FORM 10-K405

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

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FILER

POTOMAC ELECTRIC POWER CO
CIK:**79732**| IRS No.: **530127880** | State of Incorp.:**VA** | Fiscal Year End: **1231**
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)

For the fiscal year ended December 31, 1998 Commission file number 1-1072

Potomac Electric Power Company
(Exact name of registrant as specified in its charter)

District of Columbia and Virginia	53-0127880
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1900 Pennsylvania Avenue, N.W. Washington, D. C.	20068
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (202) 872-2000

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

Title of each class	Name of each exchange on which registered
7% Convertible Debentures due 2018 - due January 15, 2018	New York Stock Exchange, Inc.
5% Convertible Debentures due 2002 - due September 1, 2002	

Continued

Title of each class	Name of each exchange on which registered
Common Stock, $1 par value	New York Stock Exchange, Inc.

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

None.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes X . No .

Indicate by check mark if disclosure of delinquent filers pursuant

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

As of March 9, 1999, Potomac Electric Power Company had 118,527,287 shares of its $1 par value Common Stock outstanding, and the aggregate market value of these common shares (based upon the closing price of these shares on the New York Stock Exchange on that date) held by nonaffiliates was approximately $3 billion.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's 1998 Annual Report to shareholders are incorporated by reference into Parts I, II, and IV of this Form 10-K.

Portions of the Notice of Annual Meeting of Shareholders and Proxy Statement, dated March 10, 1999, are incorporated by reference into Part III of this Form 10-K.

POTOMAC ELECTRIC POWER COMPANY
Form 10-K - 1998

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INTENTIONALLY

Part I

Item 1. BUSINESS

The information required in this section, unless disclosed below or in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations Subsequent Events," is incorporated herein by reference from the "Management's Discussion and Analysis of Consolidated Results of Operations and Financial Condition" section and the "Notes to Consolidated Financial Statements" of the Company's 1998 Annual Report to shareholders.

SALES

The Company's kilowatt-hour sales and revenue by class of service and by customer type for the period 1996 through 1998 are presented below.

	1998	1997	1996
Electric Energy Sales	(Millions of Kilowatt-hours)		
Kilowatt-hours Sold - Total	26,298	25,708	25,900
By Class of Service -			
Residential service	6,757	6,564	6,882

General service	15,591	15,307	15,185
Large power service (a)	686	698	687
Street lighting	164	166	164
Rapid transit	422	412	412
Wholesale (Primarily SMECO)	2,678	2,561	2,570
By Type of Customer -			
Residential	6,745	6,552	6,869
Commercial	12,049	11,811	11,712
U.S. Government	3,968	3,934	3,902
D.C. Government	858	850	847
Wholesale (Primarily SMECO)	2,678	2,561	2,570

(a) Large power service customers are served at a voltage of 66KV or higher.

	1998	1997	1996
Electric Revenue	(Millions of Dollars)		
Sales of Electricity - Total (b)	$1,872.7	$1,799.8	$1,824.8
By Class of Service -			
Residential service	$ 567.7	$ 525.6	$ 549.1
General service	1,102.9	1,073.6	1,076.6
Large power service (a)	35.0	35.5	35.7
Street lighting	13.2	12.9	12.5
Rapid transit	29.7	28.9	28.7
Wholesale (Primarily SMECO)	124.2	123.3	122.2
By Type of Customer -			
Residential	$ 566.8	$ 524.7	$ 548.1
Commercial	876.7	851.4	852.5
U.S. Government	253.5	249.3	250.4
D.C. Government	51.5	51.1	51.6
Wholesale (Primarily SMECO)	124.2	123.3	122.2

(a) Large power service customers are served at a voltage of 66KV or higher.
(b) Exclusive of Other Electric Revenue of $13.4 million in 1998, $11 million in 1997 and $10 million in 1996.

The Company's sales of electric energy are seasonal, and, accordingly, rates have been designed to closely reflect the daily and seasonal variations in the cost of producing electricity, in part by raising summer rates and lowering winter rates. Mild weather during the summer billing months of June through October, when base rates are higher to encourage customer conservation and peak load shifting, has an adverse effect on revenue and net income and, conversely, hot weather during these months has a favorable effect.

The Company includes in revenue the amounts received for sales to other utilities related to pooling and interconnection agreements. Amounts received for such interchange deliveries are a component of the Company's fuel rates.

FUEL

For customer billing purposes, all of the Company's kilowatt-hour sales,

through December 31, 1998, are covered by separately stated fuel rates. Pursuant to a new full-requirements contract with the Southern Maryland Electric Cooperative (SMECO), effective January 1, 1999, the rate for electricity includes a non-varying fuel component. Refer to Item 7. "Management's Discussion and Analysis of Financial Conditions and Results of Operations" for additional information regarding SMECO. The ages of the Company's generating units, all of which are in operation, are presented in the table below.

Generating Station	Number of Units (a)	Age (Years)	Service Type
Benning	2	26-30	Cycling
Buzzard Point	16	30	Peaking
Potomac River	2/3	41-49	Cycling/Base
Dickerson	3/3	5-39	Base/Peaking
Chalk Point	2/2/7(b)	7-34	Base/Cycling/Peaking
Morgantown	2/6	25-28	Base/Peaking

(a) By service type.
(b) Includes a combustion turbine unit owned by SMECO and operated by the Company.

Since the 1970s, the Company has conducted continuing programs to extend the useful lives of generating units and to ensure their continued availability and efficiency. The Company's generating units burn only fossil fuels. The principal fuel is coal. The Company owns no nuclear generation facilities. The following table sets forth the quantities of each type of fuel used by the Company in the years 1998, 1997 and 1996 and the contribution, on the basis of Btus, of each fuel to energy generated.

	1998		1997		1996	
	Quantity	% of Btu	Quantity	% of Btu	Quantity	% of Btu
Coal (000s net tons)	6,999	84.5	6,318	89.1	6,224	89.7
Residual oil (000s barrels)	3,823	11.1	1,350	4.6	1,365	4.8
Natural gas (000s dekatherms)	6,062	2.8	8,318	4.5	6,111	3.4
No. 2 fuel oil (000s barrels)	590	1.6	564	1.8	657	2.1

The following table sets forth the average cost of each type of fuel burned, for the years shown.

		1998	1997	1996
Coal:	per ton	$40.27	$42.82	$42.17
	per million Btu	1.55	1.65	1.62
Residual oil:	per barrel	16.17	20.95	20.04
	per million Btu	2.57	3.49	3.19
Natural gas:	per dekatherm	2.63	2.87	2.92
	per million Btu	2.63	2.87	2.92
No. 2 fuel oil:	per barrel	21.21	26.96	25.34
	per million Btu	3.63	4.63	4.34

The system average cost of fuel burned per million Btu was $1.72 in 1998 compared with $1.84 in 1997 and $1.80 in 1996. The decrease of 6.5% in the 1998 system average unit fuel cost compared with the 1997 system average is attributed primarily to the decreased unit costs of coal, residual oil and gas. The increase of approximately 2% in the 1997 system average unit fuel cost compared with the 1996 system average is attributed primarily to the increased unit cost of coal resulting principally from an increased cost of railroad transportation. The increase in the percent of residual oil burned in 1998 reflects the decline in the price of residual oil and an increase in

wholesale energy sales. The decrease in the percent of oil burned in 1997 reflects the increase in the price of oil and the increased usage of lower-cost gas. The Company's major cycling and certain peaking units can burn either natural gas or oil, adding flexibility in selecting the most cost-effective fuel mix.

Eight of the Company's 16 steam-electric generating units can burn only coal; two units can burn only residual oil; two units can burn either coal or residual oil or a combination of both; two units can burn either coal or natural gas or a combination of both; and two units can burn either residual oil or natural gas. Those units capable of burning either coal or residual oil and those units capable of burning either coal or natural gas normally burn coal as their primary fuel. The Company also has combustion turbines, some of which can burn only No. 2 fuel oil, and others which can burn either natural gas or No. 2 fuel oil. The following table provides details of the Company's generating capability from the standpoint of plant configuration as well as actual energy generation (see Item 2. - Properties for additional information on types of fuel used in generating facilities).

	Net Generating Capability and Purchased Capacity			Net Energy Generated		
	1998	1997	1996	1998	1997	1996
Steam generation						
Dual fuel units, capable of burning coal, residual oil or a combination of coal and residual oil....	17%	17%	17%	31%	31%	33%
Dual fuel units, capable of burning coal, natural gas,or a combination of coal and natural gas.....	10%	10%	-	16%	16%	-
Units capable of burning coal only.....	17%	18%	28%	29%	29%	45%
Units capable of burning residual oil only.....	8%	8%	8%	1%	-	1%
Units capable of burning residual oil or natural gas.....	18%	18%	18%	8%	4%	4%
Combustion turbines						
Units capable of burning No. 2 fuel oil only.....	8%	8%	8%	2%	2%	1%
Units capable of burning No. 2 fuel oil or natural gas.....	11%	11%	11%			
Purchased capacity.....	11%	10%	10%	13%(a)	18%(a)	16%(a)

(a) Includes purchases under cogeneration agreements.

The Company's fuel mix objective is to obtain a minimum unit cost of energy through the use of its generating facilities. The actual use of coal, oil and natural gas is influenced by the availability of the generating units, the relative cost of the fuels, energy and demand requirements of other utilities with which the Company has interconnection arrangements, regulatory

requirements (for future units), environmental constraints, weather conditions and fuel supply constraints, if any.

The Company has numerous coal contracts, with various expiration dates through 2001, for aggregate annual deliveries of approximately 4.1 million tons. Deliveries under these contracts are expected to provide approximately 61% of the estimated system coal requirements in 1999. The balance of the Company's coal requirements will be purchased under shorter-term agreements and on a spot basis from a variety of suppliers. Each of the Company's coal contracts, which are not fixed price contracts, contains price escalation/de-escalation provisions whereby the adjusted base price to-be-paid to the supplier for coal received by the Company is adjusted on a quarterly basis. Contract price adjustments are calculated according to changes in the contract-specified published indices and are limited by current spot market prices. The Company plans to replace the contracts when they expire with either short-term or spot agreements at comparable prices.

Most of the coal currently used by the Company is deep mined in Pennsylvania, West Virginia and Maryland. The Company believes that it will be able to continue to obtain the quantities of coal needed to operate at its current fuel mix objective. The costs of coal to the Company may be affected by increases in the costs of production, including the costs of complying with federal legislation (such as amendments to the Clean Air Act, the costs of surface mining reclamation and black lung benefits), the imposition of (or changes in) state severance taxes and by contracts with Conrail, CSX Transportation and Norfolk Southern which cover all of the coal movements to the Company's generating stations.

The Company purchases both domestically refined and imported residual oil. Residual oil is purchased under one two-year and two one-year contracts. Prices under the contracts are determined by reference to base contract prices, as adjusted to reflect current market prices. Prior to expiration of the contracts, the Company expects to solicit bids for new contracts to supply its residual oil requirements. The Company also purchases No. 2 fuel oil under two one-year contracts.

Certain units at the Company's Chalk Point and Dickerson Generating Stations are capable of burning natural gas as well as oil. The Company has the option to purchase natural gas under an agreement for Chalk Point through December 1999. This contract is for an interruptible supply of natural gas with provisions for price review and monthly adjustment. No term agreement exists to purchase natural gas for the Dickerson Generating Station. The Company actively pursues spot market purchases of natural gas on a short-term basis for its Chalk Point and Dickerson stations. The actual use of natural gas for these units will be dependent upon operational requirements, the relative costs of natural gas and oil, and the availability of natural gas.

RATES

Rate orders received by the Company during the past three years provided for changes in annual base rate revenue as shown in the table below. At December 31, 1998, there were no base rate proceedings filed nor pending approval before the Company's retail regulatory commissions. The Company has a new full-requirements agreement with SMECO, effective January 1, 1999. Refer to Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information regarding SMECO.

Regulatory Jurisdiction	Rate Increase (Decrease) ($000)	% Change	Effective Date
Maryland	$19,000	2.0	December 1998
Federal-Wholesale	(2,500)	(1.8)	January 1998
Maryland	24,000	2.6	November 1997
Federal-Wholesale	(2,000)	(1.7)	January 1996

<TABLE>
Part I

Item 2. PROPERTIES
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On February 3, 1999, the Company, together with several other parties, filed an Agreement of Stipulation and Settlement concerning the Company's Maryland stranded cost adjudication proceedings that outlines the Company's plan to voluntarily divest its generating assets at auction as a method to recover 100% of its stranded costs. Refer to Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Subsequent Events" for additional information about the proposed sale of the generating assets.

<CAPTION>

Generating Station	Location	Steam Generation Primary Fuel	Megawatts of Net Capability: Steam Generation	Megawatts of Net Capability: Combustion Turbine <F1>	Net Megawatt-Hours Generated in 1998 (Thousands)
<S>	<C>	<C>	<C>	<C>	<C>
Benning	Benning Road and Anacostia River, N.E. Washington, D.C.	No. 4 Oil	550	-	213
Buzzard Point	1st and V Streets, S.W. Washington, D.C.	-	-	256	31
Potomac River	Bashford Lane and Potomac River Alexandria, Virginia	Coal	482	-	2,191
Dickerson	Potomac River, South of Little Monocacy River, Dickerson, Maryland	Coal	546	291	3,835
Chalk Point	Patuxent River at Swanson Creek Aquasco, Maryland	Coal/ Residual Oil/ Natural Gas	1,907	516 <F2>	6,314
Morgantown	Potomac River, South of Route 301 Newburg, Maryland	Coal/ Residual Oil	1,164	248	7,853
Total - Wholly owned Units			4,649	1,311	20,437
Conemaugh	Indiana County, Pennsylvania	Coal	165	1	1,278
Total - All Stations Operated			4,814	1,312	21,715
Cogeneration			-	-	281
Purchased Capacity					
FirstEnergy <F3>			450	-	2,670
Panda-Brandywine <F4>			230	-	411
			680	-	3,081
Total System, excluding Short-term Capacity Transactions			5,494	1,312	
Short-term Capacity Transactions, net			(207)	-	
Total System			5,287	1,312	

<FN>
All of the above properties are held in fee, but as to Conemaugh, the Company holds a 9.72% undivided interest as a tenant in common.
<F1>Combustion turbines burn No. 2 fuel oil and certain units can also burn natural gas.
<F2>Includes 84 megawatts supplied by a combustion turbine owned by SMECO and operated by the Company.
<F3>Generating capacity under long-term agreements with FirstEnergy and AEI.
<F4>Generating capacity under long-term agreement with Panda-Brandywine L.P.

</FN>

</TABLE>

The five steam-electric generating stations, together with combustion turbines, had an aggregate net capability at December 31, 1998, of 5,960 megawatts (including the 84 megawatt combustion turbine owned by SMECO at the Company's Chalk Point Generating Station), assuming all units are available for service at the time and for the usual duration of the system peak (which occurs in the summer). The Company also has 166 megawatts of net capability available from its 9.72% undivided interest in a coal fired, steam-electric generating station known as the Conemaugh Generating Station, located in Indiana County, Pennsylvania, which it owns with eight other utilities as tenants in common. The Company also receives generating capacity and associated energy from FirstEnergy under long-term agreements with FirstEnergy and AEI. The agreements, which provide for 450 megawatts of capacity and associated energy, are expected to continue at that level through the year 2005. In addition, the Company has a 25-year agreement with Panda for a 230-megawatt gas-fueled combined-cycle cogeneration project in Prince George's County, Maryland. On June 26, 1998, the Company established an all-time summer peak demand of 5,807 megawatts. At the time of the 1998 summer peak demand, the Company's Energy Use Management programs had the capability of reducing system demand by an additional 242 megawatts.

The Company owns the transmission and distribution facilities serving its customers. As stated above, the Company's interest in the Conemaugh Generating Station and its associated transmission lines is that of a tenant in common with eight other owners. Substantially all of such Conemaugh transmission lines, substantially all of the Company's transmission and distribution lines of less than 230,000 volts, small portions of its 230,000 volt transmission lines and certain of its substations are located on land owned by others or in public streets and highways. Substantially all of the Company's property and plant is subject to the mortgage which secures its bonded indebtedness.

Item 3. LEGAL PROCEEDINGS

The information required in this section is incorporated herein by reference from Note 13. to the "Notes to Consolidated Financial Statements" of the Company's 1998 Annual Report to shareholders.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

Part II

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

The following table presents the dividends per share of Common Stock and the high and low of the daily Common Stock transaction prices as reported in The Wall Street Journal during each period. The New York Stock Exchange is the principal market on which the Company's Common Stock is traded.

Period	Dividends Per Share	Price Range High	Price Range Low

1998:				
First Quarter.....	$.415		$25-11/16	$23-7/16
Second Quarter.....	.415		25-7/16	23-1/16
Third Quarter.....	.415		26-5/8	23-1/8
Fourth Quarter.....	.415	$1.66	27-13/16	24-7/8
1997:				
First Quarter.....	$.415		$26	$23-7/8
Second Quarter.....	.415		24-7/8	21-1/8
Third Quarter.....	.415		23-3/4	21
Fourth Quarter.....	.415	$1.66	26	21

The number of holders of Common Stock was 71,375 at March 9, 1999, and 72,607 at December 31, 1998.

There were 118,527,287 shares of the Company's $1 par value Common Stock outstanding at March 9, 1999, and December 31, 1998. A total of 200 million shares is authorized.

In January 1999, a dividend of 41-1/2 cents per share was declared payable March 31, 1999, to holders of record of the Company's common stock on March 10, 1999. The Company's current annual dividend on common stock is $1.66 per share. The dividend rate is determined by the Company's Board of Directors and takes into consideration, among other factors, current and possible future developments which may affect the Company's income and cash flow levels. The Company has no current plans to change the dividend; however, there can be no assurance that the $1.66 dividend rate will be in effect in the future.

Item 6. SELECTED FINANCIAL DATA

The information required in this section is incorporated herein by reference from the "Selected Consolidated Financial Data" section of the Company's 1998 Annual Report to shareholders.

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

The information required by this section is incorporated herein by reference from the "Management's Discussion and Analysis of Consolidated Results of Operations and Financial Condition" section of the Company's 1998 Annual Report to shareholders.

The "Management's Discussion and Analysis of Consolidated Results of Operations and Financial Condition" section is located on pages 10-21 in the Company's 1998 Annual Report to shareholders and pages 3-38 in Exhibit 13 included herein.

SUBSEQUENT EVENTS

SMECO Agreement

On February 9, 1999, the new full-requirements agreement between the Company and SMECO was accepted by the Federal Energy Regulatory Commission without change or modification. During the first quarter of 1999, the Company will record pre-tax income of $23.2 million, which represents the present value of the $26 million termination payment from SMECO that will be received in January 2001.

Proposed Sale of Generating Assets

The Company currently owns more than 6,000 megawatts of generating capacity, which is provided by six Company-owned, fossil-fueled power plants (of which two are located in Washington, D.C., three are located in Maryland and one is located in Virginia). The Company also has purchased capacity

totaling 764 megawatts under long-term contracts. On February 3, 1999, the Company together with several other parties (the Staff of the Maryland Commission, the Maryland People's Counsel, the Maryland Energy Administration, the U.S. General Services Administration, the Washington Metropolitan Area Transit Authority, and the Mid-Atlantic Power Supply Association and a number of other parties) filed an Agreement of Stipulation and Settlement (the Agreement) concerning the Company's Maryland stranded cost adjudication proceeding, an element of the transition to electricity competition in Maryland. Under the Agreement, if approved by the Maryland Public Service Commission (the Maryland Commission) and if all other conditions to the Agreement are satisfied, the Company will sell all of its plants, facilities and equipment used in the generation of electricity and its other rate-based assets that are not required for the provision of electric transmission and distribution services located both in Maryland and elsewhere (collectively, the "generation assets"). The Agreement also provides for the recovery by the Company of its stranded costs allocated to Maryland and the Maryland-related expenses incurred by the Company in preparation for the implementation of retail competition.

The conditions to the Agreement, in addition to the approval, without change, of all of the provisions of the Agreement by the Maryland Commission, include (i) passage by the Maryland General Assembly of legislation enabling competition and customer choice, including legislation that modifies the taxation of Maryland utilities, and (ii) approval by the District of Columbia Public Service Commission (D.C. Commission) of the sale by the Company of its generation assets.

Under the Agreement, if it is approved by the Maryland Commission and all other required regulatory approvals are obtained, the Company has agreed to sell its generation assets through an auction process. The generation assets to be sold will include the Company's purchase power contracts, unless the inclusion of such assets in the sale will result in the total value received being significantly less or unless the Company is not legally free to sell such assets. Any power purchase contract not included in the sale of generation assets would become a distribution asset of the Company.

The Company has agreed to endeavor to obtain D.C. Commission approval for the sale of its generation assets by March 31, 1999 (see the "D.C. Commission Filings" section), and to obtain all other required regulatory approvals in a timely fashion. If D.C. Commission approval is obtained by March 31, 1999, the solicitation of bidders is targeted to begin by July 1, 1999. The Company is obligated to make a good faith effort to close the sale of the generation assets by July 1, 2000. If all required regulatory approvals are not obtained by January 1, 2000, the Agreement will terminate. If the sale is completed, the generation assets sold would no longer be subject to cost of service regulation by the Maryland Commission.

If the pre-tax net proceeds from the sale of the generation assets are less than the then-current net book value of the generation assets ("book value"), a non-bypassable Competitive Transition Charge (CTC) to Maryland customers would be established to enable the Company to recover (i) the portion allocable to Maryland of the amount by which such proceeds are less than book value, plus (ii) the portion allocable to Maryland of certain generation-related regulatory assets (together, "stranded costs") and the additional expenses incurred by the Company in the preparation for and implementation of retail access that the PSC authorizes the Company to recover from its Maryland customers and which are incurred or reasonably estimated to be incurred prior to July 1, 2003 ("transition costs").

If the pre-tax net proceeds from the sale of the generation assets exceed the book value, the excess that is allocable to Maryland would be applied to offset any remaining Maryland-related stranded costs and transition costs. If such excess is not sufficient to recover fully such costs, the shortfall allocable to Maryland will be recoverable through a non-bypassable CTC to Maryland customers.

If the pre-tax net proceeds from the sale of the generation assets both exceed book value and are sufficient to cover any remaining stranded costs and

transition costs, the portion of the remaining proceeds that are allocable to Maryland would be distributed to the Company's Maryland customers by means of a Competitive Transition Credit applied to the Company's Maryland retail service rates as follows:

Excess Pre-Tax Net Proceeds	Percentage of Maryland Allocation Distributed to Maryland Customers
$100 million or less	70%
Next $100 million	60%
Any amount over $200 million	50%

The period of time over which the CTC or the Competitive Transition Credit would be applied has not yet been determined.

Contingent upon the enactment of the necessary tax and enabling legislation by the Maryland General Assembly, the parties to the Agreement have targeted July 1, 2000, as the date on which retail access to a competitive market for generation services will be made available to all of the Company's Maryland customers. The unbundling of delivery rates for customers who choose a generation supplier other than the Company would be accomplished in a revenue neutral manner effective July 1, 2000.

