance Chart are specifically excluded.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Item 12 of Form 10-K is set forth under the headings "Security Ownership of Directors and Executive Officers" and "Security Ownership of Certain Beneficial Owners" in the Definitive Proxy Statement which was filed with the SEC on February 24, 1999, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by Item 13 of Form 10-K is set forth under the heading "Personnel & Compensation Committee Interlocks and Insider Participation" in the Definitive Proxy Statement which was filed with the SEC on February 24, 1999, and is incorporated herein by reference.

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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>	Page No. -----
<S>	<C>
Report of Independent Accountants	II-17
Consolidated Statements of Income for the years ended December 31, 1998, 1997, and 1996	II-18
Consolidated Balance Sheets as of December 31, 1998 and 1997	II-19
Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1997, and 1996	II-21
Consolidated Statements of Changes in Common Stockholders' Equity for the years ended December 31, 1998, 1997, and 1996.	II-22
Notes to Consolidated Financial Statements	II-23

</TABLE>

2. Financial Statement Schedules--No 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.

3. Schedule of Operating Statistics for the three years ended December 31, 1998 can be found on pages IV-3 and IV-4 of this report.

4. Exhibits

Exhibit Number -----	
2	Amended and Restated Agreement and Plan of Merger, dated as of December 26, 1996 between DPL, Atlantic Energy, Inc., Conectiv and DS Sub, Inc. (Filed with Registration Statement No. 333-18843.)
3-A	Restated Certificate of Incorporation of Conectiv, filed with Delaware Secretary of State, effective as of March 2, 1998 (filed with Conectiv's Current Report on Form 8-K dated March 6, 1998)
3-B	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 with Conectiv's Current Report on Form 8-K dated March 6, 1998)
3-C	Certificate of Merger of Atlantic Energy, Inc. with and into Conectiv, Inc., filed with the Delaware Secretary of State, effective as of March 1, 1998 (filed with Conectiv's Current Report on Form 8-K dated March 6, 1998)
3-D	Certificate of Merger of Atlantic Energy, Inc. with and into Conectiv, Inc. filed with the New Jersey Secretary of State, effective as of March 1, 1998 (filed with Conectiv's Current Report on Form 8-K dated March 6, 1998)
3-E	Certificate of Merger of DS Sub, Inc., a Delaware Corporation with and into Delmarva Power & Light Company, filed with the Delaware Secretary of State, effective as of March 1, 1998 (filed with Conectiv's Current Report on Form 8-K dated March 6, 1998)
IV-1	
3-F	Certificate of Merger of DS Sub, Inc., a Delaware Corporation with and into Delmarva Power & Light Company, effective as of March 1, 1998, filed with the Virginia State Corporation Commission, effective as of March 1, 1998 (filed with Conectiv's Current Report on Form 8-K dated March 6, 1998)
3-G	Conectiv's By-Laws as amended February 16, 1999, filed herewith

- 10-A Conectiv Incentive Compensation Plan (filed with Conectiv, Inc. Registration Statement No. 333-18843)
- 10-B Conectiv Deferred Compensation Plan, effective January 1, 1999, filed herewith
- 10-C Change-in-Control Severance Agreement between Conectiv and certain executive employees, filed herewith
- 10-D Change-in-Control Severance Agreement between Conectiv and certain select employees, filed herewith
- 12 Computation of ratio of earnings to fixed charges
- 21 Subsidiaries of the registrant (filed with Form U5A, Notification of Registration, on March 30, 1998).
- 23 Consent of Independent Public Accountants
- 27 Financial Data Schedule
- (b) Reports on Form 8-K

On November 2, 1998, Conectiv filed a Report on Form 8-K under Item 5, Other Events, and Item 7, Financial Statements and Exhibits, concerning its press release on third quarter 1998 earnings results.

On December 8, 1998, Conectiv 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 January 26, 1999, Conectiv filed a Report on Form 8-K under Item 5, Other Events, concerning proposed legislation to restructure the electric utility industry in Delaware.

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

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CONNECTIV

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

The table below sets forth selected financial and operating statistics for Conectiv's electric and gas businesses for the three years ended December 31, 1998.

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
ELECTRIC:			
Electricity generated and purchased (MWH):			
Generated.....	14,365,717	9,067,236	10,307,299
Purchased.....	9,696,026	5,908,796	6,195,720
Interchange deliveries.....	(1,982,999)	(1,078,471)	(2,855,109)
	-----	-----	-----
Total system output for load.....	22,078,744	13,897,561	13,647,910
Nonregulated purchases.....	7,324,399	4,201,619	--
	-----	-----	-----
Total output.....	29,403,143	18,099,180	13,647,910
	=====	=====	=====
Electric sales (MWH):			
Residential.....	7,118,304	4,097,773	4,262,710
Commercial.....	7,460,504	4,091,636	4,018,120
Industrial.....	4,761,578	3,598,006	3,331,175
Resale.....	1,236,489	1,335,226	1,333,268
Other sales(1).....	121,025	109,124	(19,557)
	-----	-----	-----
Total service territory sales.....	20,697,900	13,231,765	12,925,716

Merchant sales(2).....	7,977,418	4,201,619	--
Total sales excluding interchange...	28,675,318	17,433,384	12,925,716
Losses and miscellaneous system uses..	727,825	665,796	722,194
Total disposition of energy.....	29,403,143	18,099,180	13,647,910
Operating revenue (thousands):			
Residential.....	\$ 741,798	\$ 377,528	\$ 378,520
Commercial.....	627,995	299,649	286,438
Industrial.....	261,559	173,413	156,329
Resale.....	68,412	68,315	65,989
Miscellaneous revenues(3).....	57,559	34,451	24,344
Total service territory.....	1,757,323	953,356	911,620
Interchange deliveries.....	161,235	36,430	75,301
Merchant revenues(2).....	285,190	102,358	--
Total revenues.....	\$ 2,203,748	\$ 1,092,144	\$ 986,921
Number of customers (end of period):			
Residential.....	832,256	396,798	391,611
Commercial.....	108,953	50,216	49,165
Industrial.....	1,660	672	683
Resale.....	12	12	12
Other.....	1,169	624	645
Total customers(4).....	944,050	448,322	442,116

</TABLE>

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CONNECTIV

SCHEDULE OF OPERATING STATISTICS-(Continued)
FOR THE THREE YEARS ENDED DECEMBER 31, 1998

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
GAS:			
Gas sales and gas transported (Mcf):			
Residential.....	6,812	7,844	8,692
Commercial.....	4,705	5,313	5,724
Industrial.....	2,751	2,772	2,696
Interruptible, transportation and other.....	7,319	6,926	5,312
Total service territory.....	21,587	22,855	22,424
Merchant sales.....	156,741	27,216	1,733
Total.....	178,328	50,071	24,157
Operating revenue (thousands):			
Residential.....	\$ 57,809	\$ 63,937	\$ 60,017
Commercial.....	31,954	34,895	32,191
Industrial.....	11,311	12,582	12,349
Interruptible, transportation and other.....	6,113	5,776	5,085
Total service territory.....	107,187	117,190	109,642
Merchant revenues.....	427,895	86,867	4,642
Total.....	\$535,082	\$204,057	\$114,284
Number of customers (end of period):			
Residential.....	97,558	95,295	93,149
Commercial.....	7,975	7,793	7,615
Industrial.....	123	128	139
Interruptible, transportation and other.....	--	--	1
Total customers(4).....	105,656	103,216	100,904

</TABLE>

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

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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.

Conectiv (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
<p>/s/ Howard E. Cosgrove</p> <p>_____</p> <p>(Howard E. Cosgrove)</p>	<p>Chairman of the Board and Chief Executive Officer</p>
<p>/s/ John C. van Roden</p> <p>_____</p> <p>(John C. van Roden)</p>	<p>Senior Vice President and Chief Financial Officer</p>
<p>/s/ James P. Lavin</p> <p>_____</p> <p>(James P. Lavin)</p>	<p>Controller and Chief Accounting Officer</p>
<p>/s/ Michael G. Abercrombie</p> <p>_____</p> <p>(Michael G. Abercrombie)</p>	<p>Director</p>
<p>/s/ R. Franklin Balotti</p> <p>_____</p> <p>(R. Franklin Balotti)</p>	<p>Director</p>
<p>/s/ Robert D. Burris</p> <p>_____</p> <p>(Robert D. Burris)</p>	<p>Director</p>
<p>/s/ Audrey K. Doberstein</p> <p>_____</p> <p>(Audrey K. Doberstein)</p>	<p>Director</p>
<p>/s/ Michael B. Emery</p> <p>_____</p> <p>(Michael B. Emery)</p>	<p>Director</p>
<p>/s/ Jerrold L. Jacobs</p> <p>_____</p> <p>(Jerrold L. Jacobs)</p>	<p>Director</p>
<p>/s/ Richard B. McGlynn</p> <p>_____</p> <p>(Richard B. McGlynn)</p>	<p>Director</p>
<p>/s/ Weston E. Nellius</p> <p>_____</p> <p>(Weston E. Nellius)</p>	<p>Director</p>
<p>/s/ Harold J. Raveche</p> <p>_____</p> <p>(Harold J. Raveche)</p>	<p>Director</p>

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EXHIBIT 3-G

CONNECTIV'S BY-LAWS, AS AMENDED FEBRUARY 16, 1999

B Y L A W S

OF

CONECTIV

1. OFFICES.

1.1 Offices. In addition to its registered office in the State

of Delaware, the Corporation shall have a corporate office in Wilmington, Delaware and a significant presence in New Jersey, and such other offices, either within or without the State of Delaware, at such locations as the Board of Directors may from time to time determine or the business of the Corporation may require.

2. SEAL.

2.1 Seal. The Corporation shall have a seal, which shall have

inscribed thereon its name and year of incorporation and the words, "Corporate Seal Delaware."

3. MEETINGS OF STOCKHOLDERS.

3.1 Annual Meetings. The annual meeting of stockholders of the

Corporation shall be held on such date, at such time and at such place within or without the State of Delaware as shall be determined by the Board of Directors from time to time.

3.2 Special Meetings. Special meetings of the stockholders of

the Corporation shall be held on such date, at such time and at such place within or without the State of Delaware as may be designated by the Chairman of the Board or by the Board of Directors pursuant to a resolution approved by a majority of the entire Board of Directors.

3.3 Notice of Meetings. (a) Notices of meetings of stockholders

shall be in writing and shall state the place, date and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for which a meeting is called. No business other than that specified in the notice thereof shall be transacted at any special meeting.

(b) Such notice shall either be delivered personally, mailed, postage prepaid, or by any other lawful means, to each stockholder entitled to vote at such meeting not less than 10 nor more than 60 days before the date of the meeting. If mailed, the notice shall be directed to the stockholder at his or her address as it appears on the records of the Corporation. Personal delivery of any such notice to any officer of a corporation or association or to any member of a partnership shall constitute delivery of such notice to such corporation, association or partnership.

(c) Notice of any meeting of stockholders need not be given to any stockholder if waived by such stockholder in writing, whether before or after such meeting is held, or if such stockholder shall sign the minutes or attend the meeting, except that if such stockholder attends a meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened, such stockholder shall not be deemed to have waived notice of such meeting.

3.4 Adjourned Meetings. When a meeting is adjourned to another

time or place, unless otherwise provided by these Bylaws, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the stockholders may transact any business which might have been transacted at the original meeting. If an adjournment is for more than 30 days, or if after an adjournment, a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder entitled to vote at the meeting.

3.5 Quorum and Adjournment. Except as otherwise provided by law,

by the Certificate of Incorporation of the Corporation or by these Bylaws, the presence, in person or by proxy, of the holders of a majority of the aggregate voting power of the stock issued and outstanding, entitled to vote thereat, shall constitute a quorum for the transaction of business at all meetings of stockholders. If such majority shall not be present or represented at any meeting of stockholders, the stockholders present, although less than a quorum, shall have the power to adjourn the meeting.

3.6 Vote Required. Except as otherwise provided by law or by the

Certificate of Incorporation:

(a) Directors shall be elected by a plurality of the votes present in person or represented by proxy at a meeting of stockholders and entitled to vote in the election of directors, and

(b) whenever any corporate action other than the election of Directors is to be taken, it shall be authorized by a majority in voting power of the shares present in person or by proxy at a meeting of stockholders and entitled to vote on the subject matter.

3.7 Manner of Voting. At each meeting of stockholders, each

stockholder having the right to vote shall be entitled to vote in person or by proxy. Proxies need not be filed with the Secretary of the Corporation until the meeting is called to order, but shall be filed before being voted. Each stockholder shall be entitled to vote each share of stock having voting power registered in his name on the books of the Corporation on the record date fixed for determination of stockholders entitled to vote at such meeting. All elections of Directors by stockholders shall be by written ballot.

3.8 Proxies. (a) At any meeting of stockholders, any

stockholder may be

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represented and vote by proxy or proxies. In the event that any form of proxy shall designate two or more persons to act as proxies, a majority of such persons present at the meeting or, if only one shall be present, then that one shall have and may exercise all of the powers conferred by the form of proxy upon all of the persons so designated unless the form of proxy shall otherwise provide.

(b) The Board of Directors may, in advance of any annual or special meeting of the stockholders, prescribe additional regulations concerning proxies and the validation of the same, which are intended to be voted at any such meeting.

3.9 Presiding Officer and Secretary. The Chairman of the Board

shall act as chairman of all meetings of the stockholders. In the absence of the Chairman of the Board, the Vice Chairman of the Board or, in his or her absence, the Chief Executive Officer or, in his or her absence, the President or, in his or her absence, any Vice President designated by the Board of Directors shall act as chairman of the meeting.

The Secretary of the Corporation shall act as secretary of all meetings of the stockholders, but, in the absence of the Secretary, the Assistant Secretary designated in accordance with Section 5.11(b) of these Bylaws shall act as secretary of all meetings of the stockholders, but in the absence of a designated Assistant Secretary, the chairman of the meeting may appoint any person to act as secretary of the meeting.

3.10 Procedure. At each meeting of stockholders, the chairman of

the meeting shall fix and announce the date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at the meeting and shall determine the order of business and all other matters of procedure. Except to the extent inconsistent with any such rules and regulations as adopted by the Board of Directors, the chairman of the meeting may establish rules, which need not be in writing, to maintain order and safety and for the conduct of the meeting. Without limiting the foregoing, he or she may:

(a) restrict attendance at any time to bona fide stockholders of record and their proxies and other persons in attendance at the invitation of the chairman;

(b) restrict dissemination of solicitation materials and use of audio or visual recording devices at the meeting;

(c) adjourn the meeting without a vote of the stockholders, whether or not there is a quorum present; and

(d) make rules governing speeches and debate, including time limits and access to microphones.

The chairman of the meeting acts in his or her absolute discretion and his or her rulings are not subject to appeal.

4. DIRECTORS.

4.1 Powers. The Board of Directors shall exercise all of the powers of the Corporation except such as are by law, or by the Certificate of Incorporation of this Corporation or by these Bylaws conferred upon or reserved to the stockholders of any class or classes.

4.2 Resignations. Any Director may resign at any time by giving written notice to the Board of Directors or the Secretary. Such resignation shall take effect at the date of receipt of such notice or at any later time specified therein. Acceptance of such resignation shall not be necessary to make it effective.

4.3 Presiding Officer and Secretary. The Chairman of the Board shall act as chairman of all meetings of the Board of Directors. In the absence of the Chairman of the Board, the Vice Chairman of the Board, or in his absence, the Chief Executive Officer or other person designated by the Board of Directors shall act as chairman of the meeting.

The Secretary of the Corporation shall act as secretary of all meetings of the Board of Directors, but, in the absence of the Secretary, the Assistant Secretary designated in accordance with Section 5.11(b) of these Bylaws shall act as secretary of all meetings of the Board of Directors, but in the absence of a designated Assistant Secretary, the chairman of the meeting may appoint any person to act as secretary of the meeting.

4.4 Annual Meetings. The Board of Directors shall meet each year

immediately following the annual meeting of stockholders, at the place where such meeting of stockholders has been held, or at such other place as shall be fixed by the person presiding over the meeting of the stockholders, for the purpose of election of officers and consideration of such other business as the Board of Directors considers relevant to the management of the Corporation.

4.5 Regular Meetings. Regular meetings of the Board of Directors

shall be held on such dates and at such times and places, within or without the state of Delaware, as shall from time to time be determined by the Board of Directors. In the absence of any such determination, such meetings shall be held at such times and places, within or without the State of Delaware, as shall be designated by the Chairman of the Board on not less than twelve hours notice to each Director, given verbally or in writing either personally, by telephone (including by message or recording device), by facsimile transmission, by telegram or by telex or on not less than three (3) calendar days' notice to each Director given by mail.

4.6 Special Meetings. Special meetings of the Board of Directors

shall be held at the call of the Chairman of the Board at such times and places, within or without the State of Delaware, as he or she shall designate, on not less than twelve hours notice to each

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Director, given verbally or in writing either personally, by telephone (including by message or recording device), by facsimile transmission, by telegram or by telex or on not less than three (3) calendar days' notice to each Director given by mail. Special meetings shall be called by the Secretary on like notice at the written request of a majority of the Directors then in office.