Under the Agreement, the Company's Maryland customers who are unable to receive generation services from another supplier, or who do not select another supplier, will be entitled to receive services ("default services") from the Company until July 1, 2003, at a rate for the applicable customer class that is no higher than the bundled rate in effect on June 30, 2000, but subject to adjustment for tax law changes enacted by the Maryland General Assembly relating to its authorization of electric industry restructuring. Thereafter, the Company would provide default services using power obtained through a competitive bidding process at regulated tariff rates determined on a pass-through basis and including an allowance for the costs incurred by the Company in providing the services.

D.C. Commission Filings

Stranded Cost Study and Unbundled Rates

On February 1, 1999, the Company filed with the D.C. Commission a quantification of its District of Columbia jurisdictional generating, purchased power and other costs that the Company projects would be stranded in a competitive market for generating services; a proposed method for recovering such stranded costs through a non-bypassable CTC; proposed unbundled rates for retail service; and a proposal to freeze retail rates from the time

competition begins until January 2005 (the "Filing"). The Filing was made in compliance with an order issued by the D.C. Commission on December 30, 1998 that required that the Company file a stranded cost study and unbundled rates for the District of Columbia by February 1, 1999. The D.C. Commission order also sought comments on various industry restructuring issues including whether retail competition in the District of Columbia is in the public interest.

The Company's "unbundled rates" proposal breaks down its electricity prices into separate rates for generation supply (i.e., the cost of producing power or buying it from third parties) and for electricity delivery (i.e., the cost of transmission and distribution of electricity to consumers). In the Filing, the Company's anticipated 1999 average price of 7.79 cents per kilowatt-hour breaks down into a supply charge of 4.92 cents and a delivery charge of 2.87 cents.

As part of the Filing, the Company proposes that effective with the beginning of competition in the District of Columbia, both the supply and delivery components of the Company's retail prices will be frozen at then-existing levels until January 1, 2005. The Company also proposes to eliminate

its fuel adjustment clause when competition begins and assume the risk of fuel cost increases after implementation of the restructuring plan until January 1, 2005 when the Company no longer has the obligation to supply electricity at the frozen rate. The only exceptions to the rate freeze would be for unexpected increases in taxes or new environmental requirements. After January 1, 2005, supply prices would be set by the competitive marketplace and delivery prices would be determined by regulators.

For retail customers who do not wish to buy the supply portion of their electric service from a source other than the Company once they are free to do so, the Company proposes to provide both supply and delivery service at the frozen rates until January 1, 2005. For customers who enter the competitive supply market, the Company proposes to provide them with a "shopping credit" based on the estimated market price for electricity (currently expected to start at 4.03 cents/kWh in 2001). The shopping credit would terminate on January 1, 2005.

Under the Company's proposal, the transition to customer choice, including recovery of stranded costs, would be made without any increase in prices to customers. Initially, prices would be held at the levels in effect when competition begins for customers who choose to buy both supply and delivery from the Company. During the freeze, a non-bypassable CTC will be included in the frozen rate. After the end of the freeze in January 2005, all customers would pay, as part of their delivery charge, an explicit CTC which would initially be .89 cents per kWh, but would decrease to .121 cents per kWh in 2011, and decrease again to .12 cents in 2016. The CTC will end in 2021 when the last of the Company's pre-competition power purchase contract ends.

In the Filing, the Company identifies stranded costs (the total economic value of previously expected regulatory earnings that will not be recovered in a deregulated energy market) having a net after-tax present value of $500.8 million, some of which it will propose be securitized and recovered over the period from 2001 to 2011. The $500.8 million is composed of $210.1 million relating to generation assets, $151.2 million relating to power purchase

contracts, $114.9 million in unrecovered conservation costs and $24.6 million in other stranded costs. The present value of the pre-tax CTC revenues necessary to recover these amounts over the 10-year period is $851.9 million. The Company proposes to recover additional stranded costs associated with its long-term Panda and SMECO power purchase contracts, having a net after-tax present value of $55.2 million, over the period 2011 to 2021, which it does not propose be securitized. All stranded cost recovery would be accomplished through the non-bypassable CTC discussed above. The Company has also proposed a "true up" mechanism which would update prospectively in 2005 its stranded cost estimates, taking into account changes in market prices and other factors.

The stranded costs in the Company's case relate to costs which are already included in the Company's rates. They have been approved by regulators as being appropriate to recover because they were found to have been prudently incurred to meet the Company's regulatory-era obligation to provide reliable service to everyone who wants it. As part of its plan, the Company proposes to securitize a portion of its stranded cost recovery and thereby achieve savings through a reduction in capital costs.

On March 1, 1999, the Company filed comments in response to the several additional industry restructuring issues set forth by the D.C. Commission in its December 30, 1998 order. In its March 1, 1999 filing, the Company supports the introduction of retail competition for generation services on a phased-in basis to begin on January 1, 2001, and to be completed by January 1, 2003. Among other things, the Company recommends the enactment of tax legislation which would create a level playing field for all competitive sellers of generation in the District of Columbia, as well as clarifying and substantive changes to the 86 year old public utility statute in the District of Columbia in order to permit retail competition for generation services at market prices, provide various consumer protections in a new era of competition and allow for greater flexibility in the price regulation of delivery service by the Company.

If a competitive market for generation supply is implemented in the District of Columbia, the Company believes that the Commission will follow through on its commitment to provide a fair opportunity for the Company to recover its prudently incurred stranded costs, and that the stranded costs

identified by the Company in the filing will be determined to have been prudently incurred. The inability of the Company to fully recover its stranded costs could have a material adverse impact on the future earnings and cash flows of the Company, and may result in consequences including, but not limited to, increases in the cost of capital, increases in rates for transmission and distribution services, exposure to downgrades in credit ratings and involuntary layoffs of employees.

Request for D.C. Commission Approval of Proposed Sale of Generating Assets

On March 16, 1999, the Company filed an application with the D.C. Commission requesting D.C. Commission approval for the Company to sell its generating assets through an auction process.

Approval by the D.C. Commission of the sale of the generation assets is a condition to the Agreement concerning the Company's Maryland stranded cost adjudication proceeding, an element of the transition to electricity competition in Maryland. In its filing before the D.C. Commission, the Company requests approval to sell the generation assets, irrespective of whether the D.C. Commission orders retail electric competition in the District of Columbia.

The generation assets to be sold will include the Company's purchase power contracts, unless the inclusion of such assets in the sale will result in the total value received being significantly less or unless the Company is not legally free to sell such assets. Any power purchase contract not included in the sale of generation assets would become a distribution asset of the Company.

The Company has requested that the D.C. Commission grant expedited consideration of its request to sell the generation assets. The Company has committed to initiate the auction process ninety days after receiving Commission approval for the sale.

As part of the application, the Company proposes that following the closing of the sale of its generation assets and the application of the proceeds from the sale, both the supply and delivery components of the Company's retail prices in the District of Columbia will be frozen at then-existing levels and the fuel adjustment clause will be eliminated for four years. After four years from the sale of the assets, the Company will no longer have the obligation to supply electricity at the frozen rate. Supply prices would then be set by the competitive marketplace and delivery prices would be determined by regulators. If the Commission implements customer choice subsequent to the sale of the assets, the rate freeze will still terminate four years after the asset sale.

If the pre-tax net proceeds allocable to the District of Columbia from the sale of the generation assets are less than the book value, the Company proposes that the unretired balance plus generation-related regulatory assets will be amortized and collected from District of Columbia customers through a charge on customers receiving distribution services from the Company such that rates will not increase.

If the pre-tax net proceeds from the sale of the generation assets exceed both the book value plus the value of the regulatory assets and, if not sold, the purchased power commitments, the portion of the remaining proceeds that are allocable to the District of Columbia would be distributed to the Company's District of Columbia customers in the form of a credit on their charges for delivery service using the same formula that is included in the Agreement.

Excess Pre-Tax Net Proceeds	Percentage of District of Columbia Allocation Distributed to District of Columbia Customers
$100 million or less	70%

Next $100 million	60%
Any amount over $200 million	50%

The period of time over which the charge or the credit would be applied has not yet been determined.

Sale of First Mortgage Bonds

On March 17, 1999, the Company sold $270 million of 6% First Mortgage Bonds maturing April 1, 2004. The proceeds from the offering will be used as follows: to pay at maturity $45 million in aggregate principal amount of the Company's First Mortgage Bonds, 4-1/2% Series due 1999, which mature May 15, 1999; to redeem $100 million in outstanding principal amount of the Company's First Mortgage Bonds, 9% Series due 2000 (which will be called for redemption on April 28, 1999); to redeem at 101% of par the entire $62.6 million outstanding principal amount of the Company's 7% Convertible Debentures due 2018 (which will be called for redemption on April 19, 1999); and to refund a portion of the short-term debt that the Company has incurred primarily to finance, on a temporary basis, its ongoing utility construction program and operations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market Risk

Market risk represents the potential loss arising from adverse changes in market rates and prices. Certain of the Company's financial instruments are exposed to market risk in the form of interest rate risk and equity price risk. These financial instruments were not entered into by the Company for trading purposes. The Company manages its market risk in accordance with established policies.

Interest Rate Risk

The carrying value of the Company's long-term debt, which consists of first mortgage bonds, medium-term notes, and convertible debentures, was $1,859 million at December 31, 1998. The fair value of this long-term debt, based mainly on current market prices or discounted cash flows using current rates for similar issues with similar terms and remaining maturities, was

$1,969.2 million at December 31, 1998. The interest rate risk related to this debt was estimated as the potential $100.1 million increase in fair value at December 31, 1998 that resulted from a hypothetical 10% decrease in the prevailing interest rates.

The carrying value of PCI's long-term debt, which consists primarily of recourse debt from institutional lenders and certain other non-recourse debt, was $716.9 million at December 31, 1998. The fair value of this long-term debt, based on current rates offered to similar companies for debt with similar maturities, was $729.2 million at December 31, 1998. The interest rate risk related to this debt was estimated as the potential $11.5 million increase in fair value at December 31, 1998 that resulted from a hypothetical 10% decrease in the prevailing interest rates.

Equity Price Risk

The carrying value of PCI's marketable securities, which consist primarily of preferred stocks with mandatory redemption features, was $231.1 million (including net unrealized gains of $12 million) at December 31, 1998. The fair value of these marketable securities, based on quoted market prices, was equivalent to its carrying value at December 31, 1998. The equity price risk related to these securities was estimated as the potential decrease in fair value of $23.1 million at December 31, 1998 that resulted from a hypothetical 10% decrease in the quoted market prices.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated January 25, 1999, and supplementary data from the Company's 1998 Annual Report to shareholders are incorporated herein by reference. With the exception of the aforementioned information and the information incorporated in Items 1., 3., 6., 7., and 8., the 1998 Annual Report to shareholders is not deemed filed as part of this Form 10-K.

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

None.

Part III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by Item 10. consisting of information required by Item 401 of Regulation S-K with regard to Directors of the registrant and the information required by Item 405 of Regulation S-K is incorporated herein by reference to the Company's Notice of Annual Meeting of shareholders and Proxy Statement dated March 10, 1999.

Information with regard to the executive officers of the registrant as of March 9, 1999, is as follows:

Executive Officers

Name	Position	Age	Served in such position since
John M. Derrick, Jr.	President and Chief Executive Officer and Director	58	1997 (1)
Dennis R. Wraase	Senior Vice President and Chief Financial Officer and Director	54	1997 (2)
William T. Torgerson	Senior Vice President External Affairs and General Counsel	54	1994 (3)
Robert C. Grantley	Group Vice President - Customer Service and Power Distribution	50	1989
Anthony S. Macerollo	Group Vice President - Corporate Services	57	1989
William J. Sim	Group Vice President - Generation	54	1991
Andrew W. Williams	Group Vice President - Transmission and Marketing	49	1989
Earl K. Chism	Vice President and Comptroller	63	1994 (4)
Kirk J. Emge	Vice President - Legal Services	49	1994 (5)
Susann D. Felton	Vice President - Generation Fuels and Business Planning	50	1992
William R. Gee, Jr.	Vice President - Resource Planning	58	1991
Anthony J. Kamerick	Vice President and Treasurer	51	1994 (6)

James S. Potts	Vice President - Environment	53	1993 (7)
Mary M. Sharpe-Hayes	Vice President - Strategic Planning	45	1998 (8)

None of the above persons has a "family relationship" with any other officer listed or with any director.

The term of office for each of the above persons is from April 22, 1998, until the next succeeding Annual Meeting and until their successors have been elected and qualified.

(1) Mr. Derrick was elected to the position of Chief Executive Officer on October 23, 1997 and President on December 21, 1992.

(2) Mr. Wraase was elected to his present position on April 24, 1996. Prior to that time, from April 22, 1992, he served as Senior Vice President, Finance and Accounting.

(3) Mr. Torgerson was elected Senior Vice President and General Counsel on April 27, 1994. He served as Secretary from August 22, 1994 to April 24, 1996. Prior to 1994 he held the position of Vice President and General Counsel.

(4) Mr. Chism was elected to his present position on April 27, 1994. Prior to that time he held the position of Vice President and Treasurer since July 1989.

(5) Mr. Emge was elected to his present position on April 27, 1994. Prior to that time he held the position of Deputy General Counsel.

(6) Mr. Kamerick was elected to his present position on April 27, 1994. Prior to that time he held the position of Comptroller from 1992 to 1994.

(7) Mr. Potts was elected to his present position on April 28, 1993. Prior to that time he held the position of Manager, Generating Strategic Support since 1991.

(8) Ms. Sharpe-Hayes was elected to her position on June 29, 1998.

Item 11. EXECUTIVE COMPENSATION

The information required by Item 11. is incorporated herein by reference to the Company's Notice of Annual Meeting of Shareholders and Proxy Statement dated March 10, 1999.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Item 12. is incorporated herein by reference to the Company's Notice of Annual Meeting of Shareholders and Proxy Statement dated March 10, 1999.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

Part IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE AND REPORTS ON FORM 8-K

(a) Documents List

1. Financial Statements

The following documents are filed as part of this report as incorporated herein by reference from the indicated pages of the Company's 1998 Annual Report.

	Reference (Page)	
	1998 Annual Report to Shareholders	Form 10-K Annual Report Exhibit 13
Consolidated Balance Sheets - December 31, 1998 and 1997	22-23	39-40
Consolidated Statements of Earnings - for the years ended December 31, 1998, 1997 and 1996	24	41
Consolidated Statements of Cash Flows - for the years ended December 31, 1998, 1997 and 1996	25	42
Consolidated Statements of Comprehensive Income - for the years ended December 31, 1998, 1997 and 1996	26	43
Notes to Consolidated Financial Statements	27-43	44-90
Report of Independent Accountants	44	38

2. Financial Statement Schedule

Unaudited supplementary data entitled "Quarterly Financial Summary (Unaudited)" is incorporated herein by reference in Item 8 (included in "Notes to Consolidated Financial Statements" as Note 16).

Schedule II (Valuation and Qualifying Accounts) and the Report of Independent Accountants on Consolidated Financial Statement Schedule are submitted pursuant to Item 14(d).

All other schedules are omitted because they are not applicable, or the required information is presented in the financial statements.

3. Exhibits required by Securities and Exchange Commission Regulation S-K (summarized below).

Exhibit No.	Description of Exhibit	Reference*
3.1	Charter of the Company.....	Filed herewith.
3.2	By-Laws of the Company.....	Filed herewith.
4	Mortgage and Deed of Trust dated July 1, 1936, of the Company to The Bank of New York as Successor Trustee, securing First Mortgage Bonds of the Company, and Supplemental Indenture dated July 1, 1936.....	Exh. B-4 to First Amendment, 6/19/36, to Registration Statement No. 2-2232.
	Supplemental Indentures, to the	

	aforesaid Mortgage and Deed of Trust, dated - December 1, 1939 and December 10, 1939.....	Exhs. A & B to Form 8-K, 1/3/40.
	August 1, 1940.....	Exh. A to Form 8-K, 9/25/40.
	July 15, 1942 and August 10, 1942.....	Exh. B-1 to Amendment No. 2, 8/24/42, and B-3 to Post-Effective Amendment, 8/31/42, to Registration Statement No. 2-5032.
	August 1, 1942.....	Exh. B-4 to Form 8-A, 10/8/42.
	October 15, 1942.....	Exh. A to Form 8-K, 12/7/42.
	October 15, 1947.....	Exh. A to Form 8-K, 12/8/47.
	January 1, 1948.....	Exh.7-B to Post-Effective Amendment No. 2, 1/28/48, to Registration Statement No. 2-7349.
	December 31, 1948.....	Exh. A-2 to Form 10-K, 4/13/49.

Exhibit No.	Description of Exhibit	Reference*
4 (cont.)	May 1, 1949.....	Exh. 7-B to Post-Effective Amendment No. 1, 5/10/49, to Registration Statement No. 2-7948.
	December 31, 1949.....	Exh. (a)-1 to Form 8-K, 2/8/50.
	May 1, 1950.....	Exh. 7-B to Amendment No. 2, 5/8/50, to Registration Statement No. 2-8430.
	February 15, 1951.....	Exh. (a) to Form 8-K, 3/9/51.
	March 1, 1952.....	Exh. 4-C to Post-Effective Amendment No. 1, 3/12/52, to Registration Statement No. 2-9435.
	February 16, 1953.....	Exh. (a)-1 to Form 8-K, 3/5/53.
	May 15, 1953.....	Exh. 4-C to Post-Effective Amendment No. 1, 5/26/53, to Registration Statement No. 2-10246.
	March 15, 1954 and March 15, 1955.....	Exh. 4-B to Registration Statement No. 2-11627, 5/2/55.
	May 16, 1955.....	Exh. A to Form 8-K, 7/6/55.
	March 15, 1956.....	Exh. C to Form 10-K, 4/4/56.
	June 1, 1956.....	Exh. A to Form 8-K, 7/2/56.
	April 1, 1957.....	Exh. 4-B to Registration Statement No. 2-13884, 2/5/58.
	May 1, 1958.....	Exh. 2-B to Registration Statement No. 2-14518, 11/10/58.
	December 1, 1958.....	Exh. A to Form 8-K, 1/2/59.
	May 1, 1959.....	Exh. 4-B to Amendment No. 1, 5/13/59, to Registration Statement No. 2-15027.
	November 16, 1959.....	Exh. A to Form 8-K, 1/4/60.

	May 2, 1960.....	Exh. 2-B to Registration Statement No. 2-17286, 11/9/60.
	December 1, 1960 and April 3, 1961.....	Exh. A-1 to Form 10-K, 4/24/61.

Exhibit No.	Description of Exhibit	Reference*
4 (cont.)	May 1, 1962.....	Exh. 2-B to Registration Statement No. 2-21037, 1/25/63.
	February 15, 1963.....	Exh. A to Form 8-K, 3/4/63.
	May 1, 1963.....	Exh. 4-B to Registration Statement No. 2-21961, 12/19/63.
	April 23, 1964.....	Exh. 2-B to Registration Statement No. 2-22344, 4/24/64.
	May 15, 1964.....	Exh. A to Form 8-K, 6/2/64.
	May 3, 1965.....	Exh. 2-B to Registration Statement No. 2-24655, 3/16/66.
	April 1, 1966.....	Exh. A to Form 10-K, 4/21/66.
	June 1, 1966.....	Exh. 1 to Form 10-K, 4/11/67.
	April 28, 1967.....	Exh. 2-B to Post-Effective Amendment No. 1 to Registration Statement No. 2-26356, 5/3/67.
	May 1, 1967.....	Exh. A to Form 8-K, 6/1/67.
	July 3, 1967.....	Exh. 2-B to Registration Statement No. 2-28080, 1/25/68.
	February 15, 1968.....	Exh. II-I to Form 8-K, 3/7/68.
	May 1, 1968.....	Exh. 2-B to Registration Statement No. 2-31896, 2/28/69.
	March 15, 1969.....	Exh. A-2 to Form 8-K, 4/8/69.
	June 16, 1969.....	Exh. 2-B to Registration Statement No. 2-36094, 1/27/70.
	February 15, 1970.....	Exh. A-2 to Form 8-K, 3/9/70.
	May 15, 1970.....	Exh. 2-B to Registration Statement No. 2-38038, 7/27/70.
	August 15, 1970.....	Exh. 2-D to Registration Statement No. 2-38038, 7/27/70.
	September 1, 1971.....	Exh. 2-C to Registration Statement No. 2-45591, 9/1/72.
	September 15, 1972.....	Exh. 2-E to Registration

Exhibit No.	Description of Exhibit	Reference*
4 (cont.)	April 1, 1973.....	Exh. A to Form 8-K, 5/9/73.
	January 2, 1974.....	Exh. 2-D to Registration Statement No. 2-49803, 12/5/73.
	August 15, 1974.....	Exhs. 2-G and 2-H to Amendment No. 1 to Registration Statement No. 2-51698, 8/14/74.

	June 15, 1977.....	Exh. 4-A to Form 10-K, 3/19/81.
	July 1, 1979.....	Exh. 4-B to Form 10-K, 3/19/81.
	June 16, 1981.....	Exh. 4-A to Form 10-K, 3/19/82.
	June 17, 1981.....	Exh. 2 to Amendment No. 1, 6/18/81, to Form 8-A.
	December 1, 1981.....	Exh. 4-C to Form 10-K, 3/19/82.
	August 1, 1982.....	Exh. 4-C to Amendment No. 1 to Registration Statement No. 2-78731, 8/17/82.
	October 1, 1982.....	Exh. 4 to Form 8-K, 11/8/82.
	April 15, 1983.....	Exh. 4 to Form 10-K, 3/23/84.
	November 1, 1985.....	Exh. 2-B to Form 8-A, 11/1/85.
	March 1, 1986.....	Exh. 4 to Form 10-K, 3/28/86.
	November 1, 1986.....	Exh. 2-B to Form 8-A, 11/5/86.
	March 1, 1987.....	Exh. 2-B to Form 8-A, 3/2/87.
	September 16, 1987.....	Exh. 4-B to Registration Statement No. 33-18229, 10/30/87.
	May 1, 1989.....	Exh. 4-C to Registration Statement No. 33-29382, 6/16/89.
	August 1, 1989.....	Exh. 4 to Form 10-K, 3/23/90.
	April 5, 1990.....	Exh. 4 to Form 10-K, 3/29/91.
	May 21, 1991.....	Exh. 4 to Form 10-K, 3/27/92.
	May 7, 1992.....	Exh. 4 to Form 10-K, 3/26/93.
	September 1, 1992.....	Exh. 4 to Form 10-K, 3/26/93.
	November 1, 1992.....	Exh. 4 to Form 10-K, 3/26/93.
	March 1, 1993.....	Exh. 4 to Form 10-K, 3/26/93.

Exhibit No.	Description of Exhibit	Reference*
4 (cont.)	March 2, 1993.....	Exh. 4 to Form 10-K, 3/26/93.
	July 1, 1993.....	Exh. 4.4 to Registration Statement No. 33-49973, 8/11/93.
	August 20, 1993.....	Exh. 4.4 to Registration Statement No. 33-50377, 9/23/93.
	September 29, 1993.....	Exh. 4 to Form 10-K, 3/25/94.
	September 30, 1993.....	Exh. 4 to Form 10-K, 3/25/94.
	October 1, 1993.....	Exh. 4 to Form 10-K, 3/25/94.
	February 10, 1994.....	Exh. 4 to Form 10-K, 3/25/94.
	February 11, 1994.....	Exh. 4 to Form 10-K, 3/25/94.
	March 10, 1995.....	Exh. 4.3 to Registration Statement No. 61379, 7/28/95.
	September 6, 1995.....	Exh. 4 to Form 10-K, 4/1/96.
	September 7, 1995.....	Exh. 4 to Form 10-K, 4/1/96.
	October 2, 1997.....	Exh. 4 to Form 10-K, 3/26/98.
4-A	Indenture, dated as of January 15, 1988, between the Company and The Bank of New York, Successor Trustee for the Company's $75,000,000 issue of 7% Convertible Debentures due 2018	Exh. 4-A to Form 10-K, 3/25/88.
4-B	Indenture, dated as of July 28, 1989, between the Company and The Bank of New York, Trustee,	

	with respect to the Company's Medium-Term Note Program.....	Exh. 4 to Form 8-K, 6/21/90.
4-C	Indenture, dated as of August 15, 1992, between the Company and the Bank of New York, Trustee, for the Company's $115,000,000 issue of 5% Convertible Debentures due 2002.....	Exh. 4-C to Form 10-K, 3/26/93.
10	Agreement, effective December 8, 1998, between the Company and the International Brotherhood of Electrical Workers (Local Union No. 1900).....	Filed herewith.
	Employment Agreement**.....	Exh. 10.1 to Form 10-Q, 10/30/95.

Exhibit No.	Description of Exhibit	Reference*
10 (cont.)	Employment Agreement**.....	Exh. 10.3 to Form 10-Q, 10/30/95.
	Employment Agreement**.....	Exh. 10.4 to Form 10-Q, 10/30/95.
	Amendment to Employment Agreement**.	Exh. 10.5 to Form 10-Q, 10/30/95.
	Severance Agreement**.....	Exh. 10.6 to Form 10-Q, 10/30/95.
	Severance Agreement**.....	Exh. 10.7 to Form 10-Q, 10/30/95.
	Severance Agreement**.....	Exh. 10.8 to Form 10-Q, 10/30/95.
	Severance Agreement**.....	Exh. 10.9 to Form 10-Q, 10/30/95.
	Amendment to Employment Agreement**.	Exh. 10.1 to Form 10-K, 4/1/96.
	Amendment to Employment Agreement**.	Exh. 10.2 to Form 10-K, 4/1/96.
	Amendment to Employment Agreement**.	Exh. 10.3 to Form 10-K, 4/1/96.
	Severance Agreement**.....	Exh. 10.5 to Form 10-K, 4/1/96.
	Severance Agreement**.....	Exh. 10.6 to Form 10-K, 4/1/96.
	Severance Agreement**.....	Exh. 10.7 to Form 10-K, 4/1/96.
	Severance Agreement**.....	Exh. 10.8 to Form 10-K, 4/1/96.
	Severance Agreement**.....	Exh. 10.9 to Form 10-K, 4/1/96.
	Severance Agreement**.....	Exh. 10.10 to Form 10-K, 4/1/96.
	Severance Agreement**.....	Exh. 10.11 to Form 10-K, 4/1/96.
	Severance Agreement**.....	Exh. 10.12 to Form 10-K, 4/1/96.
10.1	Amendment to Employment Agreement...	Exh. 10.1 to Form 10-K, 3/26/98.
10.2	1999 General Memorandum of Understanding, dated December 8, 1998 between the Company and the International Brotherhood of Electrical Workers (Local Union No. 1900).....	Filed herewith.

Exhibit No.	Description of Exhibit	Reference*
11	Statements Re. Computation of Earnings Per Common Share.....	Filed herewith.
12	Statements Re. Computation of Ratios.....	Filed herewith.
13	Financial Information Section of Annual Report.....	Filed herewith.
21	Subsidiaries of the Registrant.....	Filed herewith.
23	Consent of Independent Accountants..	Filed herewith.
27	Financial Data Schedule.....	Filed herewith.

*The exhibits referred to in this column by specific designations and date have heretofore been filed with the Securities and Exchange Commission under such designations and are hereby incorporated herein by reference. The Forms 8-A, 8-K and 10-K referred to were filed by the Company under the Commission's File No. 1-1072 and the Registration Statements referred to are registration statements of the Company.

**These exhibits are submitted pursuant to Item 14(c).

(b) Reports on Form 8-K

None.

<TABLE>
Schedule II — Valuation and Qualifying Accounts

<CAPTION>

Col. A	Col. B	Col. C		Col. D	Col. E
		Additions			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts <F1>	Deductions <F2>	Balance at End of Period
	(Millions of Dollars)				
<S>	<C>	<C>	<C>	<C>	<C>
Year Ended December 31, 1998					
Allowance for uncollectible accounts - customer and other accounts receivable					
Utility operations	$ 2.4	$ 8.0	$ 1.0	$ (8.7)	$ 2.7
Nonutility subsidiary	$ 6.0	$ -	$ (1.0)	$ -	$ 5.0
Year Ended December 31, 1997					
Allowance for uncollectible accounts - customer and other accounts receivable					
Utility operations	$ 1.6	$ 9.8	$ 1.0	$ (10.0)	$ 2.4

Nonutility subsidiary	$ 6.0	$ -	$ -	$ -	$ 6.0
Year Ended December 31, 1996					
Allowance for uncollectible accounts - customer and other accounts receivable					
Utility operations	$ 2.0	$ 8.5	$ 1.2	$ (10.1)	$ 1.6
Nonutility subsidiary	$ 6.0	$ -	$ -	$ -	$ 6.0

<FN>
<F1> Collection of accounts previously written off.
<F2> Uncollectible accounts written off.
</FN>

(c) Exhibit 11 Statements Re. Computation of Earnings Per Common Share

The information required by Exhibit 11 is incorporated herein by reference to Note 7 of the "Notes to Consolidated Financial Statements" on page 34 of the Company's Annual Report to shareholders.

</TABLE>
<TABLE>
Exhibit 12 Statements Re. Computation of Ratios

The computations of the coverage of fixed charges, before income taxes, and the coverage of combined fixed charges and preferred dividends for each of the years 1998 through 1994 on the basis of parent company operations only, are as follows.

<CAPTION>

	For The Year Ended December 31,				
	1998	1997	1996	1995	1994
	(Millions of Dollars)				
<S>	<C>	<C>	<C>	<C>	<C>

Net income	$211.2	$164.7	$220.1	$218.8	$208.1
Taxes based on income	131.0	97.5	135.0	129.4	116.6
Income before taxes	342.2	262.2	355.1	348.2	324.7
Fixed charges:					
Interest charges	151.8	146.7	146.9	146.6	139.2
Interest factor in rentals	23.8	23.6	23.6	23.4	6.3
Total fixed charges	175.6	170.3	170.5	170.0	145.5
Income before income taxes and fixed charges	$517.8	$432.5	$525.6	$518.2	$470.2
Coverage of fixed charges	2.95	2.54	3.08	3.05	3.23
Preferred dividend requirements	$18.0	$16.5	$16.6	$16.9	$16.5
Ratio of pre-tax income to net income	1.62	1.59	1.61	1.59	1.56
Preferred dividend factor	$29.2	$26.2	$26.7	$26.9	$25.7
Total fixed charges and preferred dividends	$204.8	$196.5	$197.2	$196.9	$171.2
Coverage of combined fixed charges and preferred dividends	2.53	2.20	2.66	2.63	2.75

</TABLE>
<TABLE>
Exhibit 12 Statements Re. Computation of Ratios

The computations of the coverage of fixed charges, before income taxes, and the coverage of combined fixed charges and preferred dividends for each of the years 1998 through 1994 on a fully consolidated basis are as follows.

<CAPTION>

	For The Year Ended December 31,				
	1998	1997	1996	1995	1994
	(Millions of Dollars)				
<S>	<C>	<C>	<C>	<C>	<C>
Net income	$226.3	$181.8	$237.0	$94.4	$227.2
Taxes based on income	122.3	65.6	80.4	43.7	94.0

Income before taxes	348.6	247.4	317.4	138.1	321.2
Fixed charges:					
Interest charges	208.6	216.1	231.1	238.7	224.5
Interest factor in rentals	24.0	23.7	23.9	26.7	9.9
Total fixed charges	232.6	239.8	255.0	265.4	234.4
Nonutility subsidiary capitalized interest	(0.6)	(0.5)	(0.7)	(0.5)	(0.5)
Income before income taxes and fixed charges	$580.6	$486.7	$571.7	$403.0	$555.1
Coverage of fixed charges	2.50	2.03	2.24	1.52	2.37
Preferred dividend requirements	$18.0	$16.5	$16.6	$16.9	$16.5
Ratio of pre-tax income to net income	1.54	1.36	1.34	1.46	1.41
Preferred dividend factor	$27.7	$22.4	$22.2	$24.7	$23.3
Total fixed charges and preferred dividends	$260.3	$262.2	$277.2	$290.1	$257.7
Coverage of combined fixed charges and preferred dividends	2.23	1.86	2.06	1.39	2.15

</TABLE>

Exhibit 21 Subsidiaries of the Registrant

Potomac Capital Investment Corporation (PCI), a wholly owned nonutility subsidiary company, was incorporated in Delaware in 1983.

Potomac Electric Power Company Trust I, a wholly owned business trust and subsidiary, was established in April 1998 for the purposes of issuing Trust Securities representing undivided beneficial interests in the assets of the Trust, and investing the gross proceeds from the sale of the Trust Securities in Junior Subordinated Debentures of the Company.

Exhibit 23 Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-8 (Numbers 33-36798, 33-53685 and 33-54197) and to the incorporation by reference in the Prospectuses constituting part of the Registration Statements on Forms S-3 (Numbers 33-58810, 33-61379, 333-33495 and 333-66127) of Potomac Electric Power Company of our report dated January 25, 1999 appearing in the Annual Report to shareholders which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report on the Consolidated Financial Statement Schedule, which appears under Item 14(a) of this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Washington, D.C.
March 25, 1999

Report of Independent Accountants on Consolidated Financial Statement Schedule

January 25, 1999

To the Board of Directors of
Potomac Electric Power Company

Our audits of the consolidated financial statements referred to in our report dated January 25, 1999 appearing in the 1998 Annual Report to shareholders of Potomac Electric Power Company (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the consolidated financial statement schedule listed in Item 14(a) of this Form 10-K. In our opinion, this consolidated financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP
Washington, D.C.

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, in the City of Washington, District of Columbia, on the 25th day of March, 1999.

POTOMAC ELECTRIC POWER COMPANY
(Registrant)

By /s/ John M. Derrick, Jr.
(John M. Derrick, Jr., President, Chief Executive Officer and Director)

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 and on the dates indicated:

Signature	Title	Date
(i) Principal Executive Officer		
/s/ John M. Derrick, Jr. (John M. Derrick, Jr.)	President, Chief Executive Officer and Director	
(ii), (iii) Principal Financial Officer and Principal Accounting Officer		
/s/ Dennis R. Wraase (Dennis R. Wraase)	Senior Vice President and Chief Financial Officer and Director	
(iv) Directors:		
/s/ Edward F. Mitchell (Edward F. Mitchell)	Chairman of the Board	
/s/ Roger R. Blunt, Sr. (Roger R. Blunt, Sr.)	Director	

March 25, 1999

Signature	Title	Date
(iv) Directors (cont.):		
/s/ Edmund B. Cronin, Jr. (Edmund B. Cronin, Jr.)	Director	
/s/ Terence C. Golden (Terence C. Golden)	Director	
(David O. Maxwell)	Director	
(Judith A. McHale)	Director	

/s/ Floretta D. McKenzie

(Floretta D. McKenzie) Director

/s/ Peter F. O'Malley

(Peter F. O'Malley) Director

/s/ Louis A. Simpson

(Louis A. Simpson) Director

/s/ A. Thomas Young

(A. Thomas Young) Director

March 25, 1999

Financial Information

Potomac Electric Power Company and Subsidiaries

Contents

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

GENERAL

As an investor-owned electric utility, the Company is capital intensive, with a gross investment in property and plant of approximately $3 for each $1 of annual total revenue. The costs associated with property and plant investment amounted to 46% of the Company's total revenue in 1998. Fuel and purchased energy, capacity purchase payments and other operating expenses were 54% of total revenue.

Potomac Capital Investment Corporation (PCI), a wholly owned subsidiary of the Company, conducts nonutility investment programs and businesses with the objective of supplementing current utility earnings and building long-term shareholder value. Potomac Electric Power Company Trust I (Trust), the Company's wholly owned business trust and subsidiary, was established in April 1998 for the purposes of issuing Trust Securities representing undivided beneficial interests in the assets of the Trust, and investing the gross proceeds from the sale of the Trust Securities in Junior Subordinated Debentures of the Company.

The Company has two segments, consisting of its utility and nonutility operations. The utility segment derives its revenue from the generation, transmission, distribution and sale of electric energy, while the nonutility segment, which primarily consists of the operations of PCI, derives its revenue from investment programs, energy-related businesses, and telecommunication services. See the discussion included in Notes (1) and (15) of the Notes to Consolidated Financial Statements, Organization and Summary of Significant Accounting Policies - New Accounting Standards, and Segment Information, respectively, for additional information.

The information set forth below discusses the results of operations, capital resources and liquidity during the period 1996 through 1998 for the Company and its subsidiaries.

The Company's earnings for common stock during 1998 totaled $208.3 million, as compared to $165.3 million in 1997. As set forth below, utility basic earnings per common share from operations increased from $1.53 in 1997 to $1.63 in 1998, excluding the December 1997 write-off of 28 cents per share related to the cancellation of the proposed merger with Baltimore Gas and Electric Company (BGE). Consolidated basic earnings per common share increased from $1.39 in 1997 to $1.76 in 1998.

	1998	1997	1996
Utility Operations	$1.63	$1.53	$1.72
Merger Costs	-	(.28)	-
Nonutility Subsidiary	.13	.14	.14
Consolidated	$1.76	$1.39	$1.86

The average number of common shares outstanding at December 31, 1998, was relatively unchanged from December 31, 1997.

FORWARD LOOKING STATEMENTS

This Management's Discussion and Analysis of Consolidated Results of Operations and Financial Condition contains forward looking statements, as defined by the Private Securities Litigation Act of 1995, with regard to matters that could have an impact on the future operations, financial results or financial condition of the Company. These statements are based on the current expectations, estimates or projections of management and are not guarantees of future performance. Actual results may differ materially from those anticipated by the forward looking statements, depending on the occurrence or nonoccurrence of future events or conditions that are difficult to predict and generally are beyond the control of the Company. All such forward looking statements relating to the following matters are qualified by the cautionary statements below and contained elsewhere herein.

Growth in Demand, Sales and Capacity to Fulfill Demand

The actual growth in demand for and sales of electricity within the Company's service territory may vary from the statements made concerning the anticipated growth in demand and sales, depending upon a number of factors, including weather conditions, the competitive environment, general economic conditions and the demographics of the Company's service territory. Future construction expenditures

(including the need to construct additional generation capacity) may vary from the projections, depending on the accuracy of management's expectations regarding growth in demand for and sales of electricity, regulatory developments including potential changes in environmental regulations, and the evolution of the competitive marketplace for electricity.

Competition

Increased competition will have an impact on future results of operations, which may be adverse, and will depend, among other factors, upon governmental policies and regulatory actions, including those of the Federal Energy Regulatory Commission (FERC) and the Maryland and District of Columbia public service commissions, future economic conditions and the influence exerted by emerging market forces over the structure of the electric industry.

Year 2000 Readiness Disclosure

The Company has implemented a four-pronged approach to address compliance with the Year 2000 processing requirements of its computer systems. The phases being addressed are: Corporate Applications Readiness, which

includes all large core business systems; Embedded Systems, which include all operating and control systems; End-User Computing Systems, which are all systems that are not considered core business systems but contain date calculations; and Business Partners' Systems and Vendor Supply-Chain Verification, which is intended to monitor suppliers' compliance with Year 2000 processing. A database has been developed to identify and track the progress of work on each phase. The preliminary target date for completion of these phases is mid-1999. The cost or consequences of a material incomplete or untimely resolution of the Year 2000 problem could adversely affect future operations, financial results or financial condition of the Company.

UTILITY

RESULTS OF OPERATIONS

Total Revenue

The changes in total revenue are shown in the following table.

	Increase (Decrease) from Prior Year		
	1998	1997	1996
	(Millions of Dollars)		
Change in kilowatt-hour sales	$ 51.8	$ (8.6)	$(11.5)
Change in base rate revenue	24.0	(7.2)	27.0
Change in fuel adjustment clause billings to cover cost of fuel and interchange and capacity purchase payments	(2.9)	(9.2)	(4.5)
Change in other revenue	2.4	1.0	1.4
Change in operating revenue	75.3	(24.0)	12.4
Change in interchange deliveries	125.1	(122.8)	121.8
Change in total revenue	$ 200.4	$(146.8)	$134.2

The increase in 1998 base rate revenue compared to 1997 primarily reflects the effects of increases in Maryland base rates of $24 million and $19 million (effective November 1997 and December 1998, respectively) and an increase in the District of Columbia Demand Side Management (DSM) surcharge tariff of $9 million (effective September 1998); partially offset by reductions of $3.2 million and $17 million in the Maryland DSM surcharge tariff (effective September 1998 and June 1997, respectively) and a $2.5 million reduction (effective January 1998) in rates for wholesale service to the Southern Maryland Electric Cooperative (SMECO).

The decrease in 1997 base rate revenue compared to 1996 primarily reflects the June 1997 decrease in the Maryland DSM surcharge (which includes a $7.3 million reduction in the conservation incentive provision of the tariff). The increase in base rate revenue in 1996 as compared to 1995 reflects the effects of a District of Columbia base rate increase of $27.9

million (effective July 1995) and an increase of $17.7 million (effective August 1996) associated with the Company's Maryland DSM surcharge.

Fluctuations in interchange delivery transactions throughout 1998 resulted in three revisions to the Company's Maryland fuel

rate. The Company increased its Maryland fuel rate by 10.5% effective March 1, 1998. Subsequently, on August 14, 1998, the Company filed for a 5.3% decrease in the Maryland fuel rate, which became effective beginning the billing month of September 1998. Also, on October 19, 1998, the Company filed for an additional 6.3% decrease in the Maryland fuel rate, which became effective beginning the billing month of November 1998. In September 1997, the Company had reduced its Maryland fuel rate by 9.5%; included in this reduction was an adjustment for a deferred fuel amortization credit to refund over a 12-month period approximately $20.7 million of previously overrecovered fuel costs incurred through June 30, 1997.

The increase in 1998 in revenue from interchange deliveries reflects changes in prices and levels of energy delivered to the Pennsylvania-New Jersey-Maryland Interconnection LLC (PJM) and changes in prices and levels of bilateral energy sales under the Company's wholesale power sales tariff. Interchange transactions are subject to cost-based ratemaking regulations based on formulas prescribed by the FERC.

The decrease in 1997 in revenue from interchange deliveries reflects the termination of purchase-for-resale agreements under the Company's wholesale power sales tariff, whereby the Company purchased energy from one party (recording a corresponding expense within Purchased energy) for the purpose of selling that energy to a third party (and recording corresponding revenue within Interchange deliveries). In early 1997, pursuant to FERC's Order No. 888, the Company implemented an open access transmission tariff (OATT) for wheeling transactions and terminated purchase-for-resale agreements. In April 1997, PJM implemented an OATT on behalf of its transmission owners, replacing the Company's OATT.

The increase in 1996 in revenue from interchange deliveries reflects the growth in the number of companies involved in power sales tariff interchange transactions, and changes in levels and prices of energy delivered to PJM.

Interchange deliveries also include revenue from sales of short-term generating capacity. Revenues from capacity transactions totaled approximately $4.4 million, $2.9 million and $.6 million in 1998, 1997 and 1996, respectively. Presently, the Company has agreements for installed capacity sales through May 31, 1999, totaling 232 megawatts. The benefits derived from interchange deliveries, the allocated amounts of capacity sales

in the District of Columbia (approximately 40%) and revenue under the OATT are passed through to the Company's customers through fuel adjustment clauses.

Kilowatt-hour Sales

	1998	1997	1996	1998 vs. 1997	1997 vs. 1996
	(Millions of Kilowatt-hours)				
By Customer Type					
Residential	6,745	6,552	6,869	2.9%	(4.6)%
Commercial	12,049	11,811	11,712	2.0	.8
U.S. Government	3,968	3,934	3,902	.9	.8
D.C. Government	858	850	847	.9	.4
Wholesale (primarily SMECO)	2,678	2,561	2,570	4.6	(.4)
Total energy sales	26,298	25,708	25,900	2.3	(.7)
Interchange					
Energy deliveries	2,246	822	7,063	100.0+	(88.4)
By Geographic Area					
Maryland, including wholesale	16,017	15,601	15,763	2.7	(1.0)
District of Columbia	10,281	10,107	10,137	1.7	(.3)
Total energy sales	26,298	25,708	25,900	2.3	(.7)

	======	======	======

Kilowatt-hour sales increased in 1998 resulting from an increase in cooling degree hours of 15% from 1997. Cooling degree hours, however, were approximately 7% less than the 20-year average. In addition, a .8% increase in customers produced a favorable impact on kilowatt-hour sales. Kilowatt-hour sales decreased .7% in 1997 resulting from decreases in cooling degree hours of 5% and 21% from the 1996 and 20-year average, respectively, partially offset by a .8% increase in customers. Assuming future weather conditions approximate historical averages, the Company expects its compound annual growth in retail kilowatt-hour sales to be approximately 2% over the next decade.

On June 26, 1998, the Company established an all-time summer peak demand of 5,807 megawatts. This compares with the 1997 summer peak demand of 5,689 megawatts, and the prior all-time summer peak demand of 5,769 megawatts, which occurred in July 1991. The Company's present generation capability, excluding short-term capacity transactions, is 6,806 megawatts. At the time of the 1998 summer peak demand, the Company's energy use management (EUM) programs had the capability of reducing system demand by an additional 242 megawatts. Based on average weather conditions, the Company estimates that its retail peak demand will grow at a compound annual rate of approximately 2%, reflecting anticipated service area growth trends. The 1997-1998 winter season peak demand of 4,076 megawatts was 18.6% below the all-time winter peak demand of 5,010 megawatts that was established in January 1994.