4.7 Quorum and Powers of a Majority. At all meetings of the

Board of Directors and of each committee thereof, a majority of the members shall be necessary and sufficient to constitute a quorum for the transaction of business, and the act of a majority of the members present at any meeting at which a quorum is present shall be the act of the Board of Directors or such committee, unless by express provision of law, of the Certificate of

Incorporation or these Bylaws, a different vote is required, in which case such express provision shall govern and control. In the absence of a quorum, a majority of the members present at any meeting may, without notice other than announcement at the meeting, adjourn such meeting from time to time until a quorum is present.

4.8 Waiver of Notice. Notice of any meeting of the Board of

Directors, or any committee thereof, need not be given to any member if waived by him or her in writing, whether before or after such meeting is held, or if he or she shall sign the minutes or attend the meeting, except that if such Director attends a meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened, then such Director shall not be deemed to have waived notice of such meeting.

4.9 Manner of Acting. (a) Members of the Board of Directors, or

any committee thereof, may participate in any meeting of the Board of Directors or such committee by means of conference telephone or similar communications equipment by means of which all persons participating therein can hear each other, and participation in a meeting by such means shall constitute presence in person at such meeting.

(b) Any action required or permitted to be taken at any meeting of the Board of Directors or any committee thereof may be taken without a meeting if all members of the Board of Directors or such committee, as the case may be, consent thereto in writing, and the writings are filed with the minutes of proceedings of the Board of Directors or such committee.

4.10 Compensation. (a) The Board of Directors, by a resolution

or resolutions, may fix, and from time to time change, the compensation of Directors.

(b) Each Director shall be entitled to reimbursement from the Corporation for his or her reasonable expenses incurred with respect to duties as a member of the Board of Directors or any committee thereof.

(c) Nothing contained in these Bylaws shall be construed to preclude

any Director from serving the Corporation in any other capacity and from receiving compensation from the Corporation for service rendered to it in such other capacity.

4.11 Committees. The Board of Directors may designate one or

more committees, each committee to consist of one or more Directors, which to the extent provided in said resolution or resolutions shall have and may exercise the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation; provided, however, that no such committee shall have the power or authority in reference to the following matters: (i) approving or adopting, or recommending to the stockholders, any action or matter expressly required by the General Corporation Law of Delaware (the "GCLD") to be submitted to stockholders for approval or (ii) adopting, amending, or repealing any bylaw of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member of the committee. In the absence or disqualification of a member of a committee, the member or members present at any meeting of such committee and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the board of directors to act at the meeting in place of such absent or disqualified director.

4.12 Committee Procedure, Limitations of Committee Powers. (a)

Except as otherwise provided by these Bylaws, each committee shall adopt its own rules governing the time, place and method of holding its meetings and the conduct of its proceedings and shall meet as provided by such rules or by resolution of the Board of Directors. Unless otherwise provided by these Bylaws or any such rules or resolutions, notice of the time and place of each meeting of a committee shall be given to each member of such committee as provided in Section 4.6 of these Bylaws with respect to notices of special meetings of the Board of Directors.

(b) Each committee shall keep regular minutes of its proceedings and report the same to the Board of Directors when required.

(c) Any member of any committee may be removed from such committee either with or without cause, at any time, by the Board of Directors at any meeting thereof. Any vacancy in any committee shall be filled by the Board of Directors in the manner prescribed by the Certificate of Incorporation or these Bylaws for the original appointment of the members of such committee.

5. OFFICERS.

5.1 Number. (a) The officers of the Corporation shall include a

Chief Executive Officer, a President, one or more Vice Presidents (including one or more Executive Vice Presidents and one or more Senior Vice Presidents if deemed appropriate by the Board of Directors), a Secretary and a Treasurer. The Board of Directors shall also elect a Chairman of the Board and may elect a Vice Chairman of the Board. The Board of Directors may also elect such other officers as the Board of Directors may from time to time deem appropriate or

necessary. Except for the Chairman of the Board, the Vice Chairman of the Board and the Chief Executive Officer, none of the officers of the Corporation needs to be a director of the Corporation. Any two or more offices may be held by the same person to the extent permitted by the GCLD.

(b) The Board of Directors may delegate to the Chief Executive Officer or President the power to appoint one or more employees of the Corporation as divisional or departmental vice presidents and fix the duties of such appointees. However, no such divisional or departmental vice president shall be considered as an officer of the Corporation, the officers of the Corporation being limited to those officers elected by the Board of Directors.

5.2 Election of Officers, Qualification and Term. The officers

of the Corporation shall be elected from time to time by the Board of Directors and, except as may otherwise be expressly provided in a contract of employment duly authorized by the Board of Directors or the Merger Agreement, shall hold office at the pleasure of the Board of Directors.

5.3 Removal. Except as otherwise expressly provided in the

Merger Agreement, any officer elected by the Board of Directors may be removed, either with or without cause, by the Board of Directors at any meeting thereof, or to the extent delegated to the Chairman of the Board or the Chief Executive Officer, by the Chairman of the Board or the Chief Executive Officer.

5.4 Resignations. Any officer of the Corporation may resign at

any time by giving written notice to the Board of Directors or to the Chairman of the Board or to the Chief Executive Officer. Such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

5.5 Salaries. The salaries of all officers of the Corporation

shall be fixed by the Board of Directors from time to time, and no officer shall be prevented from receiving such salary by reason of the fact that he or she is also a Director of the Corporation.

5.6 The Chairman of the Board. The Chairman of the Board shall

have

the powers and duties customarily and usually associated with the office of the Chairman of the Board. The Chairman of the Board shall preside at meetings of the stockholders and of the Board of Directors.

5.7 Vice Chairman of the Board. The Vice Chairman of the Board

shall have the powers and duties customarily and usually associated with the office of the Vice Chairman of the Board.

5.8 Chief Executive Officer. The Chief Executive Officer shall

have, subject to the supervision, direction and control of the Board of Directors, the general powers and duties of supervision, direction and management of the affairs and business of the Corporation usually vested in the chief executive officer of a corporation, including, without limitation, all powers necessary to direct and control the organizational and reporting relationships within the Corporation. If at any time the office of the Chairman of the Board and the Vice Chairman of the Board shall not be filled, or in the event of the temporary absence or disability of the Chairman of the Board and the Vice Chairman of the Board, the Chief Executive Officer shall have the powers and duties of the Chairman of the Board.

5.9 The President. The President shall serve as chief operating

officer and shall have such other powers and perform such other duties as may be delegated to him or her from time to time by the Board of Directors or the Chief Executive Officer.

5.10 The Vice Presidents. Each Vice President shall have such

powers and perform such duties as may from time to time be assigned to him or her by the Board of Directors, the Chief Executive Officer or the President.

5.11 The Secretary and the Assistant Secretary. (a) The

Secretary shall attend meetings of the Board of Directors and meetings of the stockholders and record all votes and minutes of all such proceedings in a book kept for such purpose. He or she shall have all such further powers and duties as generally are incident to the position of Secretary or as may from time to time be assigned to him or her by the Board of Directors, the Chief Executive Officer or the President.

(b) Each Assistant Secretary shall have such powers and perform such duties as may from time to time be assigned to him or her by the Board of Directors, the Chief Executive Officer, the President or the Secretary. In case of the absence or disability of the Secretary, the Assistant Secretary designated by the Chief Executive Officer (or, in the absence of such designation, by the Secretary) shall perform the duties and exercise the powers of the Secretary.

5.12 The Treasurer and the Assistant Treasurer. (a) The

Treasurer shall have custody of the Corporation's funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall

deposit or cause to be deposited moneys or other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. The Treasurer shall also maintain adequate records of all assets, liabilities and transactions of the Corporation and shall see that adequate audits thereof are currently and regularly made. The Treasurer shall have such other powers and perform such other duties that generally are incident to the position of Treasurer or as may from time to time be assigned to him or her by the Board of Directors, the Chief Executive Officer or the President.

(b) Each Assistant Treasurer shall have such powers and perform such duties as may from time to time be assigned to him or her by the Board of Directors, the Chief Executive Officer, the President or the Treasurer. In case of the absence or disability of the Treasurer, the Assistant Treasurer designated by the Chief Executive Officer (or, in the absence of such designation, by the Treasurer) shall perform the duties and exercise the powers of the Treasurer.

6. STOCK

6.1 Certificates. Certificates for shares of stock of the

Corporation shall be issued under the seal of the Corporation, or a facsimile thereof, and shall be numbered and shall be entered in the books of the Corporation as they are issued. Each certificate shall bear a serial number, shall exhibit the holder's name and the number of shares evidenced thereby, and shall be signed by the Chairman of the Board or a Vice Chairman, if any, or the Chief Executive Officer or the President or any Vice President, and by the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if such person or entity were such officer, transfer agent or registrar at the date of issue.

6.2 Transfers. Transfers of stock of the Corporation shall be

made on the books of the Corporation only upon surrender to the Corporation of a certificate (if any) for the shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, provided such

succession, assignment or transfer is not prohibited by the Certificate of Incorporation, these Bylaws, applicable law or contract. Thereupon, the Corporation shall issue a new certificate (if requested) to the person entitled thereto, cancel the old certificate (if any) and record the transaction upon its books.

6.3 Lost, Stolen or Destroyed Certificates. Any person claiming

a certificate of stock to be lost, stolen or destroyed shall make an affidavit or an affirmation of that fact, and shall give the Corporation a bond of indemnity in satisfactory form and with one or more satisfactory sureties, whereupon a new certificate (if requested) may be issued of the same tenor and for the same number of shares as the one alleged to be lost, stolen or

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destroyed.

6.4 Registered Stockholders. The Corporation shall be entitled

to recognize the exclusive right of a person registered on its books as the owner of shares as the person entitled to exercise the rights of a stockholder and shall not be bound to recognize any equitable or other claim to or interest in any such shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise expressly provided by the GCLD.

6.5 Additional Powers of the Board. (a) In addition to those

powers set forth in Section 4.1, the Board of Directors shall have power and authority to make all such rules and regulations as it shall deem expedient concerning the issue, transfer and registration of certificates for shares of stock of the Corporation, including the use of uncertificated shares of stock subject to the provisions of the GCLD.

(b) The Board of Directors may appoint and remove transfer agents and registrars of transfers, and may require all stock certificates to bear the signature of any such transfer agent and/or any such registrar of transfers.

7. MISCELLANEOUS

7.1 Place and Inspection of Books. (a) The books of the

Corporation other than such books as are required by law to be kept within the State of Delaware shall be kept in such place or places either within or without the State of Delaware as the Board of Directors may from time to time determine.

(b) At least ten days before each meeting of stockholders, the officer in charge of the stock ledger of the Corporation shall prepare a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting,

during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

(c) The Board of Directors shall determine from time to time whether and, if allowed, when and under what conditions and regulations the accounts and books of the Corporation (except such as may be by law specifically open to inspection or as otherwise provided by these Bylaws) or any of them shall be open to the inspection of the stockholders and the stockholders' rights in respect thereof.

7.2 Voting Shares in Other Corporations. The Chief Executive

Officer, the President or any other officer of the Corporation designated by the Board of Directors may vote any and all shares held by the Corporation in any other corporation.

7.3 Fiscal Year. The fiscal year of the Corporation shall be

such fiscal year as the Board of Directors from time to time by resolution shall determine.

7.4 Gender/Number. As used in these Bylaws, the masculine,

feminine or neuter gender, and the singular or plural number, shall each include the others whenever the context so indicates.

7.5 Paragraph Titles. The titles of the paragraphs have been

inserted as a matter of reference only and shall not control or affect the meaning or construction of any of the terms and provisions hereof.

7.6 Amendment. These Bylaws may be altered, amended or repealed

by (a) the affirmative vote of 80% or more of the aggregate number of votes that the holders of the then outstanding shares of common stock and preferred stock are entitled to cast on the amendment, or (b) by resolution adopted by the affirmative vote of not less than a majority of the Directors in office, at any annual or regular meeting of the Board of Directors or at any special meeting of the Board of Directors if notice of the proposed alteration, amendment or repeal be contained in written notice of such special meeting. Notwithstanding the foregoing, the amendment of any provision of these Bylaws requiring an affirmative vote in excess of a majority of the Directors in office shall require the affirmative vote of at least the number of directors the affirmative vote of whom is required by such provision.

7.7 Certificate of Incorporation. Notwithstanding anything to

the contrary contained herein, if any provision contained in these Bylaws is inconsistent with or conflicts with a provision of the Certificate of Incorporation, such provision of these Bylaws shall be superseded by the inconsistent provision in the Certificate of Incorporation to the extent necessary to give effect to such provision in the Certificate of Incorporation.

1. Adopted by Unanimous Written Consent of the Conectiv Board of Directors, 3/1/98
2. Amended (Arts. 3.3(b), 3.8(a) and 3.8(b)) by resolution of the Conectiv Board of Directors, 2/16/99

290268

EXHIBIT 10-B

Conectiv Deferred Compensation Plan, effective January 1, 1999

CONNECTIV

DEFERRED COMPENSATION PLAN

(As Amended and Restated, Effective January 1, 1999)

CONNECTIV

DEFERRED COMPENSATION PLAN

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CONECTIV
DEFERRED COMPENSATION PLAN

(As Amended and Restated, Effective January 1, 1999)

ARTICLE 1

PURPOSE

- 1.1. Name. The name of this plan is the Conectiv Deferred Compensation

Plan.
- 1.2. Effective Date. The effective date of the Plan is July 1, 1998;

provided, however, that with respect to implementing various portions of the Plan the Board or the Committee may specify a later effective date for one or more components of the Plan. The Plan is amended and restated, effective January 1, 1999, to include rules governing the DSPP and the MSPP.

1.3. Purpose. The Plan is established effective July 1, 1998 by Conectiv

for the purpose of providing deferred compensation benefits for non-employee directors of Conectiv and providing supplemental retirement and deferred compensation benefits for a select group of management and/or highly compensated employees of the Employer. The Plan provides a means whereby Eligible Individuals may defer:

1.3.1. A portion or all of their compensation in the form of salary, bonus and/or Cash Awards they would otherwise receive for services performed for the Employer;

1.3.2. Receipt of a portion or all of Stock Awards; and

1.3.3. Receipt of Shares and corresponding recognition of compensation income upon the exercise of Options.

ARTICLE 2
DEFINITIONS

Whenever the following initially capitalized words and phrases are used in the Plan, they shall have the meanings specified below unless the context clearly indicates to the contrary:

1.4. "Account" means the Deferred Compensation Account, the Deferred

Stock Account, the Employer Matching Account, the MSPP Account, the MSPP Matching Account, the DSPP Account and the DSPP Matching Account of a Participant.

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1.5. "Administrator" means the person or committee designated as the

administrator of the Plan by the Board, or such entity's duly-appointed delegate.

1.6. "Beneficiary" means such person or legal entity as may be

designated by a Participant to receive benefits hereunder after such Participant's death.

1.7. "Board" means the Board of Directors of Conectiv.

1.8. "Cash Award(s)" means Annual Incentives, Performance Units, Stock

Appreciation Rights, and Dividend Equivalents awarded pursuant to the CICP (as such terms are defined in that plan) that are payable in cash, as well as any other awards pursuant to any other Incentive Plan that are payable in cash, as determined by the Committee.

1.9. "Change in Control" shall mean the first to occur, after the

effective date, of any of the following:

1.9.1. If any Person is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act), directly or indirectly, of securities of Conectiv (not including in the securities beneficially owned by such Person any securities acquired directly from Conectiv or its subsidiaries) representing 25% or more of either the then-outstanding shares of common stock of Conectiv or the combined voting power of Conectiv's then outstanding securities; or

1.9.2. If during any period of 24 consecutive months during the existence of the Plan commencing on or after the effective date, the individuals who, at the beginning of such period, constitute the Board (the "Incumbent Directors") cease for any reason other than death to constitute at least a majority thereof; provided that a director who was not a director at the beginning of such 24-month period shall be deemed to have satisfied such 24-month requirement (and be an Incumbent Director) if such director was elected by, or on the recommendation of or with the approval of, at least two-third of the directors who then qualified as Incumbent Directors either actually (because they were directors at the beginning of such 24-month period) or by prior operation of this Section 2.6.2; or

1.9.3. The consummation of a merger or consolidation of Conectiv with any other corporation other than (i) a merger or consolidation which would result in the voting securities of Conectiv outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof) at least 60% of the combined voting power of the voting securities of Conectiv or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or (ii) a merger or consolidation effected to implement a recapitalization of Conectiv (or similar transaction) in which no Person is or becomes the beneficial owner, as defined in Section 2.6.1, directly or indirectly, of securities of Conectiv (not including in the securities beneficially owned by such Person any securities acquired directly from Conectiv or its subsidiaries) representing 40% or more of either the then-outstanding shares of

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common stock of Conectiv or the combined voting power of Conectiv's then-outstanding securities; or

1.9.4. The stockholders of Conectiv approve a plan of complete liquidation or dissolution of Conectiv, or there is consummated an agreement for the sale or disposition by Conectiv of all or substantially all of Conectiv's assets, other than a sale or disposition by Conectiv of all or substantially all of Conectiv's assets to an entity, at least 60% of the combined voting power of the voting securities of which are owned by Persons in substantially the same proportion as their ownership of Conectiv immediately prior to such sale.