Operating Expenses

Fuel, Purchased Energy and Capacity Purchase Payments

	1998	1997	1996
	(Millions of Dollars)		
Fuel expense	$380.2	$319.6	$327.8
Purchased energy			
PJM	146.3	86.6	114.6
Other	123.5	114.0	221.4
Total purchased energy	269.8	200.6	336.0
Fuel and purchased energy	$650.0	$520.2	$663.8
Capacity purchase payments	$155.7	$150.9	$125.8

Net System Generation and Purchased Energy were as follows.

	1998	1997	1996
	(Millions of Kilowatt-hours)		
Net system generation	21,715	18,322	18,041
Purchased energy	8,204	9,371	16,157

The 1998 increase in fuel expense compared to 1997 reflects an increase of 18.5% in net generation, partially offset by a decrease in the system average unit fuel cost. Although net generation increased 1.6% in 1997 compared to 1996, fuel expense decreased due to the timing of fuel billed to customers through

the Company's fuel rates.

The Company's unit costs of fuel burned and the percentages of system fuel requirements obtained from coal, oil and natural gas are shown in the following table.

	Percent of Fuel Burned			Unit Cost of Fuel Burned			
	Coal	Oil	Gas	Coal	Oil	Gas	System Average
				(Per Million Btu)			
1998	84.5	12.7	2.8	$1.55	$2.71	$2.63	$1.72
1997	89.1	6.4	4.5	1.65	3.80	2.87	1.84
1996	89.7	6.9	3.4	1.62	3.55	2.92	1.80

The 1998 system average unit fuel cost decreased by 6.5% due to decreases in the costs of coal, residual oil and gas. The increase of approximately 2% in the 1997 system average unit fuel cost compared with the 1996 system average resulted primarily from an increased unit cost of coal. The increase in the percent of oil burned in 1998 reflects a decline in the price of oil. The decrease in the percent of oil burned in 1997 reflects the increase in the price of oil and the increased usage of lower-cost gas. The Company's major cycling and certain peaking units can burn either natural gas or oil, which provides protection against possible supply disruptions, and adds flexibility in selecting the most cost-effective fuel mix. The use of coal, oil and natural gas also depends upon the availability of generating units, energy and demand requirements of interconnected utilities, regulatory requirements, weather conditions, and fuel supply constraints, if any. The Company seeks to maintain a minimum unit cost of energy through the economic dispatch of its generating facilities, active participation in the bulk power market and purchases of generating capacity.

The Company's generating and transmission facilities are interconnected with those of other transmission owners in the PJM power pool and other utilities, providing economic energy and reliability benefits by facilitating the Company's participation in the federally regulated wholesale energy market. This market

has enabled the Company to purchase energy at costs lower than those required to self-generate, and to sell energy at favorable prices to other market participants.

Energy transactions within the PJM power pool are priced at rates that are approved by the FERC and are based on each power pool participant's marginal cost. In April 1997, PJM implemented a competitive "bid-based" energy marketplace, where companies offered energy at prices not exceeding their cost of producing the energy, and transactions occurred at the market's marginal clearing price. In November 1997, the FERC conditionally approved a PJM restructuring plan which, among other things, established an independent system operator (ISO) having responsibility for system operations and regional transmission planning. The Commission authorized the independent body that operates the ISO to also operate the PJM power exchange. On April 1, 1998, the unconstrained market clearing pricing system for purchased energy was replaced by a "locational marginal pricing" system designed to economically control transmission system congestion. Because of the Company's generation availability and peak load characteristics, the Company generally is able to sell into the PJM market during high price peak load periods and buy from the market during low price periods. (Also see the Restructuring of the Bulk Power Market discussion below).

In addition to interchange within PJM, the Company is actively participating in the bilateral energy sales marketplace. The Company's FERC-approved wholesale power sales tariff allows both sales from Company-owned generation and sales of energy purchased by the Company from other market participants. Numerous utilities and marketers have executed service agreements allowing them to arrange purchases under this tariff, and the Company has executed service agreements allowing it to purchase energy under other market participants' power sales tariffs.

The Company continues to purchase energy from FirstEnergy Corp. (FirstEnergy, formerly Ohio Edison) under the Company's 1987 long-term capacity purchase agreement with FirstEnergy and Allegheny Energy, Inc. (AEI). Pursuant to this agreement, the Company is purchasing 450 megawatts of capacity and associated energy through the year 2005. The Company purchases energy from the Panda-Brandywine, L.P. (Panda) facility pursuant to a 25-year power purchase agreement for 230 megawatts of capacity supplied by a gas-fueled combined-cycle cogenerator; capacity payments under this agreement commenced in January 1997. The Company is also purchasing 50 megawatts of capacity and related energy from the Northeast Maryland Waste Disposal Authority under a short-term avoided cost-based purchase agreement. The capacity expense under these agreements, including an allocation of a portion of FirstEnergy's fixed operating and maintenance costs, was $149.8 million for 1998, $145.2 million for 1997 and $120 million for

1996. Commitments under these agreements are estimated at $203 million for 1999, $204 million for 2000, $209 million for 2001, and $210 million for 2002 and 2003.

The Company also has a purchase agreement with SMECO, through 2015, for 84 megawatts of capacity supplied by a combustion turbine installed and owned by SMECO at the Company's Chalk Point Generating Station. The Company is responsible for all costs associated with operating and maintaining the facility. The capacity payment to SMECO is approximately $5.5 million per year.

The Company's customers are charged separate rates designed to recover the actual cost of fuel used to generate electricity, including the net cost of purchased energy less interchange deliveries. Differences between actual costs of fuel and energy, and fuel revenues collected are deferred on the Consolidated Balance Sheets. The Company earns no return on costs eligible for recovery within these fuel rates. The District of Columbia fuel rate includes a provision for the current recovery of purchased capacity costs as well as a provision for the credit for capacity sales. In Maryland, purchased capacity costs are recovered in base rates.

As electricity becomes more actively traded as a commodity, the bulk power market is developing methods for traders to hedge against price volatility. Both the New York Mercantile Exchange (NYMEX) and the Chicago Board of Trade (CBOT) have introduced futures contracts for electricity for various delivery points across the country. NYMEX's recently introduced "Into Cinergy" contract has outpaced the others in liquidity. NYMEX is planning to refile its PJM futures contract with the Commodity Futures Trading Commission to reflect a Western Hub delivery point, and the CBOT has announced its intention to introduce a PJM contract. In addition, some market participants are using customized instruments to hedge prices for both capacity and energy. Such instruments include forward contracts to fix prices, options to set ceilings or floors on prices and swaps to exchange variable prices for a fixed price. The mid-Atlantic energy market is expected to feature a secondary market in transmission congestion hedging. The Company's current activity in these markets is insignificant, and all activity is passed on to customers through the Company's fuel adjustment clause mechanism. However, in the future, the Company expects to increase its participation in the hedging markets as part of its strategy to control costs and avoid unreasonable risks. In some instances, as part of its overall bulk power marketing activity, the Company may offer to sell hedging instruments.

Other Operation and Maintenance Expenses

Other operation and maintenance expenses totaled $329.2 million for 1998. These expenses increased by $13.6 million (4.3%) in 1998, principally due to nonrecurring charges of $8.2 million for operating costs associated with the Company's Targeted Severance Plan (the Plan). The Plan offers severance pay and subsidized health and dental benefits, at amounts dependent upon years of

service, to employees who lose employment due to corporate restructuring and/or job consolidations. Under the Plan, no changes were made to eligible pensions or benefits under the retirement program. During 1998, 177 employees participated in the Plan. Increases in other operation and maintenance expenses in 1998 were also due to $5.7 million in expenditures associated with the Company's efforts to accommodate the Year 2000. The Company's approach to testing and remediating Year 2000-related issues and developing business continuation and contingency plans is discussed in detail below. Other operation and maintenance expenses increased by $.8 million (.2%) in 1997, principally due to increases in electric plant maintenance expense, partially offset by reduced labor and benefits costs. The Company's budget and cost control disciplines have resulted in a 17% decline in the number of Company employees since 1995.

Year 2000 Readiness Disclosure

The Company has implemented a four-pronged approach to accommodate the Year 2000. All phases are coordinated through a Corporate Year 2000 Task Force composed of representatives from each Business Unit. The phases being addressed are as follows:

1. Corporate Applications (Information Technology, [IT]) Readiness: Corporate Applications are large core systems, such as Customer Information, Human Resources and General Ledger, for which the Company's Computer Services Group (CSG) has responsibility. Year 2000 modifications to these systems are being programmed and tested by CSG.

2. Embedded Systems (Non-Information Technology Processes): These systems include items such as meters, power plant operating and control systems, telecommunications systems and facilities-based equipment (e.g. elevators). These products are being evaluated and modified as required by the appropriate internal end-user, in coordination with the systems' vendors.

3. End-User Computing Systems (Non-Core [Departmental] Business Systems): Corporate areas other than CSG have developed systems, databases, spreadsheets, etc. that contain date calculations. These products are being evaluated and modified as required by the appropriate end-user.

4. Business Partners' Systems and Vendor Supply-Chain Verification: The Company is seeking to obtain Year 2000 assurances from numerous vendors who provide products and services to the Company. This effort is being jointly undertaken by the Company's Materials Group and appropriate end-users.

The Task Force meets regularly to monitor the status of the efforts of the Company's assigned staff, contractors and vendors in testing and remediating Year 2000-related issues. Task Force Subcommittees are addressing additional Year 2000-related issues including, but not limited to, customer communications, testing procedures and business continuation and other contingency planning.

As of December 31, 1998, approximately 99% of the changes required to the 110 corporate IT systems have been made and regression tested. The Company's mainframe computer system has been partitioned so that a portion is isolated from the production environment and used for Year 2000 full-cycle, or "time machine," testing. This testing encompasses not only the date change from 12/31/1999 to 1/1/2000, but also many of the other potentially troublesome dates, including 2/29/2000. A total of 80% of corporate IT systems have been tested in the time machine. Among the major applications successfully tested are the Customer Information, Accounts Payable, Materials Management, and Construction Management systems. End-user computing testing in the time machine will begin in January 1999. A parallel LAN (local area network) Year 2000 testing facility has been established. All standard LAN office automation and operating systems applications supported by Computer Services have been

tested successfully. The first series of LAN business applications supported by Computer Services is currently in testing. The LAN test lab will be available for business units to test their applications beginning in January 1999.

Assessments of critical operational systems containing embedded systems were completed in October 1998 by teams of vendors, contractors and Company personnel. Year 2000 upgrades to the distributed control systems of Potomac River Units 1, 2, 3, 4 and 5 and Chalk Point Units 2 and 4 have been completed and tested. Remediation efforts are in process at other plants and areas of the electric system. A total of 95% of mission-critical substation, system protection and distribution controls are

expected to be Year 2000 ready by January 1999. The Energy Management System (EMS) is critical to the operation of the electric system. Factory acceptance testing for the Year 2000 mitigation software has successfully been completed and the new software will be installed, tested, and operational by June 1, 1999. In total, 65% of EMS/Substation Control and Data Acquisition facilities will be Year 2000 ready by January 1999. In addition to including Year 2000 remediation and testing as part of regularly scheduled plant outages, special Year 2000 outages have been scheduled in the winter of 1998-99 and spring of 1999. Test scheduling is more complex for embedded systems because of the difficulty inherent in scheduling power plant outages to accommodate the testing. In addition, some vendors are requesting that their customers refrain from testing certain components because of the potential difficulties in recovering from such tests. These vendors have either advised that their product is Year 2000 ready or have invited Company representatives to participate in testing at their facilities. As of December 31, 1998, all affected plant units have outages planned for Year 2000 testing. This differs from the original plan to test one typical unit of each type. To accommodate this change of scope, the completion date for all Year 2000 testing of critical and high priority components has been revised from March 31, 1999, to June 30, 1999. This target date may be impacted by the integration testing plans and scheduled generation/electric systems outage decisions inherent in embedded systems processing. As of December 31, 1998, based upon the Company's evaluation to date, it appears that all identified Year 2000-impacted processing components can be upgraded, modified or otherwise made Year 2000 ready within acceptable time frames.

End-user computing systems comprise a relatively small percentage of the required modifications both in terms of number and criticality. All activities remain on schedule to be completed by mid-1999.

The Company is participating in an Electric Power Research Institute sponsored consortium of approximately 100 organizations and investor-owned utilities to coordinate vendor contacts and product evaluation. Since many embedded systems are similar across utilities, this cooperative effort should help to reduce total time expended in this area and help ensure that the Company's efforts are consistent with the efforts and practices of other investor-owned utilities.

The United States Department of Energy requested that the North American Electric Reliability Council (NERC) prepare a comprehensive report outlining the efforts of electric power supply and delivery systems to prepare for Year 2000. NERC collected data from utilities on a voluntary basis and issued reports in September 1998 and January 1999. In the last update

provided to NERC, the Company reported 100% completion for both the inventory and assessment phases of Year 2000, and 60% completion in the remediation phase.

Major challenges remain in several areas: maintaining sufficient human resources to complete Year 2000 tasks; evaluating integrated testing requirements for many embedded systems, taking into account planned outages and operational needs; and completing contingency planning for the variety of scenarios that might occur. There are two potential areas of resource constraints. First, as the Company continues to

reorganize to prepare for industry deregulation, there is a risk of losing technically and functionally knowledgeable people to remediate and test systems. However, operating areas have been instructed to give increased attention to Year 2000 staffing needs when making reorganization decisions. Second, the availability of vendor resources to complete embedded system assessments and produce in volume any required component upgrades will be a concern.

Integration testing also presents a challenge because of scheduling constraints and admonitions from some vendors regarding the risks of testing. A careful evaluation of testing options and vendor testing documentation must be made on a component-by-component basis in order to determine the most appropriate method for obtaining Year 2000 readiness.

Business continuation and contingency planning efforts are in progress. Business Units responsible for critical components and systems are preparing plans in case of potential failures of individual components or systems. These plans are referenced in the Year 2000 tracking database and will be incorporated into the Company's Year 2000 Business Continuity Plan.

In order to ensure adequate staffing for contingencies that may arise, Company employees have been informed that vacation, floating holidays and other discretionary leave may not be scheduled between December 26, 1999 and January 8, 2000.

Recognizing that all contingency plans should support business continuity, the Company has formed a Business Continuity Plan Team to integrate contingency plans. The Company's business continuity planning will go beyond contingency planning to document actions to be taken, resources required and procedures to be followed to ensure the continued availability of essential services, programs and operations in the event of unexpected interruptions.

The following steps will be used for business continuity planning:

1. Identification of Year 2000 Operating Risks - Identify sources of risk, both internal and external, which may impact the Company's ability to sustain reliable operations into the Year 2000 and beyond.

2. Review of Existing Operating Plans - Review existing procedures to determine if a Year 2000-specific plan should be incorporated.

3. Develop Risk Management Strategies - Perform an analysis of, and make recommendations for, alternative methods of continuing critical business functions.

4. Develop Year 2000 Emergency Plan and Enhance Existing Plans - A separate Year 2000 plan will be developed that will interface with the Company's Corporate Emergency Response Plan (ERP). Modification and enhancements to existing plans will include the following: (a) Procedures to be followed before, during and after a disaster; (b) Inventories of information needs in a disaster, such as emergency personnel lists, supplier lists, etc.; (c) Vital records risk level; (d) Analysis of means to mitigate risk; and (e) Integration of Year 2000 into the ERP.

5. Validation Process - Tests will be conducted by the Business Continuity Planning Team to include tabletop exercises and drills on likely Year 2000 scenarios.

The Company's planning process includes a review of emergency coordination interfaces with the community. For example, a key facet of business continuity is the Company's interface with various emergency management agencies. The Company is participating with the Metropolitan Washington Council of Governments, which is looking at public safety issues on a regional basis using existing regional public safety and emergency management organizations. The Company presented a planning status report to the Council of Governments in November 1998 and is also actively participating with emergency management agencies in Year 2000 planning and drills. In December 1998, the

Company participated with the Montgomery County Office of Emergency Preparedness in a countywide drill, as well as in a PJM Interconnection drill. In January 1999, the Company participated in a Maryland Emergency Management Agency drill. The Company will participate in the next PJM drill in March 1999.

To assist in review and testing of business continuity planning, the Company has contracted with Binominal International. Binominal International, known for its contingency planning and disaster recovery expertise, is

assisting in the review and testing of business continuity planning, which will incorporate Year 2000 components.

The first draft of the Company's Business Continuity Plan was completed in December 1998.

The Company is working through the PJM Interconnection to address risks related to the regional electric transmission system. Such interconnected systems are critical to the reliability of each interconnected electric service provider, as the failure of one such interconnected provider to achieve Year 2000 readiness could disrupt others from providing electric service. Should the regional electric transmission grid become unstable, power outages could occur. The Company's existing emergency system restoration plan is being reviewed for use in the event of such Year 2000 system disruptions.

NERC has responsibility for overseeing the efforts of the industry in the United States and is coordinating Year 2000 efforts and contingency planning within and between the 10 electric reliability councils throughout the United States. Coordination in the Company's region is through PJM. The Company provides reports of its Year 2000 activities to NERC on a monthly basis. Results show that the Company is on schedule to meet the NERC target dates for Year 2000 readiness. The Company will participate in NERC's planned drills in April and September 1999.

The availability of telecommunications services is a major concern to the Company. Telecommunications are integral to maintaining electric system operations internally, within PJM, and throughout the Northern American grid. Contingency planning for various loss of telecommunications scenarios is under way.

The Company agrees with NERC's September 1998 report to the United States Department of Energy regarding the various Year 2000 scenarios that could occur. NERC has divided these into "more probable scenario types," such as loss or unavailability of a portion of generation, loss of a portion of system monitoring and control functions, loss of voice communications, loss of a portion of load, or uncharacteristic load; and "credible worst-case scenarios," such as loss of a portion of transmission facilities, underfrequency load shedding, and loss of intra- or interregional communications. The Company's Business Continuity Planning Team will be evaluating scenarios such as these and developing appropriate response plans.

The Company has established a range of communications to keep customers and suppliers informed of Year 2000 efforts. During September 1998, Year 2000 briefing seminars were held for many large customers. Individual meetings with several large customers have also been held. A bill insert has been used to advise customers of Year 2000 activities; future bill inserts will be used as needed. A brochure for customers inquiring about

the Company's Year 2000 efforts is available and being distributed. The brochure will be posted on the Company's web page on the Internet, and the web page will be updated periodically with the latest Year 2000 status information. An updated telephone script has been developed for customer service representatives answering Year 2000-related telephone inquiries from customers.

The Company has contacted over 6,000 suppliers and vendors to seek assurance that they will continue to provide goods and services after December 1999. Follow-up contacts continue. Identified essential suppliers will be defined as critical

dependencies in the draft Business Continuity Plan.

The cost or consequences of a material incomplete or untimely resolution of the Year 2000 problem could adversely affect future operations, financial results or financial condition of the Company.

The cost of expected modifications will be approximately $14 million and will be charged to expense as incurred. This estimate may change as additional evaluations are completed and remediation and testing progresses. Through December 31, 1998, $7 million has been charged to expense; the remaining costs will be expensed in 1999. Approximately $5.7 million, or 40% of the total cost, was expensed in the 12 months ended December 31, 1998.

Depreciation and Amortization Expense, Income Taxes and Other Taxes

Depreciation and amortization expense increased by $7.8 million (3.4%) in 1998, and by $9 million (4%) in 1997, due to additional investment in property and plant. Changes in income taxes in 1998 and 1997 reflect changes in the levels of taxable operating income. Other taxes increased by $2.7 million (1.3%) in 1998, reflecting increases in the levels of plant investment and operating revenue, upon which taxes are based. Other taxes increased by $1.3 million (.6%) in 1997, reflecting increases and partially offsetting decreases in the levels of plant investment and operating revenue, respectively.

Other Income, including Allowance for Funds Used During Construction and Capital Cost Recovery Factor

Other income reflects net earnings from PCI of $15.1 million in 1998, $17.1 million in 1997 and $16.9 million in 1996. See the Nonutility Subsidiary discussion below and the discussion included in Note (14) of the Notes to Consolidated Financial Statements, Selected Nonutility Subsidiary Financial Information. Other income also reflects decreases in accruals for the equity

component of the Allowance for Funds Used During Construction (AFUDC) resulting from declining amounts of Construction Work In Progress expenditures not in rate base; and decreases in the equity component of the Capital Cost Recovery Factor (CCRF) accrued on declining amounts of pollution control expenditures related to Clean Air Act (CAA) compliance. AFUDC equity totaled $.9 million in 1998, $1 million in 1997 and $1.4 million in 1996; CCRF equity totaled $.4 million in 1998, $5.7 million in 1997 and $5.2 million in 1996. Other income for 1997 reflects a reduction of $52.5 million resulting from the write-off of costs related to cancellation of the proposed merger with BGE; credits of $19.9 million for income taxes associated with this write-off are reflected in Other, net. CCRF accruals on unamortized District of Columbia DSM costs not in rate base, totaling $3.7 million in 1998, $5.4 million in 1997 and $4.1 million in 1996, are also reflected in Other, net.

Utility Interest Charges

Utility interest charges were relatively stable during the three-year period 1996 through 1998, notwithstanding changes in the levels of borrowing. Short-term borrowing costs have remained relatively low. The average cost of outstanding long-term utility debt declined from 7.51% at the beginning of 1996 to 7.37% at the end of 1998. Distributions on preferred securities of the Trust totaled $5.7 million in 1998. Utility interest charges are offset by both the debt component of AFUDC, which totaled $3.9 million in 1998, $3.8 million in 1997 and $3.9 million in 1996; and by the debt component of Clean Air Act CCRF, which totaled $.3 million in 1998, $4 million in 1997 and $3.6 million in 1996.

CAPITAL RESOURCES AND LIQUIDITY

The Company's total investment in property and plant, at original cost, was $6.7 billion at year-end 1998. Investment in property and plant construction, net of AFUDC and CCRF, was $603.3 million

for the period 1996 through 1998.

Internally generated cash from utility operations, after dividends, totaled $646.7 million for the period 1996 through 1998. Sales of first mortgage bonds, medium-term notes and trust originated preferred securities (TOPrS) during the period 1996 through 1998 provided a total of $406.8 million. During the years 1996 through 1998, the Company retired $354.1 million in outstanding long-term securities, including refinancings, scheduled debt maturities, preferred stock redemptions and sinking fund retirements. Interim financing was provided principally through the issuance of short-term commercial promissory notes. During the three-year period 1999 through 2001, capital resources of $314 million ($45.2 million in 1999)

will be required to meet scheduled debt maturities and sinking fund requirements, and additional amounts will be required for working capital and other needs. Approximately $759 million is expected to be available from depreciation and amortization charges and income tax deferrals over the three-year period of which approximately $265 million is the 1999 portion.

Dividends on common stock were $196.6 million in 1998, $196.7 million in 1997 and $196.6 million in 1996. The Company's current annual dividend on common stock is $1.66 per share. The dividend rate is determined by the Company's Board of Directors and takes into consideration, among other factors, current and possible future developments that may affect the Company's income and cash flow levels. The Company has no current plans to change the dividend; however, there can be no assurance that the $1.66 dividend rate will be in effect in the future.