Upon the occurrence of a Change in Control as provided above, no subsequent event or condition shall constitute a Change in Control for purposes of the Plan, with the result that there can be no more than one Change in Control hereunder.

For purposes of this Section, the term "Person" shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and

14(d) thereof, except that such term shall not include: (i) Conectiv or any of its subsidiaries; (ii) a trustee or other fiduciary holding securities under an employee benefit plan of Conectiv or any of its subsidiaries; (iii) an underwriter temporarily holding securities pursuant to an offering of such securities; (iv) a corporation owned directly or indirectly by the stockholders of Conectiv in substantially the same proportions as their ownership of stock of Conectiv; or (v) with respect to any particular Participant, such Participant or any "group" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act) which includes such Participant).

1.10. "CICP" means the Conectiv, Inc. Incentive Compensation Plan.

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

1.12. "Committee" means the Compensation Committee of the Board.

1.13. "Compensation" means, as applicable:

1.13.1. The base salary of a Participant for a Plan Year (before any reduction to such salary is effected in accordance with the Election, or in accordance with any salary reduction agreement effected under the terms of Sections 125 or 401(k) of the Code);

1.13.2. The amount of bonus, if any, earned by an Eligible Individual during the Plan Year;

1.13.3. Annual retainer, meeting fees, and any other cash payments received by an Eligible Individual in his or her capacity as a non-employee director;

1.13.4. Severance payments;

1.13.5. Cash Awards;

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1.13.6. Stock Awards;

1.13.7. Dividend equivalents credited with respect to Deferred Stock and Deferred Option Stock; and

1.13.8. Dividend equivalents credited with respect to Stock Awards.

1.14. "Conectiv" means Conectiv.

1.15. "Date of Grant" means the date as of which an Option is granted.

1.16. "Deferred Compensation Account" means the bookkeeping account

established by the Administrator for each Participant to which the Participant's cash Compensation deferred pursuant to Section 4.1 (and income thereon) is credited and from which distributions to the Participant or to his or her Beneficiary are debited. A Participant shall at all times be fully vested in the

balance of his or her Deferred Compensation Account which is attributable to cash Compensation except to the extent that a Cash Award has not yet vested. The Deferred Compensation Account, if applicable, shall also consist of a Transfer Deferred Compensation Subaccount.

1.17. "Deferred Option Stock" means the number of hypothetical Shares

determined as the excess of (a) the number of Option Shares over (b) the number of Other Available Shares having a Fair Market Value as of the date of exercise of an Option equal to the exercise price for such Option Shares as to which an Eligible Individual provides to Conectiv evidence of ownership of sufficient Shares to pay the exercise price for such Option Shares.

1.18. "Deferred Stock" means the number of hypothetical Shares

conditionally granted to a Participant pursuant to a Stock Award and deferred pursuant to Section 4.1.

1.19. "Deferred Stock Account" means the bookkeeping account established

by the Administrator for each Participant to which the Participant's Deferred Stock and Deferred Option Stock is credited and from which distributions to the Participant or to his or her Beneficiary are debited. A Participant shall at all times be fully vested in the balance of his or her Deferred Stock Account, except to the extent Shares with respect to a Stock Award have not yet vested. The Deferred Stock Account, if applicable, shall also consist of a Transfer Deferred Stock Subaccount.

1.20. "DSPP" means the Director Stock Purchase Program. The DSPP is

designed to allow and encourage Eligible Individuals who are non-employee directors to purchase RSUs at a discount and to provide such individuals the opportunity to manage their personal tax liability. All Eligible Individuals who are non-employee directors of Conectiv are eligible to participate in the DSPP. Under the DSPP, as further provided in this Plan:

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1.20.1. All RSUs are "acquired" at a 20% discount. Thus, RSUs having a value (based on the closing price of Shares as of the date Compensation subject to a DSPP Election would, but for such DSPP Election, be paid (the "Initial Credit Date")) are credited to the DSPP Account of each DSPP Participant. As of each Initial Credit Date, a number of RSUs equal to 25% of the number of RSUs credited to the DSPP Account shall be credited to the DSPP Matching Account.

1.20.2. RSU Dividends shall be deemed invested and reinvested in RSUs based on the closing price of Shares as of the applicable dividend payment date, and shall be credited to the DSPP Participant's DSPP Account or DSPP Matching Account, as applicable.

1.20.3. Except as otherwise provided in this Section 2.17.3, as soon as practicable following the completion of the second calendar year beginning after the year to which a DSPP Election applies, Conectiv shall pay the DSPP Participant (or his or her Beneficiary) a number of Shares equal to the number of RSUs credited to the DSPP Participant's DSPP Account and DSPP Matching Account attributable to the DSPP Election for such year. Any amount credited to a DSPP Participant's DSPP Account or DSPP Matching Account which is not distributable pursuant to this Section 2.17.3 shall be forfeited.

(1) If a DSPP Participant voluntarily resigns his or her position as a non-employee director and does not continue in service to Conectiv as an officer or employee, then, as soon as practicable following such resignation, Conectiv shall pay such DSPP Participant (or his or her Beneficiary) cash having a value equal to the lesser of (i) the sum of the individual amounts credited to the DSPP Participant's DSPP Account as of each Initial Credit Date, which has not been distributed nor deferred pursuant to the general deferral provisions of the Plan or (ii) the fair market value of RSUs credited to the DSPP Participant's DSPP Account and DSPP Matching Account as of the effective date of the DSPP Participant's voluntary resignation.

(2) If a DSPP Participant is removed as a non-employee director other than for cause (as determined by the Board in its sole discretion), then, as soon as practicable following the effective date of such removal, Conectiv shall pay such DSPP Participant (or his or her Beneficiary) cash having a value equal to the sum of (i) the product of (x) the value of the DSPP Participant's DSPP Account and DSPP Matching Account attributable to each deferral year times (y) a fraction, the numerator of which is the number of days from the beginning of such deferral year to the effective date of such removal, and the denominator of which is 1095; plus (ii) the product of (x) the sum of the individual amounts credited to the DSPP Participant's DSPP Account as of each Initial Credit Date, which has not been distributed nor deferred pursuant to the general deferral provisions of the Plan times (y) one minus the fraction as determined under part (i)(y) of this paragraph (b).

(3) If a DSPP Participant is removed as a non-employee director for cause (as determined by the Board in its sole discretion), then, as soon as practicable following the effective date of such removal, Conectiv shall pay such DSPP Participant (or his or her Beneficiary) cash having a value equal to the sum of the individual amounts credited to the

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DSPP Participant's DSPP Account as of each Initial Credit Date, which has not been distributed nor deferred pursuant to the general deferral provisions of the Plan.

(4) If a DSPP Participant's service as a non-employee director terminates because of the termination of the DSPP Participant's term as a director and he has not been re-elected and does not continue in service to Conectiv as an officer or employee, death, disability (as determined by the Board in its sole discretion), or if there is a Change in Control, then, within 60 days following such termination or Change in Control, as applicable, Conectiv (or its successor-in-interest) shall pay such DSPP Participant (or his or her Beneficiary) cash having a value equal to the value of the RSUs credited to such DSPP Participant's DSPP Account and DSPP Matching Account.

(5) Pursuant to the general deferral election provisions of the Plan, a DSPP Participant may elect to defer the receipt of amounts credited to his or her DSPP Account and his or her DSPP Matching Account for periods following the end of the second calendar year beginning after the year to which a DSPP Election applies. Upon the effective date of such general deferral election, the applicable amounts credited to the Participant's DSPP Account and DSPP Matching Account shall be credited to a sub-account of the Participant's Deferral Account under the Plan, and shall continue to be credited in the form of RSUs and subject to distribution in the form of Shares, in accordance with, and except as otherwise provided by, the Plan.

1.21. "DSPP Account" means the bookkeeping account established by the

Administrator for each Eligible Individual who is a non-employee director to which annual retainer, meeting fees or any other cash payments of Compensation payable to such Eligible Individual in such capacity, are credited in the form of RSUs pursuant to the Director Stock Purchase Program (and income thereon) is credited and from which distributions to the Participant or to his or her Beneficiary are debited.

1.22. "DSPP Election" means an election on a form provided by the

Administrator by an Eligible Individual who is a non-employee director to participate in the DSPP. The timing of DSPP Elections shall be governed by Section 4.1.

1.23. "DSPP Matching Account" means the bookkeeping account established

by the Administrator for a Participant to which the Participant's DSPP Matching Contributions (and income thereon) are credited and from which distributions to the Participant or his or her Beneficiary are debited.

1.24. "DSPP Participant" means an Eligible Individual who has elected to

participate in the DSPP, as described in Section 2.17.

1.25. "Election" means a written election on a form made available from

time to time by the Administrator, whereby an Eligible Individual enrolls as a Participant and elects to defer Compensation pursuant to Article 4 of the Plan.

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1.26. "Eligible Individual" means (a) an individual employed by the

Employer who is a member of a select group of management and/or highly compensated employees and is determined by the Committee to be eligible to participate hereunder pursuant to Article 3; (b) non-employee directors of Conectiv; and (c) if determined by the Committee to be eligible to participate pursuant to Article 3, non-employee directors of any subsidiary or affiliate of Conectiv.

1.27. "Employer" means each subsidiary or affiliate of Conectiv that

employs or retains one or more Eligible Individuals who have become Participants in accordance with Article 3 of the Plan.

1.28. "Employer Matching Account" means the bookkeeping account

established by the Administrator for a Participant to which the Participant's Employer Matching Credit (and income thereon) is credited and from which distributions to the Participant or his or her Beneficiary are debited. A Participant shall be fully vested in the balance of his or her Employer Matching Account, except as provided in Section 7.1.

1.29. "Employer Matching Credit" means an amount credited (if any) to

the Participant's Employer Matching Account pursuant to Section 5.1 of the Plan.

1.30. "Fair Market Value."

1.30.1. If Shares are listed on a stock exchange, Fair Market Value shall be determined based on the closing market price of such stock as reported in the New York Stock Exchange Composite Transactions, or, if Shares are not traded on the New York Stock Exchange on the relevant valuation date, the last closing market price reported prior to such date.

1.30.2. If Shares are not so listed, but trades of Shares are reported on the Nasdaq National Market, the last quoted sale price of a Share on the Nasdaq National Market on the last trading day prior to the date of determination.

1.30.3. If Shares are not so listed nor trades of Shares so reported, Fair Market Value shall be determined by the Committee in good faith.

1.31. "Incentive Plans" means the CICP, as well as, at the discretion of

the Committee, any other incentive or executive compensation plan of Conectiv or any Employer, whether currently in effect or adopted after the effective date of the Plan.

1.32. "Investment Alternatives" means the investment options made

available to employees under the Savings Plan, which shall be used as measuring standards for credits to a Participant's Deferred Compensation Account. In the case of the Participant's Employer Matching Account and Deferred Stock Account, the only Investment Alternative shall be Shares as traded on the open market.

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1.33. "MSPP" means the Management Stock Purchase Program. The MSPP is

designed to allow and encourage Eligible Individuals to purchase RSUs at a discount and to provide such individuals the opportunity to manage their personal tax liability. All Eligible Individuals who are designated as participants in the annual incentive portion of the CICP are eligible to participate in the MSPP. Under the MSPP, as further provided in this Plan:

1.33.1. All RSUs are "acquired" at a 20% discount. Thus, RSUs having a value (based on the closing price of Shares as of the date Compensation subject to the Mandatory MSPP Allocation (as described in Section 2.30.2) or to an MSPP Election would, but for such Mandatory MSPP Allocation or MSPP Election, be paid (the "Initial Credit Date")) are credited to the MSPP Account of each MSPP Participant. As of each Initial Credit Date, a number of RSUs equal to 25% of the number of RSUs credited to the MSPP Account shall be credited to the MSPP Matching Account.

1.33.2. Twenty percent (20%) of an MSPP Participant's annual incentive bonus declared under the CICP and payable after 1998 shall be allocated as a Mandatory MSPP Allocation to the Participant's MSPP Account, credited in the form of RSUs.

1.33.3. RSU Dividends shall be deemed invested and reinvested in RSUs based on the closing price of Shares as of the applicable dividend payment date, and shall be credited to the MSPP Participant's MSPP Account or MSPP Matching Account, as applicable.

1.33.4. Except as otherwise provided in this Section 2.30.4, as soon as practicable following the completion of the second calendar year beginning after the year to which an MSPP Election applies, Conectiv shall pay the MSPP Participant (or his or her Beneficiary) a number of Shares equal to the number of RSUs credited to the MSPP Participant's MSPP Account and MSPP Matching Account attributable to the MSPP Election for such year. Any amount credited to an MSPP Participant's MSPP Account or MSPP Matching Account which is not distributable pursuant to this Section 2.30.4 shall be forfeited.

(1) If an MSPP Participant voluntarily resigns his or her employment (other than by retirement after having reached an age where benefits under any tax-qualified pension plan maintained by Conectiv are immediately distributable) and does not continue in service to Conectiv as an officer or director, then, as soon as practicable following such resignation, Conectiv shall pay such MSPP Participant (or his or her Beneficiary) cash having a value equal to the lesser of (i) the sum of the individual amounts credited to the MSPP Participant's MSPP Account as of each Initial Credit Date, which has not been distributed nor deferred pursuant to the general deferral provisions of the Plan or (ii) the fair market value of RSUs credited to the MSPP Participant's MSPP Account and MSPP Matching Account as of the effective date of the MSPP Participant's voluntary resignation.

(2) If an MSPP Participant's employment is terminated by Conectiv other than for cause (as determined by the Administrator in its sole discretion), then, as soon as practicable following the effective date of such removal, Conectiv shall pay such MSPP Participant (or his or her Beneficiary) cash having a value equal to the sum of (i) the product of

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(x) the value of the MSPP Participant's MSPP Account and MSPP Matching Account attributable to each deferral year times (y) a fraction, the numerator of which is the number of days from the beginning of such deferral year to the effective date of such removal, and the denominator of which is 1095; plus (ii) the product of (x) the sum of the individual amounts credited to the MSPP Participant's MSPP Account as of each Initial Credit Date, which has not been distributed nor deferred pursuant to the general deferral provisions of the Plan times (y) one minus the fraction as determined under part (i)(y) of this paragraph (b).

(3) If an MSPP Participant's employment is terminated by Conectiv for cause (as determined by the Administrator in its sole discretion), then, as soon as practicable following the effective date of such termination, Conectiv shall pay such MSPP Participant (or his or her Beneficiary) cash having a value equal to the sum of the individual amounts voluntarily credited to the MSPP Participant's MSPP Account as of each Initial Credit Date, which has not been distributed nor deferred pursuant to the general deferral provisions of the Plan.

(4) If an MSPP Participant retires after having reached an age where benefits under any pension plan maintained by Conectiv are immediately distributable and he does not continue in service to Conectiv as a director or officer, dies in service, becomes disabled (as determined by the Administrator in its sole discretion), or if there is a Change in Control, then, within 60 days following such retirement or Change in Control, as applicable, Conectiv (or its successor-in-interest) shall pay such MSPP Participant (or his or her Beneficiary) cash having a value equal to the value of the RSUs credited to such

MSPP Participant's MSPP Account and MSPP Matching Account.

(5) Pursuant to the general deferral election provisions of the Plan, an MSPP Participant may elect to defer the receipt of amounts credited to his or her MSPP Account and his or her MSPP Matching Account for periods following the end of the second calendar year beginning after the year to which a Mandatory MSPP Allocation applies. Upon the effective date of such general deferral election, the applicable amounts credited to the Participant's MSPP Account and MSPP Matching Account shall be credited to a sub-account of the Participant's Deferral Account under the Plan, and shall continue to be credited in the form of RSUs and subject to distribution in the form of Shares, in accordance with, and except as otherwise provided by, the Plan.

1.34. "MSPP Account" means the bookkeeping account established by the

Administrator for each Eligible Individual who is designated as a participant in the annual incentive portion of the CICP to which the amount of Compensation subject to the Mandatory MSPP Allocation and an MSPP Election are credited in the form of RSUs pursuant to the Management Stock Purchase Program (and income thereon) is credited and from which distributions to the Participant or to his or her Beneficiary are debited.

1.35. "MSPP Election" means an election on a form provided by the

Administrator by an Eligible Individual who is an MSPP Participant to defer the receipt of any whole percentage of annual incentive bonus declared under the CICP and payable after 1998,

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provided that an MSPP Participant may not elect to defer the receipt of more than 30% of such annual incentive bonus. The timing of DSPP Elections shall be governed by Section 4.1.