Dividends on preferred stock were $11.4 million in 1998, $16.5 million in 1997 and $16.6 million in 1996. The embedded cost of preferred stock was 5.74% at December 31, 1998, 6.44% at December 31, 1997, and 6.41% at December 31, 1996.

In June 1998, the Company redeemed 60,000 shares of Serial Preferred Stock, $3.37 series of 1987, at $50 per share for sinking fund purposes. The Company also redeemed, in accordance with their terms, all of the 779,696 shares remaining after the sinking fund redemption of Serial Preferred Stock, $3.37 series of 1987, at $51.13 per share; all of the 500,000 shares of Serial Preferred Stock, $3.82 series of 1969, at $51 per share; and all of the 1,000,000 shares of Serial Preferred Stock, $3.89 series of 1991, at $53.89 per share. The redemption totaled $123.7 million and includes $6.6 million in premiums.

In May 1998, the Company's wholly owned Trust issued $125 million of 7-3/8% TOPrS. The proceeds from the sale of the TOPrS and from the common securities of the Trust to the Company were used by the Trust to purchase from the Company $128.9 million of 7- 3/8% Junior Subordinated Deferrable Interest Debentures, due June 1, 2038. The sole assets of the Trust are the Subordinated Debentures. The Trust will use interest payments received from the Company on the Subordinated Debentures to make quarterly cash distributions on the TOPrS. Proceeds from the sale of the Subordinated Debentures to the Trust were used by the Company to redeem the three series of serial preferred stock in June 1998. The Company's obligation under the declaration, including its obligation to pay costs, expenses, debt and liabilities of the Trust, provides a full and unconditional guarantee on a subordinated basis of amounts payable on the TOPrS. See the discussion included in Note (9) of the Notes to Consolidated Financial Statements, Redeemable Serial Preferred Stock and Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust, for additional information.

Total annualized interest cost for all utility outstanding long-term debt and preferred securities of the Trust at December 31, 1998, was $139 million, compared with $132.6 million and $133 million at December 31, 1997 and 1996, respectively.

Year-end 1998 outstanding utility short-term indebtedness totaled $191.7 million compared with $131.4 million at the end of 1997 and 1996.

The Company's capitalization ratios (excluding nonutility subsidiary debt), at December 31, 1998, are presented below.

	Excluding Amounts Due In One Year	Including Amounts Due In One Year
Long-term debt	46.4%	43.8%
Redeemable serial preferred stock	1.2	1.2
Serial preferred stock	2.5	2.3
Company obligated mandatorily redeemable preferred securities of subsidiary trust which holds solely parent junior subordinated debentures	3.1	2.9
Common equity	46.8	44.2
Short-term debt and amounts due in one year	-	5.6
Total capitalization	100.0%	100.0%

The Company maintains 100% line of credit back-up in the amount of $200 million, for its outstanding commercial promissory notes, which was unused during 1998, 1997 and 1996.

Conservation

The Company's DSM and EUM programs have increased the efficiency of energy usage while successfully deferring the need for the acquisition of additional generating capacity. To reduce the near-term upward pressure on customer rates and bills, the Company is continuing to reduce its conservation offerings and limit conservation spending. This strategy recognizes the transformation of the market to generally higher levels of energy efficiency for residential and nonresidential equipment. Effective March 25, 1998, the Maryland Public Service Commission approved a proposal supported by the Company to discontinue operation of all but one DSM program in Maryland. The Company received permission to substantially reduce rebates paid to program participants for the single remaining program. A

proposal by the Company to eliminate DSM programs operated within the District of Columbia was filed with the District of Columbia Public Service Commission in March 1998, and is pending. The effects of retail competition and updated research information on the programs' net benefits support the discontinuance of these programs.

The Company recovers the costs of Maryland DSM programs through a base rate surcharge that includes a provision for the recovery of program cost amortization and permits the Company to earn a return on its DSM investment while receiving compensation for lost revenue. In addition, when energy savings have exceeded annual goals, the Company has earned a bonus. The Company was awarded a bonus of $1.3 million in 1998, based on 1997 performance, which followed bonuses of $1.6 million in 1997, based on 1996 performance, and $8.9 million in 1996, based on 1995 performance. Maryland DSM program goals have been successively reduced to reflect declining DSM expenditures. On September 16, 1998, the Company received permission from the Maryland Commission to decrease the DSM surcharge tariff effective with bills rendered on and after September 21, 1998, which will reduce annual revenue by approximately $3 million. The reduction in the surcharge rate reflects the decline in the costs and scale of Maryland DSM programs. Beginning with the September 1998 surcharge update, the program cost amortization period of five years will be successively reduced to reflect the following: 1998 program costs will be amortized over four years; 1999 program costs will be amortized over three years; 2000 program costs will be amortized over two years; and 2001 and subsequent program costs will be amortized over one year. In addition, the performance bonus provision of the surcharge relative to future energy saving goals will no longer apply. Investment in Maryland DSM programs totaled $15.4 million in 1998, $24 million in 1997 and $27.4 million in 1996.

In June 1995, the District of Columbia Commission adopted a

base rate surcharge mechanism that amortizes over a 10-year period actual DSM costs prudently incurred since June 30, 1993; prior to this decision, DSM costs had been considered in base rate cases. The Environmental Cost Recovery Rider (ECRR) includes both a DSM expenditure component and a component for recovering certain expenditures associated with complying with the CAA Amendments of 1990. Also within its June 1995 order, the Commission adopted a DSM spending cap for the four-year period 1995 through 1998. The Company has successfully managed its portfolio of DSM programs to ensure that the costs of these programs are within the spending limit. In June 1997, the Company filed an Application for Authority with the Commission to update the ECRR surcharge tariff to recover actual DSM expenditures incurred during the period January 1995 through December 1996. In a June 1998 filing, the Company requested that recovery of year 1997 DSM expenditures also be reflected within the ECRR. On September 3, 1998, the Commission approved the

Company's June 1997 request for recovery of the January 1995 through December 1996 DSM expenditures, increasing annual revenue by approximately $9 million. On October 30, 1998, the Company updated its June 1998 request for 1997 DSM expenditures to incorporate provisions of the Commission's September 3, 1998 decision, which would increase annual revenue by approximately $3 million. Investment in District of Columbia programs totaled $5.2 million in 1998, $5.1 million in 1997 and $17.9 million in 1996.

In 1998, approximately 160,000 customers participated in continuing EUM programs that cycle air conditioners and water heaters during peak periods. In addition, the Company operates a commercial load curtailment program that provides incentives to customers for reducing energy usage during peak periods. Time-of-use rates have been in effect since the early 1980s, and currently approximately 60% of the Company's revenue is derived from time-of-use rates.

It is estimated that peak load reductions of approximately 730 megawatts have been achieved to date from DSM and EUM programs and that additional peak load reductions of approximately 50 megawatts will be achieved over the next five years. The Company also estimates that, in 1998, energy reductions of approximately 1.7 billion kilowatt-hours have been realized through operation of its DSM and EUM programs. During the next five years, the Company's projected costs for conservation programs total $19 million ($16 million in 1999).

Construction and Generating Capacity

Construction expenditures, excluding AFUDC and CCRF, totaled $206 million in 1998 ($66 million related to Generation) and are projected to total $865 million ($389 million related to Generation) for the five-year period 1999 through 2003, which includes approximately $132 million of CAA expenditures. In 1999, construction expenditures are projected to total $185 million ($79 million related to Generation), which includes $22 million of estimated CAA expenditures. The Company plans to finance its construction program primarily through funds provided by operations.

The Company's present generation resource mix consists of 4,815 megawatts of steam generating capacity and 1,227 megawatts from 31 combustion turbine units owned by the Company, including 166 megawatts of capacity from the Company's 9.72% undivided interest in the Conemaugh Generating Station located in western Pennsylvania. In addition, the Company has a purchase agreement with SMECO, through 2015, for 84 megawatts of generating capacity supplied by a combustion turbine installed and owned by SMECO at the Company's Chalk Point Generating Station. A network of

transmission and distribution facilities delivers power from these generation resources to customers and provides for system reliability. On December 31, 1998, the Company and SMECO entered into a new full-requirements agreement that supersedes the existing rolling-10-year full service power supply requirements contract. The agreement will be effective as of January 1, 1999,

if accepted by FERC without change or modification. As a result of the agreement, approximately 600 megawatts of additional capacity will become available by December 31, 2001, or, at SMECO's option, December 31, 2000. See the discussion included in Note (13) of the Notes to Consolidated Financial Statements, Commitments and Contingencies, for additional information. The Company projects that existing contracts for nonutility generation and the emerging wholesale market for generation resources will provide adequate reserve margins to meet customers' needs beyond the year 2000.

The Company continues to purchase 450 megawatts of generating capacity and associated energy from FirstEnergy under a 1987 long-term capacity purchase agreement with FirstEnergy and AEI. The Company also has a 25-year capacity purchase agreement with Panda for 230 megawatts of capacity from a gas-fueled combined-cycle cogenerator in Prince George's County, Maryland. Pursuant to the terms of an October 1997 amendment to this agreement, Panda is permitted to broker sales of certain amounts of the Company's system capacity from January 1998 through May 2000, and to broker or sell energy from the Panda facility. Panda will pay the Company for the right to broker capacity sales, as well as a fee based on actual energy sales.

CLEAN AIR ACT

The Company has complied with Phase I of the Acid Rain portion of the CAA. Phase II of the CAA, effective January 1, 2000, requires further reductions in nitrogen oxides (NOx) emissions and sulfur dioxide (SO2) emissions (or the acquisition of additional SO2 allowances) from the Company's generating units. NOx emissions reductions are being achieved by installing new boiler burner controls and equipment at the Company's Dickerson Generating Station. Obligations for SO2 emissions reductions will be met by continued use of lower sulfur coal, supplemented by SO2 allowance purchases as necessary. Anticipated capital expenditures for complying with the second phase of the CAA total approximately $34 million. In addition to the Acid Rain portion of the CAA, the State of Maryland and District of Columbia are required, by Title I of the CAA, to achieve compliance with ambient air quality standards for ground level ozone.

On May 22, 1998, the State of Maryland issued final regulations entitled "Post RACT Requirements for Nitrogen Oxides (NOx) Sources (NOx Budget Proposal)," requiring a 65% reduction in NOx emissions at the Company's Maryland generating units by

May 1, 1999. The regulations allow the purchase or trade of NOx emission allowances to fulfill this obligation. The Company appealed this regulation to the Circuit Court for Charles County, Maryland on June 19, 1998, on the basis that the regulation does not provide adequate time for the installation of NOx emission reduction technology and that there is no functioning NOx allowance market. On July 17, 1998, the case was moved to the Circuit Court for Baltimore City and consolidated with a similar appeal filed by BGE. The Company believes it is unlikely that a market in NOx allowances sufficient to ensure compliance will be functioning by May 1999; presently, eight states have enacted the rules necessary to create such a market. A preliminary plan for installing the best available removal technology on the Company's largest coal-fired units would require capital expenditures of approximately $170 million and would yield NOx reductions of nearly 85% beginning in year 2004. The Company cannot predict the outcome of this litigation and is evaluating its options in the event of an adverse decision. Also, on September 24, 1998, the EPA issued rules for reducing interstate transport of ozone. The Company's preliminary plan for NOx reductions of 85% by 2004 appears to be consistent with the EPA rules.

The Company owns a 9.72% undivided interest in the Conemaugh Generating Station located in western Pennsylvania. NOx emissions reduction equipment and flue gas desulfurization equipment were installed at the station in 1994 for compliance with Phases I and II of the CAA. The Company's share of construction costs for this equipment was $36.2 million. As a result of installing the flue gas desulfurization equipment, the station has received additional SO2 emission allowances. The Company's share of these bonus allowances is being used to reduce the need for lower-sulfur fuel at its other plants.

In December 1997, U.S. representatives at the climate change negotiations in Kyoto, Japan, agreed to the reduction of greenhouse gas emissions in certain portions of the developed world. The Kyoto protocol is subject to conditions that may not occur, and is also subject to ratification by the United States Senate, which has indicated that it will not ratify an agreement unless certain conditions, not currently provided for in the Kyoto protocol, are met. At present, it is not possible to predict whether the Kyoto protocol will attain the force of law in the United States or what its impact would be on the Company. Further developments in connection with the Kyoto process could adversely affect future operations, financial results or financial condition of the Company.

BASE RATE PROCEEDINGS

The Company is subject to utility rate regulation based upon the historical costs of plant investment, using recent test years to measure the cost of providing service. The rate-making process

does not give recognition to the current cost of replacing plant and the impact of inflation. Changes in industry structure and regulation may affect the extent to which future rates are based upon current costs of providing service. The regulatory commissions have authorized fuel rates, which provide for billing customers on a timely basis for the actual cost of fuel and interchange and for emission allowance costs and, in the District of Columbia, for purchased capacity.

Annual base rate increases (decreases) that became effective during the period 1996 through 1998 are shown below.

Year	Total	Maryland	District of Columbia	Wholesale
		(Millions of Dollars)		
1998	$16.5	$19.0	$ -	$(2.5)
1997	24.0	24.0	-	-
1996	(2.0)	-	-	(2.0)
	$38.5	$43.0	$ -	$(4.5)

Maryland

On November 28, 1998, pursuant to a settlement agreement, the Maryland Public Service Commission authorized a $19 million, or 2%, increase in base rate revenue effective with service rendered on and after December 1, 1998. In June 1998, the Company had filed a request to increase its base rates to recover contractual escalations in existing Commission-approved purchased capacity contracts, costs related to the 1998 Targeted Severance Plan, Year 2000 compliance costs, tax normalization of pre-1981 plant removal costs, and certain other costs associated with prior rate-making determinations. The settlement's rate increase was distributed among rate classes in a manner that will continue movement toward equalized rates of return among rate classes, and provided for a lessening of the Company's summer-winter rate differential. The settlement was comprehensive and does not include specific determinations regarding an authorized rate of return; however, a rate of return of 8.80% will be used by the Company, beginning in December 1998, for purposes of calculating AFUDC and CCRF. Previously, pursuant to a November 1997 settlement agreement, the Commission authorized a $24 million, or 2.6%, increase in base rate revenue effective with bills rendered on and after November 30, 1997.

District of Columbia

In July 1995, the District of Columbia Public Service Commission authorized rates that are based on a 9.09% rate of return on average rate base, including an 11.1% return on common stock equity and a capital structure that excludes short-term debt.

Wholesale

The Company has a full service power supply requirements contract with SMECO, the Company's principal wholesale customer with a peak load of approximately 600 megawatts, which represents approximately 10% of the Company's total kilowatt-hour sales. See the discussion included in Note (13) of the Notes to Consolidated Financial Statements, Commitments and Contingencies, for additional information.

COMPETITION

Since the early 1980s, the Company has pursued strategies that achieve financial flexibility through conservation and EUM programs, extension of the useful life of generating equipment, cost-effective purchases of capacity and energy, and preservation of scheduling flexibility to add new generating capacity in relatively small increments. The Company serves a unique and stable service territory and is a low-cost energy producer, with customer prices that compare favorably with regional and national averages.

In response to the electric utility industry's transition from regulation to a more competitive market, the Company during 1997 began to make fundamental changes in the shape and direction of its organizational units. Utility operations were reconfigured into three primary business units: generation, distribution and transmission. The structures of these organizational units continued to unfold in 1998 and are expected to offer the focus and flexibility necessary to maneuver in whatever competitive form the industry finally takes. Such reorganization allows the Company to make the best use of its assets while concentrating the efforts of employees on making each business unit profitable.

In reconfiguring utility operations into generation, distribution and transmission business units, the Company has decided not to seek to become a larger generation company. The net book value of the Company's generating assets at December 31, 1998, is $1.8 billion. The Company's generating assets are relatively small in comparison to other major utilities, and it is expected that through future consolidations, there will remain only a few large generating companies in the country. The Company's immediate focus will be on increasing the performance and profitability of its existing generation in the deregulated wholesale market. The Company intends to explore whether it should establish joint partnerships with other utilities' generating business units, create strategic alliances, divest its generating assets or continue its present course. In the area of transmission, which remains under federal regulation, the Company believes it has certain strengths and skills. The Company intends to continue to evaluate the cost effectiveness of its transmission system with a view to expanding profit potential, including the possibility of adding to the Company's transmission assets. In the area of distribution, which continues to be regulated at the local level, the Company believes it has valuable assets and skills and intends to continue to enhance its profitability locally and leverage its skills elsewhere.

The Company is currently engaged in regulatory proceedings in Maryland, where the Public Service Commission has outlined steps and established dates for the phased-in implementation of competition. In the District of Columbia, the Public Service Commission is considering various issues regarding electric industry structure and competition. The Company reaffirms its full support for customer choice for its electric customers and has provided key principles to be used as guidelines for its introduction. These principles include the concept that present suppliers should not be put at a competitive disadvantage by customer choice, that competition should not be regulated and that the benefits of customer choice should not be oversold. Increased competition will have an impact on future results of operations, which may potentially be adverse. The nature of this competition will depend upon the actions of governmental and

regulatory agencies, future regional economic conditions and influences exerted by emerging market forces over the structure of the electric industry. See the discussion included in Note (13) of the Notes to Consolidated Financial Statements, Commitments and Contingencies, for additional information.

RESTRUCTURING OF THE BULK POWER MARKET

The FERC issued its Final Rulemaking Orders No. 888 and No. 889 in April 1996 to further its goal of achieving greater competition in the wholesale energy market. Order No. 888 required utilities to file open access transmission tariffs and separately price generation, transmission and ancillary services. Order No. 889 directed utilities to establish or participate in an Open Access Same-time Information System (OASIS), where transmission owners post certain transmission availability, pricing and service information on an open-access communications medium such as the Internet. Order No. 889 also required the separation of utilities' transmission system operations and wholesale marketing functions.

In November 1997, FERC issued an Order approving the establishment of PJM as an ISO to administer transmission service under a poolwide transmission tariff and provide open access transmission service on a poolwide basis. The ISO, which began operation on January 1, 1998, is now responsible for system operations and regional transmission planning. In addition, the Commission decided that the independent body that operates the ISO may also operate the PJM power exchange. The Commission approved the power pool's use of single, non-pancaked transmission rates to access the eight transmission systems that make up PJM. Each transmission owner within PJM has its own transmission rate, whereby the transmission customer will pay a single rate based on the cost of the transmission system where the generating capacity is delivered. This PJM rate design has been in effect since April 1997. The Commission also approved, effective April 1, 1998, locational marginal pricing for allocating scarce transmission capability. This method is based on price differences in energy at the various locations on the transmission system.

PJM has many years of experience in providing economically efficient transmission and generation services throughout the mid-Atlantic region, and has achieved for its members, including the Company, significant cost savings through shared generating reserves and integrated operations. The PJM members have transformed the previous coordinated cost-based pool dispatch into a bid-based regional energy market operating under a standard of transmission service comparability. Benefits and/or costs derived from the PJM market are passed through to the Company's customers through fuel adjustment clauses and, accordingly, will not have a material effect on the operating results of the Company.

NEW ACCOUNTING STANDARDS

See the discussion included in Note (1) of the Notes to Consolidated Financial Statements, Organization and Summary of Significant Accounting Policies.

ENVIRONMENTAL MATTERS

The Company is subject to federal, state and local legislation and regulation with respect to environmental matters, including air and water quality and the handling of solid and hazardous waste. As a result, the Company is subject to environmental contingencies, principally related to possible obligations to remove or mitigate the effects on the environment of the disposal, effected in accordance with applicable laws at the time, of certain substances at various sites. During 1998, the Company participated in environmental assessments and cleanups

under these laws at four federal Superfund sites and a private party site as a result of litigation. While the total cost of remediation at these sites may be substantial, the Company shares liability with other potentially responsible parties. Based on the information known to the Company at this time, management is of the opinion that resolution of these matters will not have a material effect on the results of operations or financial position of the Company. See the discussion included in Note (13) of the Notes to Consolidated Financial Statements, Commitments and Contingencies, for additional information.

NONUTILITY SUBSIDIARY

RESULTS OF OPERATIONS

Over the past several years, the focus of PCI and its subsidiaries has shifted from financial investments in aircraft, leases and securities to that of a provider of energy, telecommunications and related products and services in the Northern Virginia/Washington, D.C./Baltimore metropolitan area. PCI is seeking to shift this focus by installing and employing leading-edge technologies; by attempting to realize significant economies of scale from multi-product marketing and the use of common facilities and support services, wherever appropriate; and by endeavoring to deliver high-quality, convenient and reliable services at competitive prices.

PCI's businesses consist of four separate components: Mass Market, Commercial Market, Utility-Related Market, and Financial Investments.

During 1998, PCI expanded its customer service and product offerings through strategic partnerships and with acquisitions of energy and telecommunications businesses.

Mass Market

In December 1997, wholly owned affiliates of PCI and RCN Corporation entered into a 50/50 joint venture to create Starpower Communications (Starpower). In 1998, Starpower became the first company to begin offering a complete single-source package of local and long-distance telephone and Internet services to customers throughout the Washington, D.C. metropolitan area. With planned initial investments of $150 million from each partner over a three-year period (1998-2000), Starpower has begun building a 6,000-mile fiber optic network to ultimately serve homes and businesses in a geographic area that extends from Northern Virginia to Baltimore. High population density areas have been targeted for the initial build-out of the fiber optics system, and Starpower will begin supplying cable television to residential customers in portions of the District of Columbia and Maryland during 1999. As of December 31, 1998, PCI has invested $20 million of its total $150 million commitment to Starpower.

PCI's portion of Starpower's pre-tax loss for 1998 is $10.6 million. PCI expects that the joint venture will continue to incur losses in 1999 and 2000 as it develops and expands its network and customer base. During the first quarter of 1998, RCN

acquired Erols Internet. The majority of Erols customers (approximately 197,000 out of a total 316,000 in February 1998) are located in Starpower's target market. These customer accounts, as well as certain associated network assets and related liabilities, have been contributed by RCN to Starpower. Starpower has agreed to pay $51.9 million ($78.6 million in assets, primarily goodwill, net of $26.7 million of unearned revenue) through a ratable reduction to RCN's committed future capital contributions. As a result of this transaction, Starpower is amortizing the acquisition premium over a three- to

five-year period commencing February 1998.

Starpower has recently signed agreements with the City of Gaithersburg and the District of Columbia to provide video programming to local residents as well as local and long-distance telephone service and high-speed Internet access. A 142-channel cable television service through an advanced fiber optic network is being rolled out to these jurisdictions during 1999. The commercial success of Starpower will depend upon the ability of Starpower to achieve its commercial objectives subject to a number of uncertainties and risks, including the pace of entry into new markets; the time and expense required for building out the planned network; success in marketing services; the intensity of competition; the effect of regulatory developments; and the possible development of alternative technologies. Statements concerning the activities of Starpower that constitute forward-looking statements are subject to the foregoing risks and uncertainties.

Commercial Market

In September 1998, a wholly owned subsidiary of PCI purchased the net assets and operations of Gaslantic Corporation (Gaslantic), a Maryland-based natural gas retail marketing and advisory services company doing business principally in the mid-Atlantic region. Gaslantic focuses on providing advisory services to commercial, industrial and institutional end-users regarding the management of the risks and costs of natural gas procurement, and on making retail sales of natural gas to such customers. It recommends purchasing strategies, negotiates supply and pipeline transportation agreements and, if requested, purchases natural gas on behalf of its clients. Gaslantic is a fee-based adviser and retail marketer rather than a gas trader. Typical of gas marketing operations, Gaslantic's purchase of energy to fulfill client contract requirements is a high-volume and relatively low-margin business. Through December 31, 1998, revenues recorded related to this business since its acquisition on September 10, 1998, totaled $13.3 million. With the acquisition of Gaslantic, PCI added fuel supply management and retail sales of natural gas to its inventory of integrated energy products and services, which also includes energy use assessments, facilities operation

and management, performance-based energy efficiency contracting, and the sale of electricity in markets open to retail competition.

A wholly owned PCI subsidiary became licensed as a retail power marketer during 1998 and began selling electricity to commercial and residential customers in Pennsylvania in the fourth quarter of 1998. Through December 31, 1998, the subsidiary has signed agreements to supply a total of 10 MW of electric load to various residential and business customers in Pennsylvania, with the first deliveries of electricity scheduled to begin in February 1999. As retail competition in the sale of energy in the Washington, D.C. metropolitan region is phased in by regulators over the next several years, PCI will use the experience gained in Pennsylvania and other mid-Atlantic markets to compete in these newly opening markets.

On January 25, 1999, a wholly owned unregulated subsidiary of PCI signed a contract with SMECO to supply SMECO's full requirements for power (approximately 600 MW of peak load) during the four-year period starting January 1, 2001. See the discussion included in Note (13) of the Notes to Consolidated Financial Statements, Commitments and Contingencies, for additional information.

In late 1998, a wholly owned subsidiary of PCI acquired the net assets and operations of MET Electrical Testing, Inc. (MET Testing). MET Testing is an electrical testing and engineering company based in Columbia, Maryland, with specialized experience in testing, inspecting, repairing, upgrading and maintaining industrial and commercial-type electrical installations and equipment. MET Testing's business is primarily in the mid-Atlantic states, with clients that include major corporations, healthcare facilities, property managers and government agencies. MET Testing's annual revenues for 1998 were approximately $4.6 million. PCI expects to use MET Testing as a platform to build additional commercial services such as the operation and maintenance of commercial energy equipment.

The commercial success of PCI in these markets is subject to a number of risks, including regulatory developments and the pace of deregulation; success in marketing services; the intensity of competition; and the ability to secure electric supply to fulfill sales commitments at favorable prices. Statements concerning the activities of PCI in these markets that constitute forward-looking statements are subject to the foregoing risks and uncertainties.

Utility-Related Market

A wholly owned subsidiary of PCI continues to own and operate W. A. Chester, a utility contractor specializing in underground transmission and cable distribution systems, and, in partnership with Columbia Energy Group, a natural gas pipeline, liquefied natural gas (LNG) storage and terminal facility, both of which are providing services to the utility industry and other customers.

Financial Investments

PCI manages a portfolio of financial investments, including securities, aircraft and electric power plant leases, real estate and structured finance transactions. Its remaining aircraft portfolio is being managed with the objective of identifying future opportunities for its sale or other disposition on economic terms. PCI will continue to make new financial investments that contribute to current and future earnings.

Consolidated Results

PCI's consolidated net earnings in 1998 were $15.1 million ($.13 per share), compared with consolidated net earnings of $17.1 million ($.14 per share) and $16.9 million ($.14 per share), in 1997 and 1996, respectively. During 1998, PCI recorded pre-tax gains of $12.2 million ($7.9 million after-tax) from the sale of real estate and pre-tax gains of $7.8 million ($4.6 million after-tax) from the sale of aircraft and related equipment. PCI's earnings in 1998 also include capital gains totaling $1.4 million, net of tax, related primarily to tender offers accepted by PCI, which reduced dividend income and the cost basis of PCI's preferred stock portfolio by $74.4 million since year-end 1997. Proceeds from asset sales were used to pay down debt, which resulted in a decrease in interest expense from 1997. PCI's 1998 consolidated net earnings included after-tax losses of $8.4 million and $1.2 million, related to its telecommunications and energy services businesses, respectively. In January 1999, PCI received cash of $6.2 million and other assets with a value of $3.3 million in an early liquidation of a partnership interest and will record approximately $6 million in after-tax earnings in 1999.

In 1998, PCI generated income primarily from its leasing activities and operating businesses. Income from leasing activities, which includes rental income, gains on asset sales, interest income and fees, totaled $73.3 million in 1998, compared to $75.6 million in 1997 and $91.7 million in 1996. The decrease in income from leasing activities during 1998 was primarily due to less rental income earned in 1998 as a result of asset sales

earlier in the year offset by the pre-tax gains on sales of aircraft equipment. The decrease in income from leasing activities in 1997 compared to 1996 was primarily due to asset sales, resulting in lower rental income.

PCI's marketable securities portfolio contributed pre-tax income of $19.3 million in 1998, $28.6 million in 1997 and $33.7 million in 1996. The decreases in income from marketable securities were primarily due to decreases in dividend income as a result of reductions in the preferred stock portfolio since 1996. Income from marketable securities included net realized gains of $2.2 million in 1998, $6.9 million in 1997 and $3.6 million in 1996.

Income from energy and utility industry services increased over the prior years primarily due to 1998 acquisitions and growth in contract revenue.

Other income totaled $8.4 million in 1998, compared with a loss of $1.6 million in 1997 and a loss of $11.5 million in 1996. The increase in other income for 1998 was primarily the result of $12.2 million in pre-tax gains from the sales of real estate and the 1997 pre-tax writedown of $10 million related to a real estate property. The increase in other income during 1998 was partially offset by pre-tax equity losses of $11.4 million related to PCI's 50% equity investment in Starpower and the write-off of $3.2 million pre-tax ($2.1 million after-tax) of PCI's remaining investment in oil and natural gas. Other income increased in 1997 over 1996 as a result of pre-tax writedowns of $29 million ($18.8 million after-tax) recorded in 1996 related to PCI's investments in solar energy projects, real estate and oil and natural gas, compared to a pre-tax writedown of $10 million ($6.5 million after-tax) recorded in 1997 related to a real estate property.

Expenses before income taxes, which include interest, depreciation, operating and other expenses totaled $137.1 million, $139.8 million and $159.3 million for the years ended 1998, 1997 and 1996, respectively. The decreases in expenses before income taxes in 1998 compared to 1997 and 1996 were primarily due to decreased interest expense over the three-year period as a result of reduced debt outstanding, as proceeds from sales of aircraft, marketable securities and other investments were used to pay down debt. The decreases in expenses before income taxes over the last two years were also due to reductions in depreciation resulting from the sales of aircraft.

PCI had income tax credits of $8.7 million in 1998, $31.8 million in 1997 and $54.6 million in 1996. As a result of joint venture operations and other activity, including the finalization in 1998 of the Internal Revenue Service's examinations through the 1995 tax year, PCI's obligation for previously accrued

deferred taxes was reduced, resulting in a net reduction in income tax expense during the years ended December 31, 1998, December 31, 1997, and December 31, 1996, of $1.5 million, $13.3 million and $34.9 million, respectively.

Year 2000 Readiness Disclosure

In connection with Year 2000 compliance efforts, a PCI representative is a member of the Corporate Year 2000 Task Force. PCI is following the utility's approach, as discussed previously, for monitoring its in-house systems, and PCI's systems have been included in the overall Year 2000 Corporate Data Base. All PCI in-house business systems remain on schedule to become Year 2000 compliant by June 30, 1999. Costs for these remediation efforts are currently estimated at less than $50,000. In addition, PCI is addressing potential Year 2000 issues with the operations of businesses in which PCI has investment or operating interests. The Corporate Year 2000 Task Force will be assisting PCI with its examination and monitoring of Year 2000 issues involving these strategic business interests. Issues include ascertaining responsibility for and monitoring progress of any Year 2000 remediation efforts required for investment-based business and embedded systems. Plans and progress reports have been received for most such systems. Due to the significant nature of PCI's planned investment in Starpower, PCI has instituted a Starpower specific Year 2000 Program. Starpower receives significant support services from RCN, which completed development of its formal Year 2000 Plan in November 1998. PCI is working with Starpower and RCN toward readiness of RCN-supplied support systems, and other Starpower systems and operations with Year 2000 requirements. A contingency plan is being developed in the event that remediation efforts are not successfully completed in a timely fashion. The cost or consequences of a material incomplete or untimely resolution of the Year 2000 problem could adversely affect PCI's future operations, financial results or financial condition.

CAPITAL RESOURCES AND LIQUIDITY

PCI has the capital resources necessary to carry out its business plans. PCI will supply or arrange for the capital resources needed to support the business activities of its growing operating business units. PCI issues short-term and medium-term notes under its own, separately rated commercial paper and Medium-Term Note programs. PCI's $231.1 million securities portfolio, consisting primarily of fixed-rate electric utility preferred stocks provides additional liquidity and investment flexibility. During 1998, PCI reduced the cost basis of its marketable securities portfolio by $73.4 million, primarily as the result of calls and acceptance of tender offers of

approximately $74.4 million, offset by purchases of $1 million. The reduced size of the preferred stock portfolio lessens the impact of future fluctuations in interest rates. Proceeds from securities activity and sales of assets during 1998 were used to pay down debt.

PCI had no short-term debt outstanding at December 31, 1998, compared to $7.7 million at December 31, 1997. During 1998, PCI issued $220.2 million in long-term debt, including non-recourse debt, and debt payments totaled $333.7 million. PCI had cash and cash equivalents of $79.6 million available at December 31, 1998, in order to satisfy debt service requirements in early 1999. At December 31, 1998, PCI had $503 million available under its Medium-Term Note Program and $400 million of unused bank credit lines.

Report of Independent Accountants

To the Shareholders and
Board of Directors of
Potomac Electric Power Company

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of earnings and comprehensive income, and of cash flows present fairly, in all material respects, the financial position of Potomac Electric Power Company and its subsidiaries at 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 the Company'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
Washington, D.C.
January 25, 1999

<TABLE>
Consolidated Balance Sheets
Potomac Electric Power Company and Subsidiaries
<CAPTION>

Assets	December 31, 1998	1997
	(Millions of Dollars)	
<S>	<C>	<C>
Property and Plant - at original cost (Notes 6 and 10)		
Electric plant in service	$ 6,539.9	$ 6,392.8
Construction work in progress	73.2	94.3
Electric plant held for future use	4.3	4.2
Nonoperating property	40.4	22.8
	6,657.8	6,514.1
Accumulated depreciation	(2,136.6)	(2,027.8)
Net Property and Plant	4,521.2	4,486.3
Current Assets		
Cash and cash equivalents	6.4	5.6
Customer accounts receivable, less allowance for uncollectible accounts of $2.4 and $2.1	114.9	116.6
Other accounts receivable, less allowance for uncollectible accounts of $.3	44.8	32.3
Accrued unbilled revenue (Note 1)	65.6	69.3
Prepaid taxes	34.7	33.7
Other prepaid expenses	3.3	7.6
Material and supplies - at average cost		
Fuel	53.3	59.4
Construction and maintenance	68.7	68.1
Total Current Assets	391.7	392.6
Deferred Charges		
Income taxes recoverable through future rates, net (Note 4)	232.5	238.1
Conservation costs, net	197.5	221.5
Unamortized debt reacquisition costs	49.9	52.7
Other	175.6	149.0
Total Deferred Charges	655.5	661.3
Nonutility Subsidiary Assets (Note 14)		
Cash and cash equivalents	79.6	0.4
Marketable securities (Note 11)	231.1	302.5
Investment in finance leases	399.2	463.6
Operating lease equipment, net of accumulated depreciation of $120.1 and $153.5	122.6	163.3
Receivables, less allowance for uncollectible accounts of $5.0 and $6.0	48.4	64.2
Other investments	120.6	162.9
Other assets	23.1	10.5
Deferred income taxes (Note 4)	61.8	-
Total Nonutility Subsidiary Assets	1,086.4	1,167.4
Total Assets	$ 6,654.8	$ 6,707.6

</TABLE>

<TABLE>
<CAPTION>

Capitalization and Liabilities	December 31, 1998	1997
	(Millions of Dollars)	
<S>	<C>	<C>
Capitalization		
Common equity (Note 7)		
Common stock, $1 par value - authorized 200,000,000 shares, issued 118,527,287 and 118,500,891 shares	$ 118.5	$ 118.5
Premium on stock and other capital contributions	1,025.3	1,025.2
Capital stock expense	(13.7)	(15.0)
Accumulated other comprehensive income	7.8	6.5
Retained income	739.5	727.8
Total Common Equity	1,877.4	1,863.0
Preference stock, cumulative, $25 par value - authorized 8,800,000 shares, no shares issued or outstanding	-	-
Serial preferred stock (Notes 8 and 11)	100.0	125.3
Redeemable serial preferred stock (Notes 9 and 11)	50.0	141.0
Company obligated mandatorily redeemable preferred securities of subsidiary trust which holds solely parent junior subordinated debentures (Notes 9 and 11)	125.0	-
Long-term debt (Notes 10 and 11)	1,859.0	1,901.5
Total Capitalization	4,011.4	4,030.8
Other Non-Current Liabilities		
Capital lease obligations (Note 13)	157.6	160.4
Current Liabilities		
Long-term debt and preferred stock redemption	45.2	52.1
Short-term debt (Note 12)	191.7	131.4
Accounts payable and accrued payroll	104.5	118.4
Capital lease obligations due within one year	20.8	20.8
Taxes accrued	50.7	29.2
Interest accrued	38.0	38.3
Customer deposits	26.9	24.8
Other	68.9	67.4
Total Current Liabilities	546.7	482.4
Deferred Credits		
Income taxes (Note 4)	1,049.2	1,029.3
Investment tax credits (Note 4)	53.7	57.3
Other	24.6	19.1
Total Deferred Credits	1,127.5	1,105.7
Nonutility Subsidiary Liabilities		
Long-term debt (Notes 10 and 11)	716.9	830.5
Short-term notes payable (Note 12)	-	7.7
Deferred taxes and other (Note 4)	94.7	90.1
Total Nonutility Subsidiary Liabilities	811.6	928.3
Commitments and Contingencies (Note 13)		
Total Capitalization and Liabilities	$ 6,654.8	$ 6,707.6

</TABLE>

<TABLE>
Consolidated Statements of Earnings
Potomac Electric Power Company and Subsidiaries
<CAPTION>

	For the year ended December 31, 1998	1997	1996

<S>	<C>	<C>	<C>
	(Millions of Dollars, except Per Share Data)		
Revenue (Note 2)			
Operating revenue	$ 1,886.1	$ 1,810.8	$ 1,834.8
Interchange deliveries	177.8	52.7	175.5
Total Revenue	2,063.9	1,863.5	2,010.3
Operating Expenses			
Fuel	380.2	319.6	327.8
Purchased energy	269.8	200.6	336.0
Capacity purchase payments (Note 13)	155.7	150.9	125.8
Other operation	237.7	220.3	223.3
Maintenance	91.5	95.3	91.5
Total Operation and Maintenance	1,134.9	986.7	1,104.4
Depreciation and amortization	239.8	232.0	223.0
Income taxes (Note 4)	130.5	117.7	134.1
Other taxes (Note 5)	204.4	201.7	200.4
Total Operating Expenses	1,709.6	1,538.1	1,661.9
Operating Income	354.3	325.4	348.4
Other Income (Loss)			
Nonutility subsidiary (Note 14)			
Income	143.5	125.1	121.6
Expenses, including interest and income taxes	(128.4)	(108.0)	(104.7)
Net earnings from nonutility subsidiary	15.1	17.1	16.9
Allowance for other funds used during construction and capital cost recovery factor	1.3	6.7	6.6
Write-off of merger costs (Note 13)	-	(52.5)	-
Other, net	3.2	24.0	4.5
Total Other Income (Loss)	19.6	(4.7)	28.0
Income Before Utility Interest Charges	373.9	320.7	376.4
Utility Interest Charges			
Interest on debt	146.1	146.7	146.9
Distributions on preferred securities of subsidiary company (Note 9)	5.7	-	-
Allowance for borrowed funds used during construction and capital cost recovery factor	(4.2)	(7.8)	(7.5)
Net Utility Interest Charges	147.6	138.9	139.4
Net Income	226.3	181.8	237.0
Dividends on Preferred Stock (Notes 8 and 9)	11.4	16.5	16.6
Redemption Premium on Preferred Stock	6.6	-	-
Earnings for Common Stock	$ 208.3	$ 165.3	$ 220.4
Basic Earnings Per Common Share (Note 7)	$1.76	$1.39	$1.86
Diluted Earnings Per Common Share (Note 7)	$1.73	$1.38	$1.82
Cash Dividends Per Common Share	$1.66	$1.66	$1.66

</TABLE>

<TABLE>
Consolidated Statements of Cash Flows
Potomac Electric Power Company and Subsidiaries
<CAPTION>

	For the year ended December 31,		
	1998	1997	1996
	(Millions of Dollars)		

<S>	<C>	<C>	<C>
Operating Activities			
Income from utility operations	$ 211.2	$ 164.7	$ 220.1
Adjustments to reconcile income to net cash from operating activities:			
Depreciation and amortization	239.8	232.0	223.0
Deferred income taxes and investment tax credits	23.1	60.5	81.5
Deferred conservation costs	(24.3)	(34.5)	(49.4)
Allowance for funds used during construction and capital cost recovery factor	(5.5)	(14.5)	(14.1)
Changes in materials and supplies	5.6	10.2	(4.1)
Changes in accounts receivable and accrued unbilled revenue	(7.3)	19.2	10.5
Changes in accounts payable	(12.6)	6.4	13.6
Changes in other current assets and liabilities	25.8	(2.5)	5.9
Changes in deferred merger costs	-	29.0	(24.2)
Net other operating activities	(28.9)	(54.7)	(24.4)
Nonutility subsidiary:			
Net earnings	15.1	17.1	16.9
Deferred income taxes	(62.7)	(63.8)	(36.4)
Changes in other assets and net other operating activities	37.9	65.7	49.0
Net Cash From Operating Activities	417.2	434.8	467.9
Investing Activities			
Total investment in property and plant	(211.7)	(231.7)	(194.0)
Allowance for funds used during construction and capital cost recovery factor	5.5	14.5	14.1
Net investment in property and plant	(206.2)	(217.2)	(179.9)
Nonutility subsidiary:			
Purchase of marketable securities	(1.0)	(35.1)	(19.7)
Proceeds from sale or redemption of marketable securities	76.6	125.0	167.5
Investment in leased equipment	-	(7.5)	(3.1)
Proceeds from sale or disposition of leased equipment	105.9	28.5	3.7
Proceeds from sale of assets	-	7.3	34.2
Purchase of other investments	(25.0)	(20.6)	(23.0)
Proceeds from sale or distribution of other investments	34.3	18.7	33.9
Proceeds from promissory notes, net	-	64.1	12.4
Net Cash (Used by) From Investing Activities	(15.4)	(36.8)	26.0
Financing Activities			
Dividends on common stock	(196.6)	(196.7)	(196.6)
Dividends on preferred stock	(11.4)	(16.5)	(16.6)
Redemption of preferred stock	(123.7)	(1.5)	-
Issuance of manditorily redeemable preferred securities	125.0	-	-
Issuance of long-term debt	-	182.3	99.5
Reacquisition and retirement of long-term debt	(51.1)	(151.5)	(26.3)
Short-term debt, net	60.3	-	(127.1)
Other financing activities	(3.1)	(1.3)	(5.4)
Nonutility subsidiary:			
Issuance of long-term debt	220.2	40.0	183.0
Repayment of long-term debt	(333.7)	(205.8)	(237.1)
Short-term debt, net	(7.7)	(44.0)	(171.7)
Net Cash Used by Financing Activities	(321.8)	(395.0)	(498.3)
Net Increase (Decrease) In Cash and Cash Equivalents	80.0	3.0	(4.4)
Cash and Cash Equivalents at Beginning of Year	6.0	3.0	7.4
Cash and Cash Equivalents at End of Year	$ 86.0	$ 6.0	$ 3.0
Cash paid for interest (net of capitalized interest of $.7, $.5 and $.6) and income taxes:			
Interest (including nonutility subsidiary interest of $58.4, $71.5 and $83.4)	$ 198.6	$ 202.8	$ 217.0
Income taxes (including nonutility subsidiary)	$ 68.9	$ 53.1	$ 28.6

</TABLE>

<TABLE>
Consolidated Statements of Comprehensive Income
Potomac Electric Power Company and Subsidiaries
<CAPTION>

	For the year ended December 31,		
	1998	1997	1996

	(Millions of Dollars)		
<S>	<C>	<C>	<C>
Net Income	$ 226.3	$ 181.8	$ 237.0
Other Comprehensive Income (Loss):			
Unrealized gain (loss) on marketable securities	5.4	18.9	(3.3)
Less: Reclassification adjustment for gain included in net income	3.4	10.6	5.6
Other Comprehensive Income (Loss), Before Tax	2.0	8.3	(8.9)
Income Tax Expense (Benefit)	0.7	2.9	(3.1)
Total Other Comprehensive Income (Loss), Net of Tax	1.3	5.4	(5.8)
Total Comprehensive Income	$ 227.6	$ 187.2	$ 231.2

</TABLE>

Notes to Consolidated Financial Statements

(1) Organization and Summary of Significant Accounting Policies

Potomac Electric Power Company (the Company) is engaged in the generation, transmission, distribution and sale of electric energy in the Washington, D.C. metropolitan area. The Company's retail service territory includes all of the District of Columbia and major portions of Montgomery and Prince George's counties in suburban Maryland. In addition, the Company supplies electricity, at wholesale, under a full-requirements agreement with Southern Maryland Electric Cooperative, Inc. (SMECO). See Note (13) Commitments and Contingencies for a further discussion. The Company also delivers economy energy to the Pennsylvania-New Jersey-Maryland Interconnection LLC (PJM) of which the Company is a member. PJM is composed of more than 100 electric utilities, independent power producers, power marketers, cooperatives and municipals that operate on a fully integrated basis.

Potomac Capital Investment Corporation (PCI), a wholly owned subsidiary of the Company, was formed in 1983 to provide a vehicle to conduct the Company's ongoing nonutility investment programs and operating businesses. During 1998, PCI's principal new business activity has been the development and expansion of operating businesses in the competitive markets for energy and telecommunications products and services. PCI's principal financial investments are in aircraft and power generation equipment, equipment leasing and marketable securities, primarily preferred stock with mandatory redemption features. In addition, PCI has investments in real estate properties in the Washington, D.C. metropolitan area.