1.36. "MSPP Matching Account" means the bookkeeping account established

by the Administrator for a Participant to which the Participant's MSPP Matching Contributions (and income thereon) are credited and from which distributions to the Participant or his or her Beneficiary are debited.

1.37. "MSPP Participant" means an Eligible Individual who is designated

as a participant in the annual incentive portion of the CICP.

1.38. "Option" means a non-qualified stock option to purchase Shares

granted pursuant to an Incentive Plan; provided that each Option with a different Date of Grant shall be considered a separate Option.

1.39. "Option Shares" mean the Shares that are subject to the portion of

an Option as to which an Election is in effect.

1.40. "Other Available Shares" means, as of any date, the excess, if any

of:

1.40.1. The total number of Shares owned by a Participant; over

1.40.2. The sum of:

(1) The number of Shares owned by such Participant for less than six months; plus

(2) The number of Shares owned by such Participant that has, within the preceding six months, been received in exchange for Shares surrendered as payment, in full or in part, of the exercise price for an option to purchase any securities of an Employer under any Incentive Plan, but only to the extent of the number of Shares surrendered.

For purposes of this Section, a Share that is subject to a deferral election pursuant to this Plan or an Incentive Plan shall not be treated as owned by such Participant until all conditions to the delivery of such Share have lapsed.

1.41. "Participant" means an Eligible Individual designated as a

Participant by the Committee and who has amounts standing to his or her credit under an Account. The Committee may designate an Eligible Individual as a Participant for purposes of part, but not all, of the Plan.

1.42. "Plan" means the Conectiv Deferred Compensation Plan.

1.43. "Plan Year" means the calendar year.

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1.44. "Prior Plan(s)" means any executive compensation, stock option,

bonus or incentive compensation plan maintained by Delmarva Power & Light Company or Atlantic City Electric Company or any affiliated company.

1.45. "RSU" means a hypothetical Share in which amounts credited to the

DSPP Account, DSPP Matching Account, MSPP Account and MSPP Matching Account are deemed invested, subject to Section 2.17 and Section 2.30.

1.46. "RSU Dividends" means a hypothetical dividend payable with respect

to an RSU. An RSU Dividend shall be deemed paid at the same times and in the same amounts as dividends are paid with respect to Shares.

1.47. "Savings Plan" means the Conectiv Savings and Investment Plan.

1.48. "Share" or "Shares" means a share of common stock of Conectiv,

and, if applicable, a share of Class A common stock of Conectiv, or such other securities issued by Conectiv as may be subject to adjustment in the event that Shares are changed into or exchanged for a different number or kind of shares of stock or other securities of Conectiv, whether through merger, consolidation, reorganization, recapitalization, stock dividend, stock split-up or other substitution of securities of Conectiv. In such event, the Committee shall make appropriate equitable anti-dilution adjustments to the number and class of Deferred Stock and Deferred Option Stock credited to Participants' Deferred

Stock Accounts. The Committee's adjustment shall be effective and binding for all purposes of the Plan .

1.49. "Stock Award(s)" means (a) Annual Incentives, Performance Units,

Stock Appreciation Rights and Dividend Equivalents awarded pursuant to the CICP (as such terms are defined in that plan) that are payable in Shares; (b) any other awards that are payable in Shares pursuant to any other Incentive Plan, as determined by the Committee; (c) with respect to an Option, the number of Shares, that upon exercise of all or part of an Option, could be credited to a Participant's Account as Deferred Option Stock; and (d) with respect to non-employee directors, any payments made in the form of Shares.

1.50. "Transfer Deferred Compensation Subaccount" means the bookkeeping

account established by the Administrator for each Participant to which the Participant's cash compensation deferred pursuant to a Prior Plan is credited and from which distributions to the Participant or to his or her Beneficiary are debited. A Participant shall at all times be fully vested in the balance of his or her Transfer Deferred Compensation Subaccount.

1.51. "Transfer Deferred Stock Subaccount" means the bookkeeping account

established by the Administrator for each Participant to which the Participant's Shares deferred pursuant to a Prior Plan are credited and from which distributions to the Participant or to his or her Beneficiary are debited. A Participant shall at all times be fully vested in the balance of his or her Transfer Deferred Stock Subaccount, except to the extent Shares have not yet vested pursuant to the terms of the Prior Plan.

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1.52. "Transfer Employer Matching Subaccount" means the bookkeeping

account established by the Administrator for each Participant to which the Participant's matching contributions pursuant to a Prior Plan are credited and from which distributions to the Participant or to his or her Beneficiary are debited. A Participant shall at all times be fully vested in the balance of his Transfer Employer Matching Subaccount.

ARTICLE 3
PARTICIPATION BY ELIGIBLE INDIVIDUALS

1.53. Participation. Participation in the Plan is limited to Eligible

Individuals. An Eligible Individual shall participate in the Plan as determined by the Committee in its sole discretion; provided, however, that for purposes of individuals who first become Eligible Individuals during a Plan Year, such Eligible Individuals shall participate in the Plan as determined by the Administrator in his or her sole discretion.

1.54. Failure to Designate. If the Committee fails to designate the

group of Eligible Individuals who shall be eligible to participate for any Plan Year, each Eligible Individual who was designated in the prior Plan Year shall

be deemed to have been designated for the next succeeding Plan Year, provided that any such person shall participate for purposes of the next succeeding Plan Year only if he or she is actively employed by an Employer or serving as a non-employee director of Conectiv on the first day of such succeeding Plan Year and provided he or she is an Eligible Individual for such year.

1.55. Continuity of Participation. A Participant who separates from

service with all of the Employers or ceases to be a non-employee director of Conectiv or a subsidiary or affiliate of Conectiv will cease active participation hereunder. However, the separation from service of an Eligible Individual with one Employer will not interrupt the continuity of his or her active participation if, concurrently with or immediately after such separation, he or she is employed by one or more of the other Employers.

1.56. Immediate Cash-Out of Ineligible Individuals. The Plan is intended

to be an unfunded "top-hat" plan, maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees. Accordingly, if the Committee determines that any Participant who is an employee does not qualify as a member of the select group, the vested portion of such Participant's Account shall be paid to the Participant immediately, and the unvested portion shall be returned to the applicable Incentive Plan.

ARTICLE 4
COMPENSATION DEFERRAL

1.57. Deferral Elections.

1.57.1. General. No later than the "Deferral Deadline" as shown in Table 4.1, each Eligible Individual designated as eligible to participate for purposes of this Article 4 may

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irrevocably elect, by completing and executing an Election and filing it with the Administrator, to defer any portion of his or her Compensation to be paid in the future.

TABLE 4.1

<TABLE>
<CAPTION>

Type of Deferral -----	Deferral Deadline -----
<S> Base Salary	<C> December 31 of the Plan Year preceding the Plan Year for which the deferral is to be effective.
Bonus	June 30 of the performance year for which the award is earned, provided that with respect to bonus awards declared

under the CICP for 1998 and which are subject to the MSPP provisions of the Plan and which may become payable in 1999, December 31, 1998.

Cash Awards	December 31 of the Plan Year preceding the Plan Year in which such Cash Award vests, becomes payable, or is exercised (as applicable); provided that such election is at least six (6) months prior to vesting, payout, or exercise.
Stock Awards, and Amounts Credited to the DSPP, DSPP Matching, MSPP and MSPP Matching Accounts	December 31 of the Plan Year preceding the Plan Year in which such Stock Award vests, becomes payable, or is exercised (as applicable); provided that such election is at least six (6) months prior to vesting, payout, or exercise.
Dividend Equivalents (with respect to Stock Awards)	December 31 of the Plan Year preceding the Plan Year in which the dividend equivalents are payable. With respect to Stock Options, Dividend Unit Equivalents and Performance Accelerated Restricted Stock granted after December 31, elections must be made within 30 days from the effective date of grant.
Dividend Equivalents (with respect to Deferred Stock and Deferred Option Stock)	Dividend equivalents are automatically credited to a Participant's Deferred Compensation Account once a deferral election with respect to a Stock Award is made; provided, however, that once a Stock Award vests, dividend equivalents are credited to the Deferred Stock Account.
Severance Payments	December 31 of the second Plan Year preceding the payment of any severance.
Retainer and Meeting Fees	Last day of Plan Year prior to Plan Year for which retainer and meeting fees are paid.

</TABLE>

1.57.2. Limit on Deferral of Base Salary. In the case of deferral of base salary, a Participant may defer up to 100% of base pay, less any applicable withholding.

1.57.3. Elections in First Year of Plan. Elections pursuant to Section 4.1 by individuals who are identified as Eligible Individuals on July 1, 1998 must be filed with the Administrator on or before the later of (1) the close of business on July 31, 1998 or (2) the deferral deadline specified in Table 4.1 and shall be effective for payroll periods and payments, as applicable, on and after the date the Election is filed; provided, however, that if a later effective date for Section 4.1 is specified by the Board or the Committee, Elections pursuant to Section 4.1 must be filed in accordance with Section 4.1.4.

1.57.4. Elections for First Year as Eligible Individual.

Notwithstanding the foregoing provisions of Section 4.1, in the Plan Year an individual first becomes an Eligible Individual, the Eligible Individual may elect to defer all or a portion of his or her Compensation to be earned in such Plan Year beginning with the later of the payroll period or payment date, as applicable, next following the filing of an Election with the Administrator and before the close of such Plan Year, by making and filing such Election with the Administrator within 30 days of the date such individual becomes an Eligible Individual; provided, however, that if the deferral deadline specified in Table 4.1 has not passed with respect to an element of Compensation, then the deferral deadline in Table 4.1 shall apply. Elections by such Eligible Individual for succeeding Plan Years shall otherwise be made in accordance with the foregoing provisions of Section 4.1.

1.58. Period for Which Election is Effective. A Participant's Election

under Section 4.1 shall be effective only with respect to the Plan Year, or portion thereof, specified in the Election, except that a deferral election that provides for (a) regular deferrals of base salary as of each pay period, (b) deferrals of Dividend Equivalents, and/or (c) meetings fees, shall be deemed to continue for successive Plan Years unless and until amended by the Participant. An amendment shall be effective only if it is filed by the December 31 of the Plan Year preceding the Plan Year for which it is to be effective and shall be effective as of the first day of such succeeding Plan Year. A Participant's Election with respect to a Stock Award or a Cash Award shall be effective only with respect to the portion of the Stock Award or a Cash Award specified therein.

ARTICLE 5
EMPLOYER MATCHING CREDITS

1.59. Employer Matching Credit.

1.59.1. The amount of the Employer Matching Credit credited to the Employer Matching Account of each Eligible Individual designated as eligible to participate in this Section 5.1 shall be equal to the "Employer Matching Contributions" which would have been made to the Participant's "Thrift Fund Account" under the Savings Plan but for statutory limitations. Generally, the Employer Matching Credit shall be equal to the "matching percentage" (50%, as of the effective date of this Plan) set forth in the Savings Plan, multiplied by the first 6% of the Participant's base salary in excess of the Code (S)401(a)(17) limit that is deferred under Section 4.1.

1.59.2. In the event the dollar amount of the "Employer Matching Contributions" under the Savings Plan for the Plan Year was limited due to the application of the provisions of Section 401(m) of the Code, or the percentage of the Participant's base salary that could be deferred under the Savings Plan was limited to an amount less than 6% because of other Code limitations, an additional Employer Matching Credit shall be contributed under the Plan equal to the amount of "Employer Matching Contributions" that would have been made to the Savings Plan but for such limitations, but only if and to the extent the

Participant has deferred additional amounts of base salary to the Plan at least equal to the amount that would have been required to have been deferred under the Savings Plan in order to support such additional "Employer Matching Contributions" in the absence of such limitations.

1.60. Employer Matching Credit for Limited Participant. For any

Participant whose right to receive "Employer Matching Contributions" under the Savings Plan is limited by a specific Savings Plan provision to \$10 or less (without regard to the amount of salary deferrals elected by such Participant), the Employer Matching Credit shall be equal to the matching percentage described in Section 5.1, multiplied by the first 6% of the Participant's base salary that is deferred under Section 4.1.

ARTICLE 6
DISTRIBUTIONS

1.61. Election of Distribution Date. At the time a Participant makes an

election to defer Compensation under Article 4, such Participant shall also specify in writing on the Election the date on which payment of the Account attributable to that Election shall be made or commence. Such date must be a specified date not less than two years from the end of the Plan Year of the deferral and not later than the year in which the Participant will attain age 70; provided, however, that severance payments may be deferred for a shorter period than two years from the end of the Plan Year of deferral.

Except as set forth hereinafter, the above distribution date, once elected by the Participant, shall be irrevocable.

1.62. Election of Form of Payment.

1.62.1. Initial Election of Payment Form. At the time a

Participant makes an election to defer Compensation under Section 4.1, such Participant must also specify in writing on the Election the form in which payment of the Deferred Compensation Account attributable to that Election shall be made.

1.62.2. Changes in Election. If a payment form is not specified in

the Election, or if a payment form is specified but a Participant wishes to change the payment form, a change with respect to payment form may be effective only if submitted to the Administrator no later than the last day of the calendar year that ends at least one year before the distribution date, and subject to approval by the Committee.

1.62.3. Forms of Payment.

(1) General. A payment method shall be in the form of a

lump sum payment or in equal annual installments over five, ten, or fifteen years.

(2) Default Form. In the absence of a valid election,

distribution shall be in the form of annual installments over a 10-year period. Except as set forth herein, the form of payment, once elected by the Participant, shall be irrevocable.

(3) Distributions in Shares. Distribution of a

Participant's Deferred Stock Account and/or Company Matching Account, including the amount of any dividend equivalents credited to such Accounts pursuant to an Election, shall, at the election of Conectiv, be in the form of cash or Shares, which may be purchased by Conectiv or transferred from any grantor trust or other treasury stock account maintained by Conectiv, and shall be distributed as soon as administratively practicable. A Participant may elect to direct that a portion of the Deferred Stock Account and/or Company Matching Account shall be paid in cash for the purpose of satisfying applicable tax withholding requirements.

1.63. Unforeseeable Emergency.

1.63.1. General. The Committee shall have the authority to

determine, in its sole discretion, that payments should be made in any manner the Committee deems appropriate, in whole or in part, on any other date or dates in order to alleviate a financial hardship of a Participant or a Beneficiary.

1.63.2. Financial Hardship. "Financial hardship" shall mean a

severe financial hardship resulting from a sudden and unexpected illness or accident of the Participant or Beneficiary, or of a dependent (as defined in Section 152(a) of the Code) of the Participant or Beneficiary, loss of the Participant's or Beneficiary's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant or Beneficiary. The circumstances that will constitute an unforeseeable emergency will depend on the facts of each case, but, in any case, payment may not be made to the extent that such hardship is or may be relieved: (i) through reimbursement or compensation by insurance or otherwise; (ii) by liquidation of the Participant's or Beneficiary's assets, to the extent such liquidation would not itself cause severe financial hardship; and (iii) by cessation of deferrals under the Plan. Any financial hardship distribution approved by the Committee shall be limited to the amount necessary to meet the emergency (including taxes that are expected to be imposed on the distribution), and shall be made solely from the vested portion of the Deferred Compensation Account and Deferred Stock Account.

1.64. Special Election for Early Distribution. A Participant may apply

to the Administrator for early distribution of all or any part of the vested portion of his or her Deferred Compensation Account and/or Deferred Stock Account. Such early distribution shall be made in a single lump sum and in Shares with respect to Deferred Stock and Deferred Option Stock,

provided that 10% of the amount withdrawn in such early distribution shall be forfeited prior to payment of the remainder to the Participant. A Participant may not elect an early distribution hereunder if he has received an early distribution or hardship distribution within the previous twelve months. In the event a Participant's early distribution election is submitted within 60 days after a Change in Control or an elimination of Investment Alternatives that the Committee determines is a substantial detriment to Participants, the early distribution election may include amounts credited to the Employer Matching Account, and the forfeiture penalty shall be reduced to 5%.

1.65. Distributions on Death. In the event of a Participant's death

before his or her Account has been fully distributed, distribution(s) shall be made to the Beneficiary selected by the Participant. The form of distribution shall be in the form of a single lump sum with respect to Deferred Compensation, and, with respect to Deferred Stock and Deferred Option Stock, at the election of Conectiv, shall be in the form of Shares or cash, within 60 days after the Administrator receives notice of the date of death (or, if later, after the proper Beneficiary has been identified). A Participant may from time to time change his or her designated Beneficiary without the consent of such Beneficiary by filing a new designation in writing with the Administrator. If no Beneficiary designation is in effect at the time of the Participant's death, or if the designated Beneficiary is missing or has predeceased the Participant, payment shall be made to the Participant's surviving spouse, or if none, to his or her surviving children per stirpes, or, if none, to his or her estate.

1.66. Acceleration of Payments. Notwithstanding any other provision of

the Plan to the contrary, the Committee, in its sole discretion, is empowered to accelerate the payment of all or a portion of a Participant's Account, before or after any termination of employment or service, including conversion to a smaller number of installment payments or to a single lump sum payment, for any reason the Committee may determine to be appropriate without premium or penalty. None of the Employers, the Committee nor the Board shall have any obligation to make any such acceleration for any reason whatsoever.