Potomac Electric Power Company Trust I (Trust), a Delaware statutory business trust and a wholly owned subsidiary of the Company, was established in April 1998. The Trust exists for the exclusive purposes of (i) issuing Trust securities representing undivided beneficial interests in the assets of the Trust, (ii) investing the gross proceeds from the sale of the Trust Securities in Junior Subordinated Deferrable Interest Debentures issued by the Company, and (iii) engaging only in other activities as necessary or incidental to the foregoing. See Note (9) Redeemable Serial Preferred Stock and Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust for a further discussion.

The Company's utility operations are regulated by the Maryland and District of Columbia public service commissions and its wholesale business by the Federal Energy Regulatory Commission (FERC). The Company complies with the Uniform System of Accounts prescribed by the FERC and adopted by the Maryland and District of Columbia regulatory commissions.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make 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 revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Certain prior year amounts have been reclassified to conform to the current year presentation.

A summary of the Company's significant accounting policies is as follows.

Principles of Consolidation

The consolidated financial statements include the financial results of the Company and its wholly owned subsidiaries. All material intercompany balances and transactions have been eliminated.

Total Revenue

Revenue is accrued for service rendered but unbilled as of the end of each month. The Company includes in revenue the amounts received for sales of energy, and resales of purchased energy, to other utilities and to power marketers. Amounts received for such interchange deliveries are a component of the Company's fuel rates.

In each jurisdiction, the Company's rate schedules include fuel rates. The fuel rate provisions are designed to provide for separately stated fuel billings which cover applicable net fuel and interchange costs, purchased capacity in the District of Columbia, and emission allowance costs in the Company's retail jurisdictions, or changes in the applicable costs from levels incorporated in base rates. Differences between applicable net costs incurred and fuel rate revenue billed in any given period are accounted for as other current assets or other current liabilities in those cases where specific provision has been made by the appropriate regulatory commission for the resolution of such differences within one year. Where no such provision has been made, the differences are accounted for as other deferred charges or other deferred credits pending regulatory determination.

Leasing Transactions

Income from PCI investments in direct finance and leveraged lease transactions, in which PCI is an equity participant, is reported using the financing method. In accordance with the financing method, investments in leased property are recorded as a receivable from the lessee to be recovered through the collection of future rentals. For direct finance leases, unearned income is amortized to income over the lease term at a constant rate of return on the net investment. Income, including investment tax credits on leveraged equipment leases, is recognized over the life of the lease at a level rate of return on the positive net investment.

PCI investments in equipment under operating leases are stated at cost less accumulated depreciation. Depreciation is recorded on a straight line basis over the equipment's estimated useful life.

Property and Plant

The cost of additions to, and replacements or betterments of, retirement units of property and plant is capitalized. Such cost includes material, labor, the capitalization of an Allowance for Funds Used During Construction (AFUDC) and applicable indirect costs, including engineering, supervision, payroll taxes and employee benefits. The original cost of depreciable units of

plant retired, together with the cost of removal, net of salvage, is charged to accumulated depreciation. Routine repairs and maintenance are charged to operating expenses as incurred.

The Company uses separate depreciation rates for each electric plant account. The rates, which vary from jurisdiction to jurisdiction, were equivalent to a system-wide composite depreciation rate of approximately 3.1% for 1998, 1997 and 1996.

Conservation

In general, the Company accounts for conservation expenditures in connection with its DSM program as a deferred charge. These program costs are amortized as they are included in rates charged to customers.

In the District of Columbia, these costs are amortized over 10 years with an accrued return on unamortized costs. In Maryland, program costs have been amortized over a five-year period. Future DSM expenditures in Maryland will be recovered over progressively shorter periods so that all expenditures will be fully recovered by December 31, 2002. Unamortized

conservation costs totaled $59.8 million in Maryland and $137.7 million in the District of Columbia at December 31, 1998, and $81.9 million in Maryland and $139.6 million in the District of Columbia at December 31, 1997.

Allowance for Funds Used During Construction and Capital Cost Recovery Factor

In general, the Company capitalizes AFUDC with respect to investments in Construction Work in Progress, with the exception of expenditures required to comply with federal, state or local environmental regulations (pollution control projects), which are included in rate base without capitalization of AFUDC. The jurisdictional AFUDC capitalization rates are determined as prescribed by the FERC. The effective capitalization rates were approximately 7.5% in 1998, 7.6% in 1997 and 7.4% in 1996, compounded semiannually.

In Maryland, the Company accrues a CCRF on the retail jurisdictional portion of certain pollution control expenditures related to compliance with the CAA. The base for calculating this return is the amount by which the Maryland jurisdictional CAA expenditure balance exceeds the CAA balance being recovered in base rates. The CCRF rate for Maryland is 8.8%. In the District of Columbia, the carrying costs of CAA expenditures not in rate base are recovered through a base rate surcharge.

Amortization of Debt Issuance and Reacquisition Costs

The Company defers and amortizes expenses incurred in connection with the issuance of long-term debt, including premiums and discounts associated with such debt, over the lives of the respective issues. Costs associated with the reacquisition of debt are also deferred and amortized over the lives of the new issues.

Nonutility Subsidiary Receivables

PCI continuously monitors its receivables and establishes an allowance for doubtful accounts against its notes receivable, when deemed appropriate, on a specific identification basis. The direct write-off method is used when trade receivables are deemed uncollectible.

Cash and Cash Equivalents

For purposes of the consolidated financial statements, cash and cash equivalents include cash on hand, money market funds and commercial paper with original maturities of three months or less.

New Accounting Standards

In 1998, the Company implemented Statement of Financial Accounting Standards (SFAS) No. 130 entitled "Reporting Comprehensive Income," SFAS No. 131 entitled "Disclosures about Segments of an Enterprise and Related Information," and SFAS No. 132 entitled "Employers Disclosures about Pensions and Other Postretirement Benefits."

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133 entitled, "Accounting for Derivative Instruments and Hedging Activities," which is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. The statement establishes accounting and reporting standards for derivative instruments and for hedging activities. Additionally, the Emerging Issues Task Force has issued Issue 98-10 "Accounting for Energy Trading and Risk Management Activities." Presently, the Company's use of derivatives and hedging activities is not significant. The Company believes that the adoption of SFAS No. 133 will not have a material impact on the Company's financial position or results of operations.

In March 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position (SOP) 98-1 entitled "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." This pronouncement will become effective January 1, 1999. The Company does not believe that the SOP will have a material impact on the Company's financial position or results of operations.

(2) Total Revenue

Total revenue for each year ended December 31, was comprised as shown below.

	1998		1997		1996	
	Amount	%	Amount	%	Amount	%
	(Millions of Dollars)					
Sales of Electricity						
Residential	$ 566.8	30.3	$ 524.7	29.2	$ 548.1	30.1
Commercial	876.7	46.8	851.4	47.3	852.5	46.7
U.S. Government	253.5	13.5	249.3	13.9	250.4	13.7
D.C. Government	51.5	2.8	51.1	2.8	51.6	2.8
Wholesale (primarily SMECO)	124.2	6.6	123.3	6.8	122.2	6.7
Total	1,872.7	100.0	1,799.8	100.0	1,824.8	100.0
Other electric revenue	13.4		11.0		10.0	
Operating revenue	1,886.1		1,810.8		1,834.8	
Interchange deliveries	177.8		52.7		175.5	
Total Revenue	$2,063.9		$1,863.5		$2,010.3	

Sales of electricity include base rate revenue and fuel rate revenue. Fuel rate revenue was $518.1 million in 1998, $509.1 million in 1997 and $521.9 million in 1996.

The Company's Maryland fuel rate is based on historical net fuel, interchange and emission allowance costs and does not

include capacity costs associated with power purchases. The zero-based rate may not be changed without prior approval of the Maryland Public Service Commission. Application to the Commission for an increase in the rate may only be made when the currently calculated fuel rate, based on the most recent actual

net fuel, interchange and emission allowance costs, exceeds the currently effective fuel rate by more than 5%. If the currently calculated fuel rate is more than 5% below the currently effective fuel rate, the Company must apply to the Commission for a fuel rate reduction.

The District of Columbia fuel rate is based upon an average of historical and projected net fuel, net interchange, emission allowance costs and purchased capacity net of capacity sales, and is adjusted monthly to reflect changes in such costs.

Interchange deliveries include transactions in the bilateral energy sales marketplace, where the Company's wholesale power sales tariff allows both sales from Company-owned generation and sales of energy purchased by the Company from other market participants. The benefits derived from interchange deliveries are passed back to customers as a component of the Company's fuel rates.

(3) Pensions and Other Postretirement and Postemployment Benefits

The Company's General Retirement Program (Program), a noncontributory defined benefit program, covers substantially all full-time employees of the Company and PCI. The Program provides for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Company and their compensation rates for the three years preceding retirement. Annual provisions for accrued pension cost are based upon independent actuarial valuations. The Company's policy is to fund accrued pension costs.

In addition to providing pension benefits, the Company provides certain health care and life insurance benefits for retired employees and inactive employees covered by disability plans. Health maintenance organization arrangements are available, or a health care plan pays stated percentages of most necessary medical expenses incurred by these employees, after subtracting payments by Medicare or other providers and after a stated deductible has been met. The life insurance plan pays benefits based on base salary at the time of retirement and age at the date of death. Participants become eligible for the benefits of these plans if they retire under the provisions of the Company's Program with 10 years of service or become inactive employees under the Company's disability plans. The Company is amortizing the unrecognized transition obligation measured at January 1, 1993, over a 20-year period.

Pension expense included in net income was $9.3 million in 1998, $11.6 million in 1997 and $14.2 million in 1996. Postretirement benefit expense included in net income was $12.6 million, $11.1 million and $10.9 million in 1998, 1997 and 1996, respectively. The components of net periodic benefit cost were computed as follows.

	Pension Benefits		
	1998	1997	1996
	(Millions of Dollars)		
Components of net periodic benefit cost			
Service cost	$13.0	$ 11.4	$ 11.4
Interest cost	33.9	32.4	30.6
Expected return on plan assets	(41.2)	(35.8)	(31.7)
Amortization of prior service cost	1.4	1.4	1.4

Recognized actuarial loss	2.2	2.2	2.5
Net period benefit cost	$ 9.3	$ 11.6	$ 14.2

	Other Benefits		
	1998	1997	1996
	(Millions of Dollars)		
Components of net periodic benefit cost			
Service cost	$ 4.0	$ 3.6	$ 2.8
Interest cost	5.8	5.3	5.3
Expected return on plan assets	(1.5)	(1.4)	(1.0)
Recognized actuarial loss	4.3	3.6	3.8
Net period benefit cost	$ 12.6	$ 11.1	$ 10.9

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. The assumed health care cost trend rate used to measure the expected cost benefits covered by the plan is 6.5%. This rate is expected to decline to 5.5% over the next two-year period. A one percentage point change in the assumed health care cost trend rates would have the following effects for fiscal year 1998.

	1-Percentage-Point Increase	1-Percentage-Point Decrease
	(Millions of Dollars)	
Effect on total of service and interest cost components	$ .8	$ (.7)
Effect on postretirement benefit obligation	$5.0	$(4.4)

Pension program assets are stated at fair value and were composed of approximately 43% and 47% of cash equivalents and fixed income investments and the balance in equity investments at December 31, 1998 and 1997, respectively.

The following table sets forth the Program's funded status and amounts included in Deferred Charges - Other on the Consolidated Balance Sheets.

	Pension Benefits	
	1998	1997
	(Millions of Dollars)	
Funded status	$(31.4)	$(26.8)
Unrecognized actuarial loss	95.1	77.7
Unrecognized prior service cost	12.1	13.5
Prepaid benefit cost	$ 75.8	$ 64.4
Weighted average assumptions as of December 31		
Discount rate	6.5%	7.0%
Expected return on plan assets	9.0%	9.0%
Rate of compensation increase	3.75%	4.0%

	Other Benefits	
	1998	1997
	(Millions of Dollars)	
Funded status	$(77.8)	$(68.4)
Unrecognized actuarial loss	44.2	36.7
Unrecognized prior service cost	29.5	31.6
Accrued benefit cost	$ (4.1)	$ (.1)
Weighted average assumptions as of December 31		
Discount rate	6.5%	7.0%
Expected return on plan assets	9.0%	9.0%
Rate of compensation increase	3.75%	4.0%

The changes in benefit obligation and fair value of plan assets are presented in the following table.

	Pension Benefits	
	1998	1997
	(Millions of Dollars)	
Change in benefit obligation		
Benefit obligation at beginning of year	$ 495.6	$ 438.1
Service cost	13.0	11.4
Interest cost	33.9	32.4
Actuarial loss	25.1	39.1
Benefits paid	(26.0)	(25.4)
Benefit obligation at end of year	$ 541.6	$ 495.6
Accumulated benefit obligation at December 31	$ 467.4	$ 413.5
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	$ 468.8	$ 402.5
Actual return on plan assets	49.1	64.2
Company contributions	20.0	27.5
Benefits paid	(27.7)	(25.4)
Fair value of plan assets at end of year	$ 510.2	$ 468.8

	Other Benefits	
	1998	1997
	(Millions of Dollars)	
Change in benefit obligation		
Benefit obligation at beginning of year	$ 82.0	$ 73.1
Service cost	4.0	3.6
Interest cost	5.8	5.3
Actuarial loss	7.9	5.4
Benefits paid	(6.3)	(5.4)
Benefit obligation at end of year	$ 93.4	$ 82.0

Change in fair value of plan assets		
Fair value of plan assets at beginning of year	$ 13.6	$ 9.8
Actual return on plan assets	1.7	2.7
Company contributions	4.7	3.6
Benefits paid	(4.4)	(2.5)
Fair value of plan assets at end of year	$ 15.6	$ 13.6

The Company also sponsors defined contribution savings plans covering all eligible employees. Under these plans, the Company makes contributions on behalf of participants. Company contributions to the plans totaled $5.8 million in 1998 and $6 million in 1997 and 1996.

In January 1998 and 1997, the Company funded the 1998 and 1997 portions of its estimated liability for postretirement medical and life insurance costs through the use of an Internal Revenue Code (IRC) 401 (h) account, within the Company's pension plan, and an IRC 501 (c)(9) Voluntary Employee Beneficiary Association (VEBA). The Company plans to fund the 401(h) account and the VEBA annually. In January 1999, the 1999 portion of the Company's estimated liability will be funded. Assets were composed of cash equivalents, fixed income investments and equity investments.

<TABLE>
(4) Income Taxes

The provisions for income taxes, reconciliation of consolidated income tax expense and components of consolidated deferred tax liabilities (assets) are set forth below.

<CAPTION>
Provisions for Income Taxes

	1998	1997	1996
	(Millions of Dollars)		
<S>	<C>	<C>	<C>
Utility current tax expense			
Federal	$ 95.8	$ 32.2	$ 47.2
State and local	12.1	4.7	6.3
Total utility current tax expense	107.9	36.9	53.5
Utility deferred tax expense			
Federal	22.4	56.3	74.7
State and local	4.3	7.9	10.4
Investment tax credits	(3.6)	(3.6)	(3.6)
Total utility deferred tax expense	23.1	60.6	81.5
Total utility income tax expense	131.0	97.5	135.0
Nonutility subsidiary current tax expense			
Federal	15.4	30.4	(18.2)
Nonutility subsidiary deferred tax expense			
Federal	(24.1)	(62.3)	(36.4)
Total nonutility subsidiary income tax expense	(8.7)	(31.9)	(54.6)
Total consolidated income tax expense	122.3	65.6	80.4
Income taxes included in other income	(8.2)	(52.1)	(53.7)

Income taxes included in utility operating expenses	$ 130.5	$ 117.7	$ 134.1

</TABLE>

<TABLE>
<CAPTION>
Reconciliation of Consolidated Income Tax Expense

	1998	1997	1996
	(Millions of Dollars)		
<S>	<C>	<C>	<C>
Income before income taxes	$ 348.6	$ 247.4	$ 317.4
Utility income tax at federal statutory rate	$ 119.8	$ 91.8	$ 124.3
Increases (decreases) resulting from			
Depreciation	10.9	10.9	9.9
Removal costs	(6.0)	(5.9)	(3.6)
Allowance for funds used during construction	0.5	0.9	0.7
Other	(0.9)	(4.5)	(3.1)
State income taxes, net of federal effect	10.7	8.2	10.7
Tax credits	(4.0)	(3.9)	(3.9)
Total utility income tax expense	131.0	97.5	135.0
Nonutility subsidiary income tax at federal statutory rate	2.2	(5.2)	(13.2)
Increases (decreases) resulting from			
Dividends received deduction	(4.4)	(5.4)	(7.1)
Reversal of previously accrued deferred taxes	(1.0)	(10.1)	(30.8)
Other	(5.5)	(11.2)	(3.5)
Total nonutility subsidiary income tax expense	(8.7)	(31.9)	(54.6)
Total consolidated income tax expense	122.3	65.6	80.4
Income taxes included in other income	(8.2)	(52.1)	(53.7)
Income taxes included in utility operating expenses	$ 130.5	$ 117.7	$ 134.1

</TABLE>

<TABLE>
<CAPTION>
Components of Consolidated Deferred Tax Liabilities (Assets)

	At December 31,	
	1998	1997
	(Millions of Dollars)	
<S>	<C>	<C>
Utility deferred tax liabilities (assets)		
Depreciation and other book to tax basis differences	$ 891.6	$ 869.3
Rapid amortization of certified pollution control facilities	27.2	25.4
Deferred taxes on amounts to be collected through future rates	88.0	90.2
Property taxes	12.9	13.5
Deferred fuel	(9.7)	(7.4)
Prepayment premium on debt retirement	18.9	20.0
Deferred investment tax credit	(20.3)	(21.7)
Contributions in aid of construction	(32.0)	(30.1)
Contributions to pension plan	22.1	18.2
Conservation costs (demand side management)	49.4	48.0
Other	19.7	21.8
Total utility deferred tax liabilities, net	1,067.8	1,047.2

Current portion of utility deferred tax liabilities (included in Other Current Liabilities)	18.6	17.9
Total utility deferred tax liabilities, net - non-current	$1,049.2	$1,029.3
Nonutility subsidiary deferred tax (assets) liabilities		
Finance leases	$ 134.3	$ 119.4
Operating leases	5.0	28.8
Alternative minimum tax	(79.9)	(97.1)
Assets with a tax basis greater than book basis	(46.0)	-
Other	(75.2)	(50.9)
Total nonutility subsidiary deferred tax (assets) liabilities, net	$ (61.8)	$ 0.2

</TABLE>

The utility net deferred tax liability represents the tax effect, at presently enacted tax rates, of temporary differences between the financial statement and tax bases of assets and liabilities. The portion of the utility net deferred tax liability applicable to utility operations, which has not been reflected in current service rates, represents income taxes recoverable through future rates, net and is recorded as a Deferred Charge on the balance sheet. No valuation allowance for deferred tax assets was required or recorded at December 31, 1998 and 1997.

The Tax Reform Act of 1986 repealed the Investment Tax Credit (ITC) for property placed in service after December 31, 1985, except for certain transition property. ITC previously earned on utility property continues to be normalized over the remaining service lives of the related assets.

The Company and PCI file a consolidated federal income tax return. The Company's federal income tax liabilities for all years through 1995 have been finally determined. The Company is of the opinion that the final settlement of its federal income tax liabilities for subsequent years will not have a material adverse effect on its financial position or results of operation.

(5) Other Taxes

Taxes, other than income taxes, charged to utility operating expenses for each period are shown below.

	1998	1997	1996
	(Millions of Dollars)		
Gross receipts	$ 98.4	$ 95.8	$ 96.1
Property	71.0	71.4	69.2
Payroll	10.9	10.5	10.7
County fuel-energy	15.8	15.4	15.4
Environmental, use and other	8.3	8.6	9.0
	$204.4	$201.7	$200.4

(6) Jointly Owned Generating Facilities

The Company owns a 9.72% undivided interest in the Conemaugh Generating Station located near Johnstown, Pennsylvania, consisting of two baseload units totaling 1,700 megawatts. The

Company and other utilities own the station as tenants in common and share costs and output in proportion to their ownership shares. Each owner has arranged its own financing relating to its share of the facility. In 1997, the owners collectively arranged for long-term tax-exempt financing, pursuant to an agreement with the Indiana County Industrial Development Authority relating to certain pollution control facilities constructed at the Conemaugh Station. The Company's share of this financing totaled $8.1 million. The Company's share of the operating expenses of the station is included in the Consolidated Statements of Earnings. The Company's investment in the Conemaugh facility of $90.6 million at December 31, 1998, and $89.9 million at December 31, 1997, includes $.3 million of Construction Work in Progress.

<TABLE>
(7) Common Equity

Changes in common stock, premium on stock, accumulated other comprehensive income and retained income are summarized below.
<CAPTION>

	Common Stock Shares	Common Stock Par Value	Premium on Stock	Accumulated Other Comprehensive Income <F1>	Retained Income
<S>	<C>	<C>	<C>	<C>	<C>
		(Millions of Dollars)			
Balance, December 31, 1995	118,494,577	$ 118.5	$ 1,025.1	$ 6.9	$ 735.4
Net income before net earnings from nonutility subsidiary	-	-	-	-	220.1
Nonutility subsidiary:					
Net earnings	-	-	-	-	16.9
Other comprehensive loss	-	-	-	(5.8)	-
Dividends:					
Preferred stock	-	-	-	-	(16.6)
Common stock	-	-	-	-	(196.6)
Conversion of preferred stock	3,239	-	-	-	-
Conversion of debentures	2,221	-	0.1	-	-
Balance, December 31, 1996	118,500,037	118.5	1,025.2	1.1	759.2
Net income before net earnings from nonutility subsidiary	-	-	-	-	164.7
Nonutility subsidiary:					
Net earnings	-	-	-	-	17.1
Other comprehensive income	-	-	-	5.4	-
Dividends:					
Preferred stock	-	-	-	-	(16.5)
Common stock	-	-	-	-	(196.7)
Conversion of preferred stock	854	-	-	-	-
Balance, December 31, 1997	118,500,891	118.5	1,025.2	6.5	727.8
Net income before net earnings from nonutility subsidiary	-	-	-	-	211.2
Nonutility subsidiary:					
Net earnings	-	-	-	-	15.1
Other comprehensive income	-	-	-	1.3	-
Dividends:					
Preferred stock	-	-	-	-	(11.4)
Common stock	-	-	-	-	(196.6)
Conversion of preferred stock	26,396	-	0.1	-	-
Redemption premium on preferred stock	-	-	-	-	(6.6)
Balance, December 31, 1998	118,527,287	$ 118.5	$ 1,025.3	$ 7.8	$ 739.5

<FN>
<F1>Represents unrealized gains (losses) on marketable securities of nonutility subsidiary.