1.67. Valuation of Distributions. All distributions under the Plan shall

be: (a) based upon the value of the Participant's Deferred Compensation Account as of the Investment Alternative valuation date immediately preceding the date of the distribution; or (b) paid in the form of Shares or, where otherwise permitted under the Plan, such Shares may be converted to cash at the fair market price of such Shares as of the immediately preceding trading day. It is understood that administrative requirements may lead to a delay between such valuation date or trading day and the date of distribution.

ARTICLE 7
FORFEITURE FOR CAUSE

1.68. Forfeiture for Cause. If any Participant entitled to an Employer

Matching Credit under the Plan is discharged for cause, or enters into competition with an Employer, or interferes with the relations between an Employer and any customer, or engages in any activity that would result in material damage to an Employer as determined in the sole discretion of the

Committee, the rights of such Participant to an Employer Matching Credit under the Plan, including the rights of a Beneficiary to such benefits, will be forfeited, unless the Committee determines that such activity is not detrimental to the best interests of the Employer. However, if the individual ceases such activity and notifies the Committee of this cessation, then the Participant's right to receive such benefits, and any right of a Beneficiary to such benefits, may be restored if the Committee in its sole discretion determines that the prior activity has not caused serious injury to the Employer and that the restoration of the benefits would be in the best interest of the Employer. All determinations by the Committee with respect to forfeiture or restoration of such benefits shall be final and conclusive.

ARTICLE 8

ACCOUNTS

1.69. General. The Administrator shall establish and maintain, or cause

to be established and maintained, separate Accounts for each Participant hereunder who executes an election pursuant to Section 4.1. Each such Participant's Compensation deferred pursuant to an Election shall be separately accounted for and credited, for bookkeeping purposes only, to his or her Accounts. A Participant's Account shall be solely for the purposes of measuring certain amounts to be paid under the Plan, and Conectiv shall not be required to fund or secure such Account in any way, Conectiv's obligation to Participants hereunder being purely contractual.

1.70. Deferred Compensation Account.

1.70.1. The Deferred Compensation Account shall be credited with cash Compensation deferred pursuant to an Election under Section 4.1.

1.70.2. The Transfer Deferred Compensation Subaccount shall be governed by the Elections in effect with respect to amounts credited to such subaccount, and, thereafter, shall be governed by the rules in effect under the Plan.

1.71. Deferred Stock Account.

1.71.1. The Deferred Stock Account shall be credited with Deferred Stock and Deferred Option Stock. If, at the conclusion of the applicable performance cycle pursuant to an Incentive Plan, specified performance goals have not been met, the Deferred Stock Account shall reflect the forfeiture of such Deferred Stock.

1.71.2. The Deferred Stock Account shall also be credited with the number of Shares that could be purchased, as of the dividend payment date, by the amount of any dividend equivalents deferred pursuant to Section 4.1.

1.71.3. The Transfer Deferred Stock Subaccount shall be governed by the Elections in effect with respect to amounts credited to such subaccount, and, thereafter, shall be governed by the rules in effect under the Plan.

1.72. Employer Matching Account.

1.72.1. Employer Matching Credits are credited to the Employer Matching Account.

1.72.2. The Employer Matching Account shall also be credited with the number of Shares that could be purchased, as of the dividend payment date, by the amount of any dividend equivalents deferred pursuant to Section 4.1.

1.72.3. The Transfer Employer Matching Subaccount shall be governed by the rules in effect under the Plan.

1.73. Crediting of Earnings and Losses, and Statement of Account. At

such times, with such frequency, and in such percentages as the Administrator shall determine, each Participant may elect the Investment Alternatives in which his or her Deferred Compensation Account may be deemed invested (subject to the approval of the Committee). The Participant's Employer Matching Account and Deferred Stock Account shall be deemed invested solely in Shares, shall be denominated in numbers of Shares, and shall be valued at any time as the Shares credited to such Account multiplied by the then-current market value of the Shares. Amounts credited to the Deferred Compensation Account will be increased by earnings (or decreased by losses) equal to the earnings or losses that would be realized by such Account if it had been invested in the Investment Alternatives specified by the Participant. As soon as practicable after the end of each Plan Year (and at such additional times as the Administrator may determine), the Administrator shall furnish each Participant with a statement of the balance credited to the Participant's Account.

1.74. Investment to Facilitate Payment of Benefits. Although the

Employers are not obligated to invest in any specific asset or fund, or purchase any insurance contract in order to provide the means for the payment of any liabilities under the Plan, an Employer may elect to do so. In the event an Employer elects to invest in any specific asset or fund, the Committee may, but is not required to, honor the investment request of the Participant described in Section 8.4, with respect to any investment to facilitate payment.

In the event an Employer elects to purchase an insurance contract or contracts on the life of a Participant as a means for the payment of any liabilities under the Plan, the Participant shall cooperate in the securing of such insurance contract or contracts by furnishing all information and taking all actions as the Employer and the insurance carrier may require, including without limitation providing the results and reports of previous Employer and insurance carrier physical examinations and taking such additional physical examinations as may be requested. The Employer shall be the sole owner of any such insurance contract or contracts or fund or asset, with all incidents of ownership therein, including without limitation the right to cash and loan values, dividends, death benefits and the right to terminate any such contract or contracts or to dispose of any such fund or asset.

The Participant shall have no interest whatsoever in any contract or contracts or fund or asset and shall exercise none of the incidents of ownership

thereof.

ARTICLE 9

FUNDING

1.75. Plan Unfunded. The Plan shall be unfunded and no trust shall be

created by the Plan. The crediting to each Participant's Account shall be made through bookkeeping entries. No actual funds shall be set aside; provided, however, that nothing herein shall prevent the Employer from establishing one or more grantor trusts from which benefits due under the Plan may be paid in certain instances. All distributions shall be paid by the Employer from its general assets and a Participant (or his or her Beneficiary) shall have the rights of a general, unsecured creditor against the Employer for any distributions due hereunder. The Plan constitutes a mere promise by the Employer to make benefit payments in the future.

ARTICLE 10

ADMINISTRATION AND INTERPRETATION

1.76. Administration. Except where certain duties are delegated to the

Administrator, the Committee shall be in charge of the operation and administration of the Plan. The Committee has, to the extent appropriate and in addition to the powers described elsewhere in the Plan, full discretionary authority to construe and interpret the terms and provisions of the Plan; to adopt, alter and repeal administrative rules, guidelines and practices governing the Plan; to perform all acts, including the delegation of its administrative responsibilities to advisors or other persons who may or may not be employees of the Employers; and to rely upon the information or opinions of legal counsel or experts selected to render advice with respect to the Plan, as it shall deem advisable, with respect to the administration of the Plan.

1.77. Interpretation. The Committee may take any action, correct any

defect, supply any omission or reconcile any inconsistency in the Plan, or in any election hereunder, in the manner and to the extent it shall deem necessary to carry the Plan into effect or to carry out the Committee's purposes in adopting the Plan. Conectiv reserves the right to interpret the Plan and any decision, interpretation or other action made or taken in good faith by the Board, the Committee, or the Administrator arising out of or in connection with the Plan, shall be within the absolute discretion of all and each of them, as the case may be, and shall be final, binding and conclusive on the Employers, employees, non-employee directors of Conectiv, Participants and Beneficiaries and their respective heirs, executors, administrators, successors and assigns. The Committee's determinations hereunder need not be uniform, and may be made selectively among Eligible Individuals, whether or not they are similarly situated. Any actions to be taken by the Committee will require the consent of a majority of the Committee members. If a member of the Committee is a Participant in the Plan, such member may not decide or determine any matter or question concerning his or her benefits under the Plan that such member would not have the right to decide or determine if he or she were not a member.

1.78. Records and Reports. The Administrator shall keep a record of

proceedings and actions and shall maintain or cause to be maintained all such books of account, records, and other data as shall be necessary for the proper administration of the Plan. Such records shall contain all relevant data pertaining to individual Participants and their rights under the Plan. The Administrator shall have the duty to carry into effect all rights or benefits provided hereunder to the extent assets of the Employers are properly available therefor.

1.79. Payment of Expenses. The Employers, in such proportions as the

Committee determines, shall bear all expenses incurred by them and by the Committee in administering the Plan. If a claim or dispute arises concerning the rights of a Participant or Beneficiary to amounts deferred under the Plan (including interest or earnings thereon), regardless of the party by whom such claim or dispute is initiated, the Employers shall (in such proportions as between the Employers as the Committee determines), and upon presentation of appropriate vouchers, pay all legal expenses, including reasonable attorneys' fees, court costs, and ordinary and necessary out-of-pocket costs of attorneys, billed to and payable by the Participant or by anyone claiming under or through the Participant (such person being hereinafter referred to as the "Participant's Claimant"), in connection with the bringing, prosecuting, defending, litigating, negotiating, or settling of such claim or dispute; provided, that:

1.79.1. The Participant or the Participant's Claimant shall repay to the Employers any such expenses theretofore paid or advanced by the Employers if and to the extent that the party disputing the Participant's rights obtains a judgment in its favor from a court of competent jurisdiction from which no appeal may be taken, whether because the time to do so has expired or otherwise, and it is determined by the court that such expenses were not incurred by the Participant or the Participant's Claimant while acting in good faith; provided further, that

1.79.2. In the case of any claim or dispute initiated by a Participant or the Participant's Claimant, such claim shall be made, or notice of such dispute given, with specific reference to the provisions of the Plan, to the Committee within one year (two years, in the event of a Change in Control) after the occurrence of the event giving rise to such claim or dispute.

1.80. Indemnification for Liability. The Employers shall indemnify the

Administrator, the members of the Committee, and the employees of any Employer to whom the Administrator delegates duties under the Plan, against any and all claims, losses, damages, expenses and liabilities arising from their responsibilities in connection with the Plan, unless the same is determined to be due to gross negligence or willful misconduct.

1.81. Claims Procedure. If a claim for benefits or for participation

under the Plan is denied in whole or in part, an employee or non-employee director will receive written notification. The notification will include specific reasons for the denial, specific reference to pertinent provisions of the Plan, a description of any additional material or information necessary to process the claim and why such material or information is necessary, and an explanation of the claims review procedure. If the Committee fails to respond within 90 days, the claim is treated as denied.

1.82. Review Procedure. Within 60 days after the claim is denied or, if

the claim is deemed denied, within 150 days after the claim is filed, an employee or non-employee director (or his or her duly authorized representative) may file a written request with the Committee for a review of his or her denied claim. The employee may review pertinent documents that were used in processing his or her claim, submit pertinent documents, and address issues and comments in writing to the Committee. The Committee will notify the employee of its final decision in writing. In its response, the Committee will explain the reason for the decision, with specific references to pertinent Plan provisions on which the decision was based. If the Committee fails to respond to the request for review within 60 days, the review is treated as denied.

ARTICLE 11
AMENDMENT AND TERMINATION

1.83. Amendment and Termination. The Board shall have the right, at any

time, to amend or terminate the Plan in whole or in part provided that such amendment or termination shall not adversely affect the right of any Participant or Beneficiary to a payment under the Plan on the basis of deferred compensation allocated to the Participant's Deferred Compensation Account or Deferred Stock Account or on the basis of an Employer Matching Credit credited to the Employer Matching Account prior to such amendment or termination. Conectiv reserves the right, in its sole discretion, to discontinue deferrals under, or completely terminate, the Plan at any time. If the Plan is discontinued with respect to future deferrals, Participants' Account balances shall be distributed on the distribution dates elected in accordance with Sections 6.1 and 6.2, unless the Committee designates that distributions shall be made on an earlier date or dates. If the Committee designates such earlier date or dates, each Participant shall receive (or commence receiving) distribution of his or her entire Account balance on such date or dates, as specified by the Committee. If the Plan is completely terminated, each Participant shall receive distribution of his or her entire Account balance in one lump sum payment as of the date of the Plan termination designated by the Board.

1.84. Deemed Amendment to Matching Formula. In the event the matching

contribution formula under the Savings Plan is modified to increase or reduce the matching percentage or the percentage of base salary that is matched, the formulae in Section 5.1 and Section 5.2 shall be deemed to be modified to equal such matching percentage or percentage of base salary that is matched, unless otherwise specified in the Board vote amending the Savings Plan.

ARTICLE 12
MISCELLANEOUS PROVISIONS

1.85. Right of Employers to Take Employment Actions. The adoption and

maintenance of the Plan shall not be deemed to constitute a contract between an Employer and any employee or non-employee directors, or to be a consideration for, or an inducement or condition of, the employment or engagement of any person. Nothing herein contained, or any action taken hereunder, shall be deemed to give any employee or non-employee director the right to be retained in the employ or service of an Employer or to interfere with the right of an

Employer to discharge any employee or non-employee director at any time or to change any employee's or non-employee director's compensation or benefits, nor shall it be deemed to give to an Employer the right to require the employee or non-employee director to remain in its service, nor shall it interfere with the employee's right to terminate his or her employment at any time or a non-employee director's right to resign from service at any time. Nothing in the Plan shall prevent an Employer from amending, modifying, or terminating any other benefit plan, including the Savings Plan and the Incentive Plan(s).

1.86. Alienation or Assignment of Benefits. A Participant's rights and

interest under the Plan shall not be assigned or transferred except as otherwise provided herein, and the Participant's rights to benefit payments under the Plan shall not be subject to alienation, pledge or garnishment by or on behalf of creditors (including heirs, beneficiaries, or dependents) of the Participant or of a Beneficiary, except for a qualified domestic relations order as defined in Section 514(b)(7) of the Employee Retirement Income Security Act of 1974, as amended.

1.87. Right to Withhold. To the extent required by law in effect at the

time a distribution is made from the Plan, the Employer or its agents shall have the right to withhold or deduct from any distributions or payments any taxes required to be withheld by federal, state or local governments.

1.88. Construction. All legal questions pertaining to the Plan shall be

determined in accordance with the laws of the State of Delaware (without regard to otherwise-applicable conflict of law principles), to the extent such laws are not superseded by the Employee Retirement Income Security Act of 1974, as amended, or any other federal law.

1.89. Headings. The headings of the Articles and Sections of the Plan

are for reference only. In the event of a conflict between a heading and the contents of an Article or Section, the contents of the Article or Section shall control.

1.90. Number and Gender. Whenever any words used herein are in the

singular form, they shall be construed as though they were also used in the plural form in all cases where they would so apply, and references to the male gender shall be construed as applicable to the female gender where applicable, and vice versa.

1.91. Change in Control. At the Committee's discretion, after

consultation with all affected Participants, in the event of a Change in Control and a termination of employment or service for any reason, each affected Participant's Account shall either be distributed immediately to the Participant in one lump sum payment, or paid in accordance with the distribution options selected by the Participant, as determined by the Committee and made applicable to all affected Participants. In the event distribution continues to be deferred under the terms of the Plan, the affected Employer shall be required to contribute cash or equivalent assets to a grantor trust (maintained by an institutional trustee independent of the Employer) within 60 days after such Change in Control, in an amount not less than the then-current value of all

Participant Accounts related to such Employer.

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EXHIBIT 10-C

Change-in-Control Severance Agreement between Conectiv and certain executive employees

CONNECTIV
CHANGE-IN-CONTROL SEVERANCE PLAN FOR
CERTAIN EXECUTIVE EMPLOYEES

Section 1

INTRODUCTION

The Plan is intended to provide severance benefits to certain selected executive employees of the Employer in the event that their employment is terminated under certain circumstances following a Change in Control. The Plan shall be effective as of the Effective Date.

Section 2
DEFINITIONS

Except as may otherwise be specified or as the context may otherwise require, the following terms shall have the respective meanings set forth below whenever used herein:

"Base Salary" shall mean the annual base rate of regular compensation of the Participant immediately before a Change in Control, or if greater, the highest annual such rate at any time during the 12-month period immediately preceding the Change in Control.

"Board" shall mean the Board of Directors of the Company.

"Cause" shall mean (i) the willful and continued failure by a Participant substantially to perform his or her duties with the Employer (other than any such failure resulting from incapacity due to physical or mental illness of the Participant, or any such actual or anticipated failure after the issuance of a Notice of Termination for Good Reason) or (ii) the willful engaging by a Participant in conduct which is demonstrably and materially injurious to the Employer, monetarily or otherwise. For purposes hereof, no act, or failure to act, on the Participant's part, shall be deemed "willful" unless done, or omitted to be done, by a Participant not in good faith and without reasonable belief that any act or omission was in the best interest of

the Employer.