</FN>

</TABLE>

The Company's Shareholder Dividend Reinvestment Plan (DRP) provides that shares of common stock purchased through the plan may be original issue shares or, at the option of the Company, shares purchased in the open market. The DRP permits additional cash investments by plan participants limited to one investment per month of not less than $25 and not more than $5,000.

As of December 31, 1998, 2,769,412 and 3,392,500 shares of common stock were reserved for issuance upon the conversion of the 7% and 5% convertible debentures, respectively, 2,324,721 shares were reserved for issuance under the DRP and 1,221,624 shares were reserved for issuance under the Employee Savings Plans.

Certain provisions of the Company's corporate charter, relating to preferred and preference stock, would impose restrictions on the payment of dividends under certain circumstances. No portion of retained income was so restricted at December 31, 1998.

<TABLE>
Calculations of Earnings Per Common Share

Reconciliations of the numerator and denominator for basic and diluted earnings per common share are shown below.
<CAPTION>

	For the year ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
	(Millions, except Per Share Data)		
Income (Numerator):			
Earnings applicable to common stock	$ 208.3	$ 165.3	$ 220.4
Interest paid or accrued on Convertible Debentures, net of related taxes	6.3	6.3	6.4
Earnings applicable to common stock, assuming conversion of convertible securities	$ 214.6	$ 171.6	$ 226.8
Shares (Denominator):			
Average shares outstanding for computation of basic earnings per common share	118.5	118.5	118.5
Average shares outstanding for diluted computation:			
Average shares outstanding	118.5	118.5	118.5
Additional shares resulting from: Conversion of Convertible Debentures	5.7	5.8	5.8
Average shares outstanding for computation of diluted earnings per common share	124.2	124.3	124.3
Basic earnings per common share	$1.76	$1.39	$1.86
Diluted earnings per common share	$1.73	$1.38	$1.82

</TABLE>

(8) Serial Preferred Stock

The Company has authorized 8,750,000 shares of cumulative $50 par value Serial Preferred Stock. At December 31, 1998 and 1997, there were outstanding 3,000,000 shares and 5,345,499 shares, respectively. The various series of Serial Preferred Stock outstanding [excluding 1,000,000 shares of Redeemable Serial Preferred Stock - See Note (9)] and the per share redemption price at which each series may be called by the Company are as follows.

	Redemption Price	December 31, 1998	December 31, 1997
		(Millions of Dollars)	
$2.44 Series of 1957, 300,000 shares	$51.00	$ 15.0	$ 15.0
$2.46 Series of 1958, 300,000 shares	$51.00	15.0	15.0
$2.28 Series of 1965, 400,000 shares	$51.00	20.0	20.0
$3.82 Series of 1969, none and 500,000 shares, respectively	$51.00	-	25.0
$2.44 Convertible Series of 1966, none and 5,803 shares, respectively	$50.00	-	.3
Auction Series A, 1,000,000 shares	$50.00	50.0	50.0
		$100.0	$125.3

The Company on March 1, 1998, redeemed all remaining shares of Serial Preferred Stock, $2.44 Convertible Series of 1966. Prior to the redemption, the $2.44 Convertible Series was convertible into common stock of the Company. The number of shares of this series converted into common stock was 4,525 shares in 1998, 147 shares in 1997 and 556 shares in 1996. In addition, on June 1, 1998, the Company redeemed all of the 500,000 shares of Serial Preferred Stock, $3.82 Series of 1969.

Dividends on the Serial Preferred Stock, Auction Series A, are based on the rate determined by auction procedures prior to each dividend period. The maximum rate can range from 110% to 200% of the applicable "AA" Composite Commercial Paper Rate. The annual dividend rate is 4.2% ($2.10) for the period December 1, 1998 through February 28, 1999. The average annual dividend rates were 4.136% ($2.068) in 1998 and 4.221% ($2.1105) in 1997.

(9) Redeemable Serial Preferred Stock and Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust

The outstanding series of $50 par value Redeemable Serial Preferred Stock are shown below.

	December 31, 1998	December 31, 1997
	(Millions of Dollars)	
$3.37 Series of 1987, none and 839,696 shares, respectively	$ -	$ 42.0
$3.89 Series of 1991, none and 1,000,000 shares, respectively	-	50.0
$3.40 Series of 1992, 1,000,000 shares	50.0	50.0
	50.0	142.0
Redemption Requirement due within one year	-	(1.0)
	$ 50.0	$141.0

On May 19, 1998, Potomac Electric Power Company Trust I (see Note (1) Organization and Summary of Significant Accounting Policies) issued $125 million of 7-3/8% Trust Originated Preferred Securities (TOPrS). The proceeds from the sale of the TOPrS to the public and from the sale of the common securities of the Trust to the Company were used by the Trust to purchase from the Company $128.9 million of 7-3/8% Junior Subordinated Deferrable Interest Debentures, due June 1, 2038 (Junior Subordinated Debentures). The sole assets of the Trust are the Junior Subordinated Debentures. The Trust will use interest payments received on the Junior Subordinated Debentures to make quarterly cash distributions on the TOPrS. Accrued and unpaid distributions on the TOPrS, as well as payment of the redemption price upon the redemption and of the liquidation amount upon the voluntary or involuntary dissolution, winding up or termination of the Trust, to the extent such funds are held by the Trust, are guaranteed by the Company (Guarantee). The Guarantee, when taken together with the Company's obligation under the Junior Subordinated Debentures and the Indenture for the Junior Subordinated Debentures, and the Company's obligations under the declaration of Trust for the TOPrS, including its obligations to pay costs, expenses, debts and liabilities of the Trust, provides a full and unconditional guarantee by the Company on a subordinated basis of the Trust obligations. Proceeds from the

sale of the Junior Subordinated Debentures to the Trust were used by the Company to redeem the Serial Preferred Stock, $3.82 Series of 1969, $3.37 Series of 1987 and $3.89 Series of 1991 on June 1, 1998.

The shares of the $3.40 (6.80%) Series are subject to mandatory redemption, at par, through the operation of a sinking fund that will redeem 50,000 shares annually, beginning September 1, 2002, with the remaining shares redeemed on September 1, 2007. The shares are not redeemable prior to September 1, 2002; thereafter, the shares are redeemable at par.

In the event of default with respect to dividends, or sinking fund or other redemption requirements relating to the serial preferred stock, no dividends may be paid, nor any other distribution made, on common stock. Payments of dividends on all series of serial preferred or preference stock, including series that are redeemable, must be made concurrently.

The sinking fund requirements through 2003 with respect to the Redeemable Serial Preferred Stock are $2.5 million in 2002 and 2003.

<TABLE>
(10) Long-Term Debt

<CAPTION>

Details of long-term debt are shown below.

Interest Rate	Maturity	December 31, 1998	1997
		(Millions of Dollars)	
<S>	<C>	<C>	<C>
First Mortgage Bonds			
Fixed Rate Series:			
4-3/8%	February 15, 1998	$ -	$ 50.0
4-1/2%	May 15, 1999	45.0	45.0
9%	April 15, 2000	100.0	100.0
5-1/8%	April 1, 2001	15.0	15.0
5-7/8%	May 1, 2002	35.0	35.0
6-5/8%	February 15, 2003	40.0	40.0
5-5/8%	October 15, 2003	50.0	50.0
6-1/2%	September 15, 2005	100.0	100.0
6-1/4%	October 15, 2007; PUT date		

	October 15, 2004	175.0	175.0
6-1/2%	March 15, 2008	78.0	78.0
5-7/8%	October 15, 2008	50.0	50.0
5-3/4%	March 15, 2010	16.0	16.0
9%	June 1, 2021	100.0	100.0
6%	September 1, 2022	30.0	30.0
6-3/8%	January 15, 2023	37.0	37.0
7-1/4%	July 1, 2023	100.0	100.0
6-7/8%	September 1, 2023	100.0	100.0
5-3/8%	February 15, 2024	42.5	42.5
5-3/8%	February 15, 2024	38.3	38.3
6-7/8%	October 15, 2024	75.0	75.0
7-3/8%	September 15, 2025	75.0	75.0
8-1/2%	May 15, 2027	75.0	75.0
7-1/2%	March 15, 2028	40.0	40.0
Variable Rate Series:			
Adjustable rate	December 1, 2001	50.0	50.0
Total First Mortgage Bonds		1,466.8	1,516.8
Convertible Debentures			
5%	September 1, 2002	115.0	115.0
7%	January 15, 2018	62.8	63.9
Medium-Term Notes			
Fixed Rate Series:			
6.53%	December 17, 2001	100.0	100.0
7.46% to 7.60%	January 2002	40.0	40.0
7.64%	January 17, 2007	35.0	35.0
6.25%	January 20, 2009	50.0	50.0
7%	January 15, 2024	50.0	50.0
Variable Rate Series:			
Adjustable rate	June 1, 2027	8.1	8.1
Total Utility Long-Term Debt		1,927.7	1,978.8
Net unamortized discount		(23.5)	(26.2)
Current portion		(45.2)	(51.1)
Net Utility Long-Term Debt		$ 1,859.0	$ 1,901.5
Nonutility Subsidiary Long-Term Debt			
Varying rates through 2018		$ 716.9	$ 830.5

</TABLE>

Utility Long-Term Debt

The outstanding First Mortgage Bonds are secured by a lien on substantially all of the Company's property and plant. Additional bonds may be issued under the mortgage as amended and supplemented in compliance with the provisions of the indenture.

In February 1998, the Company redeemed, at maturity, $50 million of 4-3/8% First Mortgage Bonds.

The interest rate on the $50 million Adjustable Rate series First Mortgage Bonds is adjusted annually on December 1, based upon the 10-year "constant maturity" United States Treasury bond rate for the preceding three-month period ended October 31, plus a market-based adjustment factor. Effective December 1, 1998, the applicable interest rate is 6.093%. The applicable interest rate was 7.38% at December 1, 1997, and 7.867% at December 1, 1996.

The 7% Convertible Debentures are convertible into shares of common stock at a conversion price of $27 per share.

The 5% Convertible Debentures are convertible into shares of common stock at a conversion rate of 29-1/2 shares for each $1,000 principal amount.

The aggregate amounts of maturities for the Company's long-term debt outstanding at December 31, 1998, are $45.2 million in 1999, $100 million in 2000, $165 million in 2001, $190 million in 2002 and $90 million in 2003.

Nonutility Subsidiary Long-Term Debt

Long-term debt at December 31, 1998, consisted primarily of $697.6 million of recourse debt from institutional lenders maturing at various dates between 1999 and 2018. The interest rates of such borrowings ranged from 5% to 10.1%. The weighted average interest rate was 7.35% at December 31, 1998, 7.48% at December 31, 1997, and 7.44% at December 31, 1996. Annual aggregate principal repayments are $170 million in 1999, $147.5 million in 2000, $88.5 million in 2001, $93 million in 2002, and $134.5 million in 2003.

Long-term debt also includes $19.2 million of non-recourse debt, $11.7 million of which is secured by aircraft currently under operating lease. The debt is payable in monthly installments at rates of LIBOR (London Interbank Offered Rate) plus 1.25% with final maturity on March 15, 2002. Non-recourse debt of $7.5 million is related to PCI's majority-owned real estate partnerships and is based on a 30-year amortization period at a fixed rate of interest of 9.66%, with final maturity on October 1, 2011.

<TABLE>
(11) Fair Value of Financial Instruments

The estimated fair values of the Company's financial instruments at December 31, 1998, and 1997 are shown below.
<CAPTION>

	December 31, 1998		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Millions of Dollars)			
<S>	<C>	<C>	<C>	<C>
Utility				
Capitalization and Liabilities				
Serial preferred stock	$ 100.0	95.4	125.3	127.3
Redeemable serial preferred stock	$ 50.0	53.6	141.0	142.6
Company obligated mandatorily redeemable preferred securities of subsidiary trust which holds solely parent junior subordinated debentures	$ 125.0	128.7	-	-
Long-term debt				
First mortgage bonds	$1,408.4	1,489.5	1,452.4	1,507.5
Medium-term notes	$ 281.3	304.5	281.2	289.9
Convertible debentures	$ 169.3	175.2	167.9	172.4
Nonutility Subsidiary				
Assets				
Marketable securities	$ 231.1	231.1	302.5	302.5
Notes receivable	$ 25.5	22.4	23.1	19.5
Liabilities				
Long-term debt	$ 716.9	729.2	830.5	841.0

</TABLE>

The methods and assumptions below were used to estimate, at December 31, 1998 and 1997, the fair value of each class of financial instruments shown above for which it is practicable to estimate that value.

The fair value of the Company's Serial Preferred Stock, Redeemable Serial Preferred Stock and Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust, excluding amounts due within one year, was based on quoted market prices or discounted cash flows using current rates of preferred stock with similar terms.

The fair value of the Company's Long-term Debt, which includes First Mortgage Bonds, Medium-Term Notes and Convertible Debentures, excluding amounts due within one year, was based on the current market price, or for issues with no market price available, was based on discounted cash flows using current rates for similar issues with similar terms and remaining maturities.

The fair value of PCI's Marketable Securities was based on quoted market prices.

The fair value of PCI's Notes Receivable was based on discounted future cash flows using current rates and similar terms.

The fair value of PCI's Long-term Debt, including non-recourse debt, was based on current rates offered to similar companies for debt with similar remaining maturities.

The carrying amounts of all other financial instruments approximate fair value.

(12) Short-Term Debt

The Company's short-term financing requirements have been satisfied principally through the sale of commercial promissory notes. Interest rates for the Company's short-term financing during the year ranged from 4.6% to 6.3%.

The Company maintains a minimum 100% line of credit back-up for its outstanding commercial promissory notes, which was unused during 1998, 1997 and 1996.

Nonutility Subsidiary Short-Term Notes Payable

The nonutility subsidiary's short-term financing requirements have been satisfied principally through the sale of commercial promissory notes.

The nonutility subsidiary maintains a minimum 100% line of credit back-up, in the amount of $400 million, for its outstanding commercial promissory notes, which was unused during 1998, 1997 and 1996.

(13) Commitments and Contingencies

Competition

The electric utility industry continues to be subjected to increasing competitive pressures, stemming from a combination of increasing independent power production and regulatory and legislative initiatives intended to increase bulk power competition, including the Energy Policy Act of 1992.

Based on the regulatory framework in which it operates, the

Company continues to apply the provisions of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," in accounting for its retail utility operations. SFAS No. 71 allows regulated entities, in appropriate circumstances, to establish regulatory assets and to defer the income statement impact of certain costs that are expected to be recovered in future rates. Deregulation of portions of the Company's business could, in the future, result in not meeting the rate recovery criteria for application of SFAS No. 71 for part or all of the business. If this were to occur in the transition to a more competitive industry, accounting standards of enterprises in general would apply, which would entail the write-off of any previously deferred costs to results of operations. Regulatory assets include deferred income taxes, unamortized conservation costs and unamortized debt reacquisition costs recoverable through future rates. In addition, electric plant in service includes a regulatory asset related to capital leases, which are treated as operating leases for rate-making purposes, of approximately $37 million and $29 million at December 31, 1998 and 1997, respectively.

Under traditional regulation, utilities are provided an opportunity to earn a fair return on invested capital in exchange for a commitment to serve all customers within a designated service territory. To further the goal of providing universal access to safe and reliable electric service within this

regulated environment, regulatory decisions led to costs and commitments by utilities that may not be entirely recovered through market-based revenues in a competitive environment. Recovery and measurement of above-market, or "stranded," costs in a future competitive environment will be subject to regulatory proceedings. Potential above-market costs include, but are not limited to, costs associated with generation facilities that are fixed and unavoidable, including future costs related to plant removal; above-market costs associated with purchased power obligations; and regulatory assets and obligations incurred in accordance with SFAS No. 71. The inability of the Company to recover its stranded costs fully could have a material adverse impact on the future earnings and cash flows of the Company, and may result in consequences including, but not limited to, increases in the cost of capital, increases in rates for transmission and distribution services, exposure to downgrades in credit ratings and involuntary layoffs of employees. The Company expects to be provided an opportunity to recover its stranded costs.

Maryland

In December 1997, the Maryland Public Service Commission issued orders that outlined steps toward a competitive electric generation market and established dates for the phased-in implementation of competition. Pursuant to the orders, competition will be phased in over a two-year period beginning July 1, 2000. Customers representing one-third of the electric load in a particular customer class will be able to choose their electric generation supplier at that time. On July 1, 2001, the eligible group increases to two-thirds in any one customer class, and all customers will then become eligible one year later. The Commission affirmed that Maryland utilities will be given the opportunity to recover verifiable and prudently incurred stranded costs, which cannot be mitigated or reduced; proposals to establish a Competitive Transition Charge (CTC) for stranded cost recovery will be addressed in future proceedings. The Commission recommended that the Maryland legislature enact legislation to allow securitization of stranded costs, where it can be shown that this financing procedure will reduce costs for customers. The Commission ordered no mandatory rate reductions during the transition to competition, and applied the designation of default provider to the consumer's current utility. In addition, the Commission recognized the need for tax reform to "level the playing field" for Maryland utilities, and requested the Maryland legislature to enact the necessary legislation. Also, the Commission stated that fuel adjustment clauses are incompatible with the workings of a competitive generation market, and requested that legislation be enacted to discontinue use of fuel adjustment clauses in the future. Additionally, the Commission requested that legislation be enacted to permit price cap

regulation and materially depart from cost of service regulation with respect to the purchase and generation of electricity. The Commission proposed the establishment of statewide roundtables to address issues such as provision of metering and billing services, consumer protection and DSM, but did not propose any changes to the form of regulation currently applicable to the recovery of costs associated with the distribution of electricity. Moreover, the Commission did not order the divestiture or corporate unbundling of generating assets, but indicated it will consider these options as part of its review of future market power studies required to be filed by Maryland electric utilities.

In compliance with Commission orders, the Company filed on July 1, 1998, a quantification of its Maryland jurisdictional generating, purchased power and other costs that the Company projects would be stranded in a competitive market for generating services; a proposed method for recovering such stranded costs through a non-bypassable CTC; proposed unbundled rates for retail service; and a proposal to freeze retail rates from the time competition begins until January 2004 (collectively, the Filing). The Company made numerous assumptions in the Filing, including assumptions as to the outcome of the recently-concluded 1998 base rate case, the future price of electricity including fuel charges, future revenues, the costs of transmission and distribution, and service territory demographics, some or all of which may prove not to have been accurate. The Filing will be the subject of an adjudicatory proceeding that, in accordance with the terms of the Commission's orders, is expected to conclude in October 1999. As is its normal practice and consistent with the Commission's procedural orders, the Company is also pursuing discussions with the other parties to the adjudicatory proceedings as to whether settlement of the issues is possible. Any such settlement would require the Commission's approval.

The Commission's implementation process provides for a 15-month period to study the Filing. After that period, the Company will be required to file a restructuring plan in November 1999 that would take into account any restructuring legislation enacted by the General Assembly, as well as the outcome of the adjudicatory proceeding initiated by the Commission with respect to the Filing. Accordingly, the Filing does not constitute the Company's final restructuring plan. In connection with the Filing, the Company reiterated its position that, absent appropriate enabling legislation by the Maryland General Assembly (which has yet to be enacted), the Commission lacks the legal authority to implement the plan filed by the Company, or any other restructuring plan providing for retail competition.

The Company has proposed separate unbundled rates for generation supply (i.e., the cost of producing power or buying it from third parties) and for electricity delivery (i.e., the cost of transmission and distribution of electricity to consumers). In the Filing, the Company's anticipated 1999 average price of 7.78 cents per kilowatt-hour breaks down into a supply charge of 4.60 cents and a delivery charge of 3.18 cents, which exceed the rates approved within the Company's recent Maryland base rate settlement agreement.

As part of the Filing, the Company proposes that, effective with the initial phase of competition, which is currently scheduled to commence July 1, 2000, both the supply and delivery components of the Company's retail prices will be frozen at then-existing levels until January 1, 2004. The Company also proposes to eliminate its fuel rate on July 1, 2000, and assume the risk of fuel cost increases after implementation of the restructuring plan until January 1, 2004, when the Company no longer has the obligation to supply electricity at the frozen rate. The only exceptions to the rate freeze would be for unexpected increases in taxes or new environmental requirements. After January 1, 2004, supply prices would be set by the competitive marketplace and delivery prices would be determined by regulators.

For retail customers who do not wish to buy the supply portion of their electric service from a source other than the Company once they are free to do so, the Company proposes to

provide both supply and delivery service at the frozen rates until January 1, 2004. For customers who enter the competitive supply market, the Company proposes to provide them with a "shopping credit" equal to the estimated market price for electricity. The shopping credit would terminate on January 1, 2004.

Under the Company's proposal, the transition to customer choice, including recovery of stranded costs, would be made without any increase in prices to customers. Initially, prices would be held at the levels in effect when competition begins for customers who choose to buy both supply and delivery from the Company. During the freeze, an implicit non-bypassable CTC will be included in the frozen rate. After the end of the freeze in January 2004, all customers would pay, as part of their delivery charge, an explicit CTC that would successively decrease until 2021, when the last of the Company's pre-competition power purchase contracts ends. The proposed CTC will allow the Company the opportunity for full recovery of its prudent, non-mitigated stranded costs, as contemplated by the Commission in its December 1997 orders, without causing an increase in rates.

In the Filing, the Company identifies stranded costs (the total economic value of previously expected regulatory earnings that will not be recovered in a deregulated energy market) having

a net after-tax present value of $600.4 million, which it proposes be securitized and recovered over the period 2000 through 2010. The $600.4 million comprise $319.8 million relating to generation assets, $242.6 million relating to power purchase contracts and $38 million in other stranded costs. The Company proposes to recover additional stranded costs associated with its long-term Panda Brandywine, L.P. (Panda) and SMECO power purchase contracts, having a present value of $42 million, over the period 2011 to 2021, which it does not propose be securitized. All stranded cost recovery would be accomplished through the non-bypassable CTC. The Company has also proposed a "true up" mechanism to update prospectively in July 2004 its stranded cost estimates, taking into account changes in market price or other factors. The stranded costs in the Filing predominately relate to costs that are already included in the Company's rates. They have been approved by regulators as being appropriate to recover because they were found to have been prudently incurred to meet the Company's regulatory-era obligation to provide reliable service to everyone who wants it. The Company anticipates that these costs would be amortized to match the revenues collected by the CTC. As part of its plan, the Company proposes to securitize a portion of its stranded cost recovery and thereby achieve savings through a reduction in capital costs.

If a competitive market for generation supply is implemented in Maryland, the Company believes that the Commission will follow through on its commitment to provide a fair opportunity for the Company to recover its prudently incurred stranded costs, and that the stranded costs identified by the Company in the filing will be determined to have been prudently incurred. The inability of the Company to recover fully its stranded costs could have a material adverse impact on the future earnings and cash flows of the Company, and may result in consequences including, but not limited to, increases in the cost of capital, increases in rates for transmission and distribution services, exposure to downgrades in credit ratings and involuntary layoffs of employees.

On October 9, 1998, the Company and four other electric