"Change in Control" shall mean the first to occur, after the Effective Date hereof, of any of the following:

(i) if any Person is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act), directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Subsidiaries) representing 25% or more of either the then outstanding shares of Stock of the Company or the combined voting power of the Company's then outstanding securities;

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(ii) if during any period of 24 consecutive months during the existence of the Plan commencing on or after the Effective Date hereof, the individuals who, at the beginning of such period, constitute the Board (the "Incumbent Directors") cease for any reason other than death to constitute at least a majority thereof; provided that a director who was not a director at the beginning of such 24-month period shall be deemed to have satisfied such 24-month requirement (and be an Incumbent Director) if such director was elected by, or on the recommendation of or with the approval of, at least two-thirds of the directors who then qualified as Incumbent Directors either actually (because they were directors at the beginning of such 24-month period) or by prior operation of this clause (ii);

(iii) the consummation of a merger or consolidation of the Company with any other corporation other than (A) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof) at least 60% of the combined voting power of the voting securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the beneficial owner, as defined in clause (i), directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Subsidiaries) representing 40% or more of either the then outstanding shares of Stock of the Company or the combined voting power of the Company's then outstanding securities; or

(iv) the stockholders of the Company approve a plan of complete liquidation or dissolution of the Company, or there is consummated an

agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 60% of the combined voting power of the voting securities of which are owned by Persons in substantially the same proportion as their ownership of the Company immediately prior to such sale.

Upon the occurrence of a Change in Control as provided above, no subsequent event or condition shall constitute a Change in Control for purposes of the Plan, with the result that there can be no more than one Change in Control hereunder.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Committee" shall mean such Committee as may be appointed and constituted from time to time under Section 5.

"Company" shall mean, subject to Section 8.1(a), Conectiv, a Delaware corporation.

"Covered Termination" shall mean, with respect to a Participant, if, within the one-year period immediately following a Change in Control, the Participant (i) is terminated by

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the Employer without Cause (other than on account of death or Disability), or (ii) terminates his or her employment with the Employer for Good Reason. A Participant shall not be deemed to have terminated for purposes of the Plan merely because he or she ceases to be employed by the Employer and becomes employed by a new employer involved in the Change in Control; provided that such new employer shall be bound by the Plan as if it were the Employer hereunder with respect to such Participant. It is expressly understood that no Covered Termination shall be deemed to have occurred merely because, upon the occurrence of a Change in Control, the Participant ceases to be employed by the Employer and does not become employed by a successor to the Employer after the Change in Control if the successor makes an offer to employ the Participant on terms and conditions which, if imposed by the Employer, would not give the Participant a basis on which to terminate employment for Good Reason.

"Date of Termination" shall mean the date on which a Covered Termination occurs.

"Disability" shall mean the occurrence after a Change in Control of the incapacity of a Participant due to physical or mental illness, whereby such Participant shall have been absent from the full-time performance of his or her duties with the Employer for six consecutive months.

"Effective Date" shall mean March 1, 1998.

"Employer" shall mean the Company and each Subsidiary designated by the Board to adopt the Plan (and which so adopts the Plan), or, where the context so requires, the Company and such Subsidiaries collectively. The adoption of the Plan by Subsidiary may be revoked only with the consent of the Board, any such revocation to be subject to Section 7; provided that a Subsidiary which ceases to be, directly or indirectly, through one or more intermediaries, controlling, controlled by or under common control with the Company prior to a Change in Control (other than in connection with and as an integral part of a series of transactions resulting in a Change in Control) shall, automatically and without any further action, cease to be (or be part of) the Employer for purposes hereof (and the provisions of Section 7.3 shall not apply in such a case).

"Good Reason" shall mean, without the express written consent of the Participant, the occurrence after a Change in Control of any of the following circumstances, unless such circumstances are fully corrected prior to the Date of Termination specified in the Notice of Termination given in respect thereof:

(i) assignment to the Participant of any duties inconsistent in any materially adverse respect with his or her position, authority, duties or responsibilities from those in effect immediately prior to the Change in Control;

(ii) a reduction in the Participant's Base Salary as in effect immediately before the Change in Control;

(iii) a material reduction in the Participant's aggregate compensation opportunity, comprised only of (A) the Executive's Base Salary, (B) bonus opportunity, if any, and (C) long-term or other incentive compensation opportunity, if any (taking into account, in the case of such bonus and incentive opportunities, without limitation, any target, minimum and maximum amounts

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payable and the attainability and otherwise the reasonability of any performance hurdles, goals and other measures);

(iv) the Company's requiring the Participant to be based at any office or location more than 50 miles from that location at which he or she performed his or her services immediately prior to the occurrence of a Change in Control, except for travel reasonably required in the performance of the Participant's responsibilities; or

(v) the failure of the Employer to obtain a reasonable agreement from any successor to assume and agree to perform the Plan, as contemplated in Section 8.1(a).

"Notice of Termination" shall mean a notice given by the Employer or

Participant, as applicable, which shall indicate the specific termination provision in the Plan relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Participant's employment under the provisions so indicated.

"Participant" shall have the meaning ascribed thereto by Section 3.

"Person" shall have the meaning ascribed thereto by Section 3(a)(9) of the Securities Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof (except that such term shall not include (i) the Company or any of its Subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Subsidiaries, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, (iv) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportion as their ownership of stock of the Company, or (v) with respect to any particular Participant, such Participant or any "group" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act) which includes the Participant).

"Plan" shall mean this Conectiv Change-in-Control Severance Plan for Certain Executive Employees, as it may from time to time be amended in accordance with Section 7.

"Potential Change in Control" shall mean the occurrence, before a Change in Control, of any of the following:

(i) if the Company enters into an agreement, the consummation of which would result in the occurrence of a Change in Control;

(ii) if the Company or any Person publicly announces an intention to take or to consider taking actions which, if consummated, would constitute a Change in Control;

(iii) if any Person becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act), directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Persons any securities acquired directly from the Company or its Subsidiaries) representing 15% or more of either the then outstanding shares of Stock of the Company or the combined voting power of the Company's then outstanding securities; or

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(iv) if the Board adopts a resolution to the effect that, for purposes of the Plan, a Potential Change in Control has occurred.

"Securities Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Stock" shall mean the common stock, \$.01 par value, of the Company.

"Subsidiary" shall mean any entity, directly or indirectly, through one or more intermediaries, controlled by the Company and which has duly adopted the Plan.

"Target Annual Bonus" shall mean a Participant's annual bonus for the Employer's fiscal year in which the Date of Termination occurs, which bonus would be paid or payable if the Participant and the Employer were to satisfy all conditions to the Participant's receiving the annual bonus at target (although not necessarily the maximum annual bonus); provided that such amount shall be annualized for any fiscal year consisting of less than 12 full months; and provided, further, that, if at the time of a Change in Control it is substantially certain that a bonus at a level beyond target will be paid or payable for the fiscal year, then the bonus which is substantially certain to be paid or payable, rather than the target bonus, shall be used for these purposes.

Section 3

PARTICIPATION

The employees of the Employer who shall be "Participants" for purposes hereof shall be, subject to Section 7, those executive employees of the Employer as shall be proposed by the management of the Company for coverage hereby and approved by the Board, as reflected in duly adopted resolutions of the Board from time to time. The initial Participants shall be listed on Exhibit A hereto (which is hereby incorporated herein by reference) as in effect as of the Effective Date. The Company shall cause such Exhibit A to be amended to reflect the Participants participating in the Plan from time to time.

Section 4

BENEFITS

4.1 If a Covered Termination occurs, with respect to Participant, then such Participant shall be entitled hereunder to the following:

(a) the product of (i) the Participant's Target Annual Bonus for the year in which the Date of Termination occurs (or, if higher, as in effect at the time of the Change in Control) and (ii) a fraction, the numerator of which is the number of days in the current fiscal year through the Date of Termination, and the denominator of which is 365;

(b) an amount equal to two times the sum of (i) the Participant's annual Base Salary for the year in which the Date of Termination occurs (or, if higher, as in effect at the time of the Change in Control) and (ii) the Participant's Target Annual Bonus for the year in which the Date of Termination occurs (or, if higher, as in effect at the time of the Change in Control);

(c) for a period of three years after such termination, the Employer shall arrange to make available to such Participant medical, dental, vision, group life and disability benefits that are at least at a level (and cost to the Participant) that is substantially similar in the

aggregate to the level of such benefits which was available to such Participant immediately prior to the Change in Control; provided that (i) the Employer shall be required to provide group life and disability benefits only to the extent it is able to do so on reasonable terms and at a reasonable cost, (ii) the Employer shall not be required to provide benefits under this Section 4.1(c) upon and after the Change in Control which are in excess of those provided to a significant number of employees of similar status who are employed by the Employer from time to time upon and after the Change in Control, and (iii) no type of benefit otherwise to be made available to a Participant pursuant to this Section 4.1(c) shall be required to be made available to the extent that such type of benefit is made available to the Participant by any subsequent employer of the Participant; and

(d) in addition to the benefits to which the Participant is entitled under the Company's tax-qualified defined benefit retirement plan (the "Retirement Plan") and defined benefit supplemental executive retirement plan (the "SERP"), including any successor plans thereto, the Employer shall pay to each Participant in cash at the time and in the manner provided in Section 4.2:

(i) the present value of the retirement benefits (or, if available, the lump-sum retirement benefits) which would have accrued under the terms of the Retirement Plan and the SERP (without regard to any amendment to the Retirement Plan or the SERP made subsequent to a Change in Control and prior to the Date of Termination, which amendment adversely affects in any manner the computation of retirement benefits thereunder), determined as if such Participant was 24 months older than their actual age at the Date of Termination and had accumulated (after the Date of Termination) 24 additional months of service credit for vesting, benefit accrual and eligibility purposes thereunder at their highest annual rate of compensation during the 12 months immediately preceding the Date of Termination (or, if higher, as in effect at the time of the Change in Control) and as if any benefit indexing factors continued at the rate applicable at the Date of Termination, minus

(ii) the present value of the vested retirement benefits (or, if available, the lump-sum retirement benefits) which had then accrued pursuant to the provisions of the Retirement Plan and the SERP; provided, however, that any payment otherwise provided for under this Section 4.1(d) shall be reduced by the present value of any retirement (including early retirement) incentives offered for a limited time to, and accepted by, the Participant (whether or not under a tax-qualified plan).

4.2 (a) The payments provided for in Section 4.1 shall (except as otherwise expressly provided therein or as provided in Section 4.2(b) or as otherwise expressly provided hereunder) be made as soon as practicable, but in

no event later than 30 days, following the Date of Termination.

(b) Notwithstanding any other provision of the Plan to the contrary, no payment or benefit otherwise provided for under or by virtue of the foregoing provisions of the Plan shall be paid or otherwise made available unless and until the Employer shall have first received from the applicable Participant (no later than 60 days after the Employer has provided to the Participant estimates relating to the payments to be made under the Plan) a valid, binding

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and irrevocable general release, in form and substance acceptable to the Employer in its discretion; provided that the Employer shall be permitted to defer any payment or benefit otherwise provided for in the Plan to the 15th day after its receipt of such release and time at which it has become valid, binding and irrevocable. The Employer may require that any such release contain an agreement of the Participant to notify the Employer of any benefit made available by a subsequent employer as contemplated by clause (iii) of the provision to Section 4.1(c).

4.3 Notwithstanding any other provision of the Plan to the contrary, to the extent permitted by the Worker Adjustment and Retraining Notification Act ("WARN"), any benefit payable hereunder to the Participant as a consequence of the Participant's Covered Termination shall be reduced by any amounts required to be paid under Section 2104 of WARN to such Participant in connection with such Covered Termination.

Section 5

ADMINISTRATION

The Plan shall be administered by the Committee appointed by the Chief Executive Officer, consisting of one or more individuals employed by the Employer prior to the Change in Control. The acts of a majority of the members present at any meeting of the Committee at which a quorum is present, or acts approved in writing by a majority of the entire Committee, shall be the acts of the Committee for purposes of the Plan. If and to the extent applicable, no member of the Committee may act as to matters under the Plan specifically relating to such member. If any member of the Committee is to be replaced or otherwise ceases to be a member thereof upon the or after a Change in Control, then the Chief Executive Officer of the Company (or, if he or she fails to act, the President, the Chief Operating Officer and the Chief Financial Officer, in that order) immediately prior to the Change in Control, and no other person, shall be permitted to designate a successor member. If at any time there is no Committee, the Chief Executive Officer shall have the rights and responsibilities of the Committee hereunder. The Committee shall have the full authority to employ and rely on such legal counsel, actuaries and accountants (which may also be those of the Employer), and other agents, designees and delegates, as it may deem advisable to assist in the administration of the Plan.

The Employer hereby indemnifies each member of the Committee for any liability or expense relating to the administration of the Plan, to the maximum extent permitted by law.

Section 6
PARACHUTE TAX PROVISIONS

6.1 If all, or any portion, of the payments and benefits provided under the Plan, if any, either alone or together with other payments and benefits which a Participant receives or is entitled to receive from the Company or its affiliates, would constitute an excess "parachute payment" within the meaning of Section 280G of the Code (whether or not under an existing plan, arrangement or other agreement) (each such parachute payment, a "Parachute Payment"), and would result in the imposition on the Participant of an excise tax under Section 4999 of the Code, then, in addition to any other benefits to which the Participant is entitled under the Plan or otherwise, the Participant shall be paid an amount in cash equal to the sum of the

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excise taxes payable by the Participant by reason of receiving Parachute Payments plus the amount necessary to place the Participant in the same after-tax position (taking into account any and all applicable federal, state and local excise, income or other taxes at the highest possible applicable rates on such Parachute Payments (including, without limitation, any payments under this Section 6.1)) as if no excise taxes had been imposed with respect to Parachute Payments (the "Parachute Gross-up"). Any Parachute Gross-up otherwise required by this Section 6.1 shall not be made later than the time of the corresponding payment or benefit hereunder giving rise to the underlying Section 4999 excise tax, even if the payment of the excise tax is not required under the Code until a later time. Any Parachute Gross-up otherwise required under this Section 6.1 shall be made whether or not there is a Change in Control, whether or not payments or benefits are payable under the Plan, whether or not the payments or benefits giving rise to the Parachute Gross-up are made in respect of a Change in Control and whether or not the Participant's employment with the Employer shall have been terminated.

6.2 Except as may otherwise be agreed to by the Company and the Participant, the amount or amounts (if any) payable under this Section 6 shall be as conclusively determined by the Company's independent auditors (who served in such capacity immediately prior to the Change in Control), whose determination or determinations shall be final and binding on all parties. The Participant shall agree to utilize such determination or determinations, as applicable, in filing all of the Participant's tax returns with respect to the excise tax imposed by Section 4999 of the Code. If such independent auditors refuse to make the required determinations, then such determinations shall be made by a comparable independent accounting firm of national reputation reasonably selected by the Company. Notwithstanding any other provision of the Plan to the contrary, as a condition to receiving any Parachute Gross-up payment, the Participant shall agree, in form and substance acceptable to the

Company, to be bound by and comply with the provisions of this Section 6.2.

Section 7

AMENDMENT AND TERMINATION

7.1 Subject to Section 7.2, the Board shall have the right in its discretion at any time to amend the Plan in any respect or to terminate the Plan prior to a Change in Control; provided that Exhibit A hereto may be amended from time to time as provided in Section 7.3(b) below.

7.2 Notwithstanding any other provision of the Plan to the contrary:

(a) The Plan (including, without limitation, this Section 7.2) as applied to any particular Participant may not be amended or terminated at any time on or after the occurrence of a Change in Control in any manner adverse to the interests of such Participant, without the express written consent of such Participant.

(b) The Plan (including, without limitation, this Section 7.2) as applied to any particular Participant may not be amended or terminated at any time on or after the occurrence of a Potential Change in Control in any manner adverse to the interests of such Participant, without the prior written consent of such Participant, until such time as the transaction or transactions contemplated in connection with the Potential Change in Control, and all related negotiations,

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are abandoned in their entirety as determined in good faith and reflected in writing (before a Change in Control) by the Board.

(c) If material negotiations involving the Board or the Chief Executive Officer of the Company have commenced regarding a transaction which, if consummated, would constitute a Change in Control, and the Plan is amended or terminated while such negotiations are continuing and actively being pursued by the Board or the Chief Executive Officer, then such amendment or termination of the Plan (including, without limitation this Section 7.2), to the extent adverse to the interest of any particular Participant, shall be null and void as applied to such Participant with respect to the Change in Control (if any) which ultimately results directly from such negotiations, unless the written consent of such Participant to the amendment or termination is or has been obtained; it being expressly understood that this Section 7.2(c) shall not apply with respect to any negotiations which at any time prior to a Change in Control have ceased as determined in good faith and reflected in writing (prior to a Change in Control) by the Board or Chief Executive Officer (or which otherwise have ceased at a time prior to a Change in Control).

7.3 (a) If a subsidiary, with the consent of the Board, purports to revoke its adoption of the Plan in accordance with the other terms of the Plan,

such revocation shall be considered to constitute a Plan amendment for purposes of Section 7.2, and, therefore, any such purported revocation shall be subject to the restrictions of Section 7.2.

(b) If after an individual has become a Participant, any attempt is made in accordance with the other terms of the Plan not to include such individual as one of the Participants hereunder, then such exclusion shall be considered to constitute an amendment to the Plan for purposes of Section 7.2, and, therefore, any such purported exclusion shall be subject to the restrictions of Section 7.2.

Section 8 MISCELLANEOUS

8.1 (a) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company expressly to assume and agree to perform under the terms of the Plan in the same manner and to the same extent that the Company and its affiliates would be required to perform it if no such succession had taken place (provided that such a requirement to perform which arises by operation of law shall be deemed to satisfy the requirements for such an express assumption and agreement), and in such event the Company (as constituted prior to such succession) shall have no further obligation under or with respect to the Plan. Failure of the Company to obtain such assumption and agreement with respect to any particular Participant prior to the effectiveness of any such succession shall be a breach of the terms of the Plan with respect to such Participant and shall entitle each such Participant to compensation from the Employer (as constituted prior to such succession) in the same amount and on the same terms as the Participant would be entitled to hereunder were the Participant's employment terminated for Good Reason following a Change in Control, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination. As used in the Plan, "Company" shall mean the Company as hereinbefore defined and any successor to its business or assets as aforesaid which assumes and agrees (or is otherwise required) to perform the Plan. Nothing in this Section 8.1(a) shall be deemed to cause any event

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or condition which would otherwise constitute a Change in Control not to constitute a Change in Control.

(b) Notwithstanding Section 8.1(a), the Company shall remain liable to those Participants upon a Covered Termination upon a Change in Control if (i) they are not offered continuing employment by a successor to the Employer or (ii) the Participant declines such an offer and the Participant's resulting termination of employment otherwise constitutes a Covered Termination hereunder.

(c) To the maximum extent permitted by law, the right of any Participant or other person to any amount under the Plan may not be subject to

voluntary or involuntary anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment or garnishment by creditors of the Participant or such other person.

(d) The terms of the Plan shall inure to the benefit of and be enforceable by the personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees of each Participant. If a Participant shall die while an amount would still be payable to the Participant hereunder if they had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of the Plan to the Participant's devisee, legatee or other designee or, if there is no such designee, their estate.

8.2 Except as expressly provided in Section 4.1, Participants shall not be required to mitigate damages or the amount of any payment provided for under the Plan by seeking other employment or otherwise, nor will any payments or benefits hereunder be subject to offset in the event a Participant does mitigate.

8.3 The Employer shall pay all legal fees and expenses incurred in a legal proceeding by a Participant in seeking to obtain or enforce any right or benefit provided by the Plan. Such payments are to be made within five days after a Participant's request for payment accompanied with such evidence of fees and expenses incurred as the Employer reasonably may require; provided that if the Participant institutes a proceeding and the judge or other decision-maker presiding over the proceeding affirmatively finds that such Participant has failed to prevail substantially, he or she shall pay his or her own costs and expenses (and, if applicable, return any amounts theretofore paid on the his or her behalf under this Section 8.3).

8.4 (a) A Participant may file a claim for benefits under the Plan by written communication to the Committee or its designee. A claim is not considered filed until such communication is actually received by the Committee or its designee. Within 90 days (or, if special circumstances require an extension of time for processing, 180 days, in which case notice of such special circumstances shall be provided within the initial 90-day period) after the filing of the claim, the Committee shall:

(i) approve the claim and take appropriate steps for satisfaction of the claim; or

(ii) if the claim is wholly or partially denied, advise the claimant of such denial by furnishing to him or her a written notice of such denial setting forth (A) the specific reason or reasons for the denial; (B) specific reference to

pertinent provisions of the Plan on which the denial is based and, if

the denial is based in whole or in part on any rule of construction or interpretation adopted by the Committee, a reference to such rule, a copy of which shall be provided to the claimant; (C) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of the reasons why such material or information is necessary; and (D) a reference to this Section 8.4.

(b) The claimant may request a review of any denial of his or her claim by written application to the Committee within 60 days after receipt of the notice of denial of such claim. Within 60 days (or, if special circumstances require an extension of time for processing. 120 days, in which case notice of such special circumstances shall be provided within the initial 60-day period) after receipt of written application for review, the Committee shall provide the claimant with its decision in writing, including, if the claimant's claim is not approved, specific reasons for the decisions and specific references to the Plan's provisions on which the decision is based.

8.5 All notices under the Plan shall be in writing, and if to the Company or the Committee, shall be delivered to the General Counsel of the Company, or mailed to the Company's principal office, addressed to the attention of the General Counsel of the Company; and if to a Participant (or the estate or beneficiary thereof), shall be delivered personally or mailed to the Participant at the address appearing in the records of the Company.

8.6 Unless otherwise determined by the Employer in an applicable plan or arrangement, no amounts payable hereunder upon a Covered Termination shall be deemed salary or compensation for the purpose of computing benefits under any employee benefit plan or other arrangement of the Employer for the benefit of its employees unless the Employer shall determine otherwise.

8.7 With respect to each Participant, the Plan is the exclusive arrangement applicable to payments and benefits in connection with a change in control of the Company (whether or not a Change in Control), and supersedes any prior arrangements involving the Company or its predecessors or affiliates (including, without limitation, Delmarva Power & Light Company and Atlantic Energy, Inc.) relating to changes in control (whether or not Changes in Control). Participation in the Plan shall not limit any right of a Participant to receive any payments or benefits under an employee benefit or executive compensation plan of the Employer, initially adopted as of or after the Effective Date, or otherwise listed in Exhibit B hereto, which are expressly contingent thereunder upon the occurrence of a change in control (including, but not limited to, the acceleration of any rights or benefits thereunder); provided that in no event shall any Participant be entitled to any payment or benefit under the Plan which duplicates a payment or benefit received or receivable by the Participant under any severance or similar plan or policy of the Employer.

8.8 Any payments hereunder shall be made out of the general assets of the Employer. Each Participant shall have the status of general unsecured creditor of the Employer, and the Plan constitutes a mere promise by the Employer to make payments under the Plan in the future as and to the extent provided herein.

8.9 Nothing in the Plan shall confer on any individual any right to continue in the employ of the Employer or interfere in any way (other than by virtue of requiring payments

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or benefits as may expressly be provided herein) with the right of the Employer to terminate the individual's employment at any time.

8.10 The Employer shall be entitled to withhold from any payments or deemed payments any amount of tax withholding required by law.

8.11 The invalidity or unenforceability of any provision of the Plan shall not affect the validity or enforceability of any other provision of the Plan which shall remain in full force and effect.

8.12 The use of captions in the Plan is for convenience. The captions are not intended to and do not provide substantive rights.

8.13 THE PLAN SHALL BE CONSTRUED, ADMINISTERED AND ENFORCED ACCORDING TO THE LAWS OF THE STATE OF DELAWARE, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW, EXCEPT TO THE EXTENT PREEMPTED BY FEDERAL LAW.

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EXHIBIT 10-D

Change-in-Control Severance Agreement between Conectiv and certain select employees

CONNECTIV
CHANGE-IN-CONTROL SEVERANCE PLAN FOR
CERTAIN SELECT EMPLOYEES

Section 1

INTRODUCTION

The Plan is intended to provide severance benefits to certain selected employees of the Employer in the event that their employment is terminated under certain circumstances following a Change in Control. The Plan shall be effective as of the Effective Date.

Section 2
DEFINITIONS

Except as may otherwise be specified or as the context may otherwise require, the following terms shall have the respective meanings set forth below whenever used herein:

"Base Salary" shall mean the annual base rate of regular compensation of the Participant immediately before a Change in Control, or if greater, the highest annual such rate at any time during the 12-month period immediately preceding the Change in Control.

"Board" shall mean the Board of Directors of the Company.

"Cause" shall mean (i) the willful and continued failure by a Participant substantially to perform his or her duties with the Employer (other than any such failure resulting from incapacity due to physical or mental illness of the Participant, or any such actual or anticipated failure after the issuance of a Notice of Termination for Good Reason) or (ii) the willful engaging by a Participant in conduct which is demonstrably and materially injurious to the Employer, monetarily or otherwise. For purposes hereof, no act, or failure to act, on the Participant's part, shall be deemed "willful" unless done, or omitted to be done, by a Participant not in good faith and without reasonable belief that any act or omission was in the best interest of

the Employer.

"Change in Control" shall mean the first to occur, after the Effective Date hereof, of any of the following:

(i) if any Person is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act), directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Subsidiaries) representing 25% or more of either the then outstanding shares of Stock of the Company or the combined voting power of the Company's then outstanding securities;

(ii) if during any period of 24 consecutive months during the existence of the Plan commencing on or after the Effective Date, the individuals who, at the

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beginning of such period, constitute the Board (the "Incumbent Directors") cease for any reason other than death to constitute at least a majority thereof; provided that a director who was not a director at the beginning of such 24-month period shall be deemed to have satisfied such 24-month requirement (and be an Incumbent Director) if such director was elected by, or on the recommendation of or with the approval of, at least two-thirds of the directors who then qualified as Incumbent Directors either actually (because they were directors at the beginning of such 24-month period) or by prior operation of this clause (ii);

(iii) the consummation of a merger or consolidation of the Company with any other corporation other than (A) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof) at least 60% of the combined voting power of the voting securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the beneficial owner, as defined in clause (i), directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Subsidiaries) representing 40% or more of either the then outstanding shares of Stock of the Company or the combined voting power of the Company's then outstanding securities; or

(iv) the stockholders of the Company approve a plan of complete liquidation or dissolution of the Company, or there is consummated an

agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 60% of the combined voting power of the voting securities of which are owned by Persons in substantially the same proportion as their ownership of the Company immediately prior to such sale.

Upon the occurrence of a Change in Control as provided above, no subsequent event or condition shall constitute a Change in Control for purposes of the Plan, with the result that there can be no more than one Change in Control hereunder.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Committee" shall mean such Committee as may be appointed and constituted from time to time under Section 5.

"Company" shall mean, subject to Section 8.1(a), Conectiv, a Delaware corporation.

"Covered Termination" shall mean, with respect to a Participant, if, within the one-year period immediately following a Change in Control, the Participant (i) is terminated by the Employer without Cause (other than on account of death or Disability), or (ii) terminates his or her employment with the Employer for Good Reason. A Participant shall not be deemed to

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have terminated for purposes of the Plan merely because he or she ceases to be employed by the Employer and becomes employed by a new employer involved in the Change in Control; provided that such new employer shall be bound by the Plan as if it were the Employer hereunder with respect to such Participant. It is expressly understood that no Covered Termination shall be deemed to have occurred merely because, upon the occurrence of a Change in Control, the Participant ceases to be employed by the Employer and does not become employed by a successor to the Employer after the Change in Control if the successor makes an offer to employ the Participant on terms and conditions which, if imposed by the Employer, would not give the Participant a basis on which to terminate employment for Good Reason.

"Date of Termination" shall mean the date on which a Covered Termination occurs.

"Disability" shall mean the occurrence after a Change in Control of the incapacity of a Participant due to physical or mental illness, whereby such Participant shall have been absent from the full-time performance of his or her duties with the Employer for six consecutive months.

"Effective Date" shall mean March 1, 1998.

"Employer" shall mean the Company and each Subsidiary designated by the Board to adopt the Plan (and which so adopts the Plan), or, where the context so requires, the Company and such Subsidiaries collectively. The adoption of the Plan by Subsidiary may be revoked only with the consent of the Board, any such revocation to be subject to Section 7; provided that a Subsidiary which ceases to be, directly or indirectly, through one or more intermediaries, controlling, controlled by or under common control with the Company prior to a Change in Control (other than in connection with and as an integral part of a series of transactions resulting in a Change in Control) shall, automatically and without any further action, cease to be (or be part of) the Employer for purposes hereof (and the provisions of Section 7.3 shall not apply in such a case).

"Good Reason" shall mean, without the express written consent of the Participant, the occurrence after a Change in Control of any of the following circumstances, unless such circumstances are fully corrected prior to the Date of Termination specified in the Notice of Termination given in respect thereof:

(i) assignment to the Participant of any duties inconsistent in any materially adverse respect with his or her position, authority, duties or responsibilities from those in effect immediately prior to the Change in Control;

(ii) a reduction in the Participant's Base Salary as in effect immediately before the Change in Control;

(iii) a material reduction in the Participant's aggregate compensation opportunity, comprised only of (A) the Executive's Base Salary, (B) bonus opportunity, if any, and (C) long-term or other incentive compensation opportunity, if any (taking into account, in the case of such bonus and incentive opportunities, without limitation, any target, minimum and maximum amounts payable and the attainability and otherwise the reasonability of any performance hurdles, goals and other measures);

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(iv) the Company's requiring the Participant to be based at any office or location more than 50 miles from that location at which he or she performed his or her services immediately prior to the occurrence of a Change in Control, except for travel reasonably required in the performance of the Participant's responsibilities; or

(v) the failure of the Employer to obtain a reasonable agreement from any successor to assume and agree to perform the Plan, as contemplated in Section 8.1(a).

"Notice of Termination" shall mean a notice given by the Employer or

Participant, as applicable, which shall indicate the specific termination provision in the Plan relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Participant's employment under the provisions so indicated.

"Participant" shall have the meaning ascribed thereto by Section 3.

"Person" shall have the meaning ascribed thereto by Section 3(a)(9) of the Securities Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof (except that such term shall not include (i) the Company or any of its Subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Subsidiaries, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, (iv) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportion as their ownership of stock of the Company, or (v) with respect to any particular Participant, such Participant or any "group" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act) which includes the Participant).

"Plan" shall mean this Conectiv Change-in-Control Severance Plan for Certain Select Employees, as it may from time to time be amended in accordance with Section 7.

"Potential Change in Control" shall mean the occurrence, before a Change in Control, of any of the following:

(i) if the Company enters into an agreement, the consummation of which would result in the occurrence of a Change in Control;

(ii) if the Company or any Person publicly announces an intention to take or to consider taking actions which, if consummated, would constitute a Change in Control;

(iii) if any Person becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act), directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Persons any securities acquired directly from the Company or its Subsidiaries) representing 15% or more of either the then outstanding shares of Stock of the Company or the combined voting power of the Company's then outstanding securities; or

(iv) if the Board adopts a resolution to the effect that, for purposes of the Plan, a Potential Change in Control has occurred.

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"Securities Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Stock" shall mean the common stock, \$.01 par value, of the Company.

"Subsidiary" shall mean any entity, directly or indirectly, through one or more intermediaries, controlled by the Company and which has duly adopted the Plan.

"Target Annual Bonus" shall mean a Participant's annual bonus for the Employer's fiscal year in which the Date of Termination occurs, which bonus would be paid or payable if the Participant and the Employer were to satisfy all conditions to the Participant's receiving the annual bonus at target (although not necessarily the maximum annual bonus); provided that such amount shall be annualized for any fiscal year consisting of less than 12 full months; and provided, further, that, if at the time of a Change in Control it is substantially certain that a bonus at a level beyond target will be paid or payable for the fiscal year, then the bonus which is substantially certain to be paid or payable, rather than the target bonus, shall be used for these purposes.

Section 3

PARTICIPATION

The employees of the Employer who shall be "Participants" for purposes hereof shall be, subject to Section 7, those employees of the Employer as shall be proposed by the management of the Company for coverage hereby and approved by the Chief Executive Officer of the Company, as reflected in duly executed certificate of the Chief Executive Officer from time to time. The initial Participants shall be listed on Exhibit A hereto (which is hereby incorporated herein by reference) as in effect as of the Effective Date. The Company shall cause such Exhibit A to be amended to reflect the Participants participating in the Plan from time to time.

Section 4

BENEFITS

4.1 If a Covered Termination occurs, with respect to Participant, then such Participant shall be entitled hereunder to the following:

(a) the product of (i) the Participant's Target Annual Bonus for the year in which the Date of Termination occurs (or, if higher, as in effect at the time of the Change in Control) and (ii) a fraction, the numerator of which is the number of days in the current fiscal year through the Date of Termination, and the denominator of which is 365;

(b) an amount equal to two times the sum of (i) the Participant's annual Base Salary for the year in which the Date of Termination occurs (or, if higher, as in effect at the time of the Change in Control) and (ii) the Participant's Target Annual Bonus for the year in which the Date of Termination occurs (or, if higher, as in effect at the time of the Change in Control);

(c) for a period of one and one-half years after such termination, the Employer shall arrange to make available to such Participant medical, dental, vision, group life and disability benefits that are at least at a level (and

cost to the Participant) that is substantially similar in the aggregate to the level of such benefits which was available to such Participant

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immediately prior to the Change in Control; provided that (i) the Employer shall be required to provide group life and disability benefits only to the extent it is able to do so on reasonable terms and at a reasonable cost, (ii) the Employer shall not be required to provide benefits under this Section 4.1(c) upon and after the Change in Control which are in excess of those provided to a significant number of employees of similar status who are employed by the Employer from time to time upon and after the Change in Control, and (iii) no type of benefit otherwise to be made available to a Participant pursuant to this Section 4.1(c) shall be required to be made available to the extent that such type of benefit is made available to the Participant by any subsequent employer of the Participant; and

(d) in addition to the benefits to which the Participant is entitled under the Company's tax-qualified defined benefit retirement plan (the "Retirement Plan") and defined benefit supplemental executive retirement plan (the "SERP"), including any successor plans thereto, the Employer shall pay to each Participant in cash at the time and in the manner provided in Section 4.2:

(i) the present value of the retirement benefits (or, if available, the lump-sum retirement benefits) which would have accrued under the terms of the Retirement Plan and the SERP (without regard to any amendment to the Retirement Plan or the SERP made subsequent to a Change in Control and prior to the Date of Termination, which amendment adversely affects in any manner the computation of retirement benefits thereunder), determined as if such Participant was 18 months older than their actual age at the Date of Termination and had accumulated (after the Date of Termination) 18 additional months of service credit for vesting, benefit accrual and eligibility purposes thereunder at their highest annual rate of compensation during the 12 months immediately preceding the Date of Termination (or, if higher, as in effect at the time of the Change in Control) and as if any benefit indexing factors continued at the rate applicable at the Date of Termination, minus

(ii) the present value of the vested retirement benefits (or, if available, the lump-sum retirement benefits) which had then accrued pursuant to the provisions of the Retirement Plan and the SERP; provided, however, that any payment otherwise provided for under this Section 4.1(d) shall be reduced by the present value of any retirement (including early retirement) incentives offered for a limited time to, and accepted by, the Participant (whether or not under a tax-qualified plan).

4.2 (a) The payments provided for in Section 4.1 shall (except as otherwise expressly provided therein or as provided in Section 4.2(b) or as

otherwise expressly provided hereunder) be made as soon as practicable, but in no event later than 30 days, following the Date of Termination.

(b) Notwithstanding any other provision of the Plan to the contrary, no payment or benefit otherwise provided for under or by virtue of the foregoing provisions of the Plan shall be paid or otherwise made available unless and until the Employer shall have first received from the applicable Participant (no later than 60 days after the Employer has provided to the Participant estimates relating to the payments to be made under the Plan) a valid, binding and irrevocable general release, in form and substance acceptable to the Employer in its

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discretion; provided that the Employer shall be permitted to defer any payment or benefit otherwise provided for in the Plan to the 15th day after its receipt of such release and time at which it has become valid, binding and irrevocable. The Employer may require that any such release contain an agreement of the Participant to notify the Employer of any benefit made available by a subsequent employer as contemplated by clause (iii) of the provision to Section 4.1(c).

4.3 Notwithstanding any other provision of the Plan to the contrary, to the extent permitted by the Worker Adjustment and Retraining Notification Act ("WARN"), any benefit payable hereunder to the Participant as a consequence of the Participant's Covered Termination shall be reduced by any amounts required to be paid under Section 2104 of WARN to such Participant in connection with such Covered Termination.

Section 5

ADMINISTRATION

The Plan shall be administered by the Committee appointed by the Chief Executive Officer, consisting of one or more individuals employed by the Employer prior to the Change in Control. The acts of a majority of the members present at any meeting of the Committee at which a quorum is present, or acts approved in writing by a majority of the entire Committee, shall be the acts of the Committee for purposes of the Plan. If and to the extent applicable, no member of the Committee may act as to matters under the Plan specifically relating to such member. If any member of the Committee is to be replaced or otherwise ceases to be a member thereof upon the or after a Change in Control, then the Chief Executive Officer of the Company (or, if he or she fails to act, the President, the Chief Operating Officer and the Chief Financial Officer, in that order) immediately prior to the Change in Control, and no other person, shall be permitted to designate a successor member. If at any time there is no Committee, the Chief Executive Officer shall have the rights and responsibilities of the Committee hereunder. The Committee shall have the full authority to employ and rely on such legal counsel, actuaries and accountants (which may also be those of the Employer), and other agents, designees and

delegates, as it may deem advisable to assist in the administration of the Plan. The Employer hereby indemnifies each member of the Committee for any liability or expense relating to the administration of the Plan, to the maximum extent permitted by law.

Section 6
PARACHUTE TAX PROVISIONS

6.1 If all, or any portion, of the payments and benefits provided under the Plan, if any, either alone or together with other payments and benefits which a Participant receives or is entitled to receive from the Company or its affiliates, would constitute an excess "parachute payment" within the meaning of Section 280G of the Code (whether or not under an existing plan, arrangement or other agreement) (each such parachute payment, a "Parachute Payment"), and would result in the imposition on the Participant of an excise tax under Section 4999 of the Code, then, in addition to any other benefits to which the Participant is entitled under the Plan or otherwise, the Participant shall be paid an amount in cash equal to the sum of the excise taxes payable by the Participant by reason of receiving Parachute Payments plus the

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amount necessary to place the Participant in the same after-tax position (taking into account any and all applicable federal, state and local excise, income or other taxes at the highest possible applicable rates on such Parachute Payments (including, without limitation, any payments under this Section 6.1)) as if no excise taxes had been imposed with respect to Parachute Payments (the "Parachute Gross-up"). Any Parachute Gross-up otherwise required by this Section 6.1 shall not be made later than the time of the corresponding payment or benefit hereunder giving rise to the underlying Section 4999 excise tax, even if the payment of the excise tax is not required under the Code until a later time. Any Parachute Gross-up otherwise required under this Section 6.1 shall be made whether or not there is a Change in Control, whether or not payments or benefits are payable under the Plan, whether or not the payments or benefits giving rise to the Parachute Gross-up are made in respect of a Change in Control and whether or not the Participant's employment with the Employer shall have been terminated.

6.2 Except as may otherwise be agreed to by the Company and the Participant, the amount or amounts (if any) payable under this Section 6 shall be as conclusively determined by the Company's independent auditors (who served in such capacity immediately prior to the Change in Control), whose determination or determinations shall be final and binding on all parties. The Participant shall agree to utilize such determination or determinations, as applicable, in filing all of the Participant's tax returns with respect to the excise tax imposed by Section 4999 of the Code. If such independent auditors refuse to make the required determinations, then such determinations shall be made by a comparable independent accounting firm of national reputation reasonably selected by the Company. Notwithstanding any other provision of the Plan to the contrary, as a condition to receiving any Parachute Gross-up

payment, the Participant shall agree, in form and substance acceptable to the Company, to be bound by and comply with the provisions of this Section 6.2.

Section 7

AMENDMENT AND TERMINATION

7.1 Subject to Section 7.2, the Board shall have the right in its discretion at any time to amend the Plan in any respect or to terminate the Plan prior to a Change in Control; provided that Exhibit A hereto may be amended from time to time as provided in Section 7.3(b) below.

7.2 Notwithstanding any other provision of the Plan to the contrary:

(a) The Plan (including, without limitation, this Section 7.2) as applied to any particular Participant may not be amended or terminated at any time on or after the occurrence of a Change in Control in any manner adverse to the interests of such Participant, without the express written consent of such Participant.

(b) The Plan (including, without limitation, this Section 7.2) as applied to any particular Participant may not be amended or terminated at any time on or after the occurrence of a Potential Change in Control in any manner adverse to the interests of such Participant, without the prior written consent of such Participant, until such time as the transaction or transactions contemplated in connection with the Potential Change in Control, and all related negotiations, are abandoned in their entirety as determined in good faith and reflected in writing (before a Change in Control) by the Board.

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(c) If material negotiations involving the Board or the Chief Executive Officer of the Company have commenced regarding a transaction which, if consummated, would constitute a Change in Control, and the Plan is amended or terminated while such negotiations are continuing and actively being pursued by the Board or the Chief Executive Officer, then such amendment or termination of the Plan (including, without limitation this Section 7.2), to the extent adverse to the interest of any particular Participant, shall be null and void as applied to such Participant with respect to the Change in Control (if any) which ultimately results directly from such negotiations, unless the written consent of such Participant to the amendment or termination is or has been obtained; it being expressly understood that this Section 7.2(c) shall not apply with respect to any negotiations which at any time prior to a Change in Control have ceased as determined in good faith and reflected in writing (prior to a Change in Control) by the Board or Chief Executive Officer (or which otherwise have ceased at a time prior to a Change in Control).

7.3 (a) If a subsidiary, with the consent of the Board, purports to revoke its adoption of the Plan in accordance with the other terms of the Plan, such revocation shall be considered to constitute a Plan amendment for purposes

of Section 7.2, and, therefore, any such purported revocation shall be subject to the restrictions of Section 7.2.

(b) If after an individual has become a Participant, any attempt is made in accordance with the other terms of the Plan not to include such individual as one of the Participants hereunder, then such exclusion shall be considered to constitute an amendment to the Plan for purposes of Section 7.2, and, therefore, any such purported exclusion shall be subject to the restrictions of Section 7.2.

Section 8 MISCELLANEOUS

8.1 (a) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company expressly to assume and agree to perform under the terms of the Plan in the same manner and to the same extent that the Company and its affiliates would be required to perform it if no such succession had taken place (provided that such a requirement to perform which arises by operation of law shall be deemed to satisfy the requirements for such an express assumption and agreement), and in such event the Company (as constituted prior to such succession) shall have no further obligation under or with respect to the Plan. Failure of the Company to obtain such assumption and agreement with respect to any particular Participant prior to the effectiveness of any such succession shall be a breach of the terms of the Plan with respect to such Participant and shall entitle each such Participant to compensation from the Employer (as constituted prior to such succession) in the same amount and on the same terms as the Participant would be entitled to hereunder were the Participant's employment terminated for Good Reason following a Change in Control, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination. As used in the Plan, "Company" shall mean the Company as hereinbefore defined and any successor to its business or assets as aforesaid which assumes and agrees (or is otherwise required) to perform the Plan. Nothing in this Section 8.1(a) shall be deemed to cause any event or condition which would otherwise constitute a Change in Control not to constitute a Change in Control.

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(b) Notwithstanding Section 8.1(a), the Company shall remain liable to those Participants upon a Covered Termination upon a Change in Control if (i) they are not offered continuing employment by a successor to the Employer or (ii) the Participant declines such an offer and the Participant's resulting termination of employment otherwise constitutes a Covered Termination hereunder.

(c) To the maximum extent permitted by law, the right of any Participant or other person to any amount under the Plan may not be subject to voluntary or involuntary anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment or garnishment by creditors of the Participant

or such other person.

(d) The terms of the Plan shall inure to the benefit of and be enforceable by the personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees of each Participant. If a Participant shall die while an amount would still be payable to the Participant hereunder if they had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of the Plan to the Participant's devisee, legatee or other designee or, if there is no such designee, their estate.

8.2 Except as expressly provided in Section 4.1, Participants shall not be required to mitigate damages or the amount of any payment provided for under the Plan by seeking other employment or otherwise, nor will any payments or benefits hereunder be subject to offset in the event a Participant does mitigate.

8.3 The Employer shall pay all legal fees and expenses incurred in a legal proceeding by a Participant in seeking to obtain or enforce any right or benefit provided by the Plan. Such payments are to be made within five days after a Participant's request for payment accompanied with such evidence of fees and expenses incurred as the Employer reasonably may require; provided that if the Participant institutes a proceeding and the judge or other decision-maker presiding over the proceeding affirmatively finds that such Participant has failed to prevail substantially, he or she shall pay his or her own costs and expenses (and, if applicable, return any amounts theretofore paid on the his or her behalf under this Section 8.3).

8.4 (a) A Participant may file a claim for benefits under the Plan by written communication to the Committee or its designee. A claim is not considered filed until such communication is actually received by the Committee or its designee. Within 90 days (or, if special circumstances require an extension of time for processing, 180 days, in which case notice of such special circumstances shall be provided within the initial 90-day period) after the filing of the claim, the Committee shall:

(i) approve the claim and take appropriate steps for satisfaction of the claim; or

(ii) if the claim is wholly or partially denied, advise the claimant of such denial by furnishing to him or her a written notice of such denial setting forth (A) the specific reason or reasons for the denial; (B) specific reference to pertinent provisions of the Plan on which the denial is based and, if the denial is based in whole or in part on any rule of construction or interpretation adopted by the Committee, a reference to such rule, a copy of which shall be provided to the

claimant; (C) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of the reasons why such material or information is necessary; and (D) a reference to this Section 8.4.

(b) The claimant may request a review of any denial of his or her claim by written application to the Committee within 60 days after receipt of the notice of denial of such claim. Within 60 days (or, if special circumstances require an extension of time for processing. 120 days, in which case notice of such special circumstances shall be provided within the initial 60-day period) after receipt of written application for review, the Committee shall provide the claimant with its decision in writing, including, if the claimant's claim is not approved, specific reasons for the decisions and specific references to the Plan's provisions on which the decision is based.

8.5 All notices under the Plan shall be in writing, and if to the Company or the Committee, shall be delivered to the General Counsel of the Company, or mailed to the Company's principal office, addressed to the attention of the General Counsel of the Company; and if to a Participant (or the estate or beneficiary thereof), shall be delivered personally or mailed to the Participant at the address appearing in the records of the Company.

8.6 Unless otherwise determined by the Employer in an applicable plan or arrangement, no amounts payable hereunder upon a Covered Termination shall be deemed salary or compensation for the purpose of computing benefits under any employee benefit plan or other arrangement of the Employer for the benefit of its employees unless the Employer shall determine otherwise.

8.7 With respect to each Participant, the Plan is the exclusive arrangement applicable to payments and benefits in connection with a change in control of the Company (whether or not a Change in Control), and supersedes any prior arrangements involving the Company or its predecessors or affiliates (including, without limitation, Delmarva Power & Light Company and Atlantic Energy, Inc.) relating to changes in control (whether or not Changes in Control). Participation in the Plan shall not limit any right of a Participant to receive any payments or benefits under an employee benefit or executive compensation plan of the Employer, initially adopted as of or after the Effective Date, or otherwise listed in Exhibit B hereto, which are expressly contingent thereunder upon the occurrence of a change in control (including, but not limited to, the acceleration of any rights or benefits thereunder); provided that in no event shall any Participant be entitled to any payment or benefit under the Plan which duplicates a payment or benefit received or receivable by the Participant under any severance or similar plan or policy of the Employer.

8.8 Any payments hereunder shall be made out of the general assets of the Employer. Each Participant shall have the status of general unsecured creditor of the Employer, and the Plan constitutes a mere promise by the Employer to make payments under the Plan in the future as and to the extent provided herein.

8.9 Nothing in the Plan shall confer on any individual any right to continue in the employ of the Employer or interfere in any way (other than by virtue of requiring payments or benefits as may expressly be provided herein) with the right of the Employer to terminate the individual's employment at any time.

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8.10 The Employer shall be entitled to withhold from any payments or deemed payments any amount of tax withholding required by law.

8.11 The invalidity or unenforceability of any provision of the Plan shall not affect the validity or enforceability of any other provision of the Plan which shall remain in full force and effect.

8.12 The use of captions in the Plan is for convenience. The captions are not intended to and do not provide substantive rights.

8.13 THE PLAN SHALL BE CONSTRUED, ADMINISTERED AND ENFORCED ACCORDING TO THE LAWS OF THE STATE OF DELAWARE, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW, EXCEPT TO THE EXTENT PREEMPTED BY FEDERAL LAW.

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EXHIBIT 12

Ratio of Earnings to Fixed Charges

Exhibit 12

Conectiv

Ratio of Earnings to Fixed Charges

(Dollars in Thousands)

<TABLE>
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	1998	1997	1996	1995	1994
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Net income	\$153,201	\$101,218	\$107,251	\$107,546	\$ 98,940
Income taxes	105,817	72,155	78,340	75,540	67,613
Fixed charges:					
Interest on long-term debt	133,796	78,350	69,329	65,572	61,128
Other interest	26,199	12,835	12,516	10,353	9,336
Preferred stock dividend requirements of subsidiaries	17,871	10,178	10,326	9,942	9,370
Total fixed charges	177,866	101,363	92,171	85,867	79,834
Nonutility capitalized interest	(1,444)	(208)	(311)	(304)	(256)
Earnings before income taxes and fixed charges	\$435,440	\$274,528	\$277,451	\$268,649	\$246,131
Total fixed charges shown above	\$177,866	\$101,363	\$ 92,171	\$ 85,867	\$ 79,834
Increase preferred stock dividend requirements of subsidiaries to a pre-tax amount	4,901	3,065	6,025	6,243	6,578
Fixed charges for ratio computation	\$182,767	\$104,428	\$ 98,196	\$ 92,110	\$ 86,412

Ratio of earnings to fixed charges	2.38	2.63	2.83	2.92	2.85
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</TABLE>

For purposes of computing the ratio, earnings are net income plus income taxes and fixed charges, less nonutility capitalized interest. Fixed charges consist of interest on long- and short-term debt, amortization of debt discount, premium, and expense, preferred stock dividend requirements of subsidiaries, and interest on leases. Preferred dividend requirements for purposes of computing the ratio have been increased to an amount representing the pre-tax earnings which would be required to cover such dividend requirements.

EXHIBIT 23

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 audits of the consolidated financial statements of Conectiv as of December 31, 1998 and 1997 and for each of the three years in the period ended December 31, 1998, which report is included in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
March 26, 1999

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This Schedule contains summary financial information extracted from the consolidated Balance Sheet and Statement of Income from Conectiv's 1998 Annual Report on Form 10-K and is qualified in its entirety by reference to such financial statements.

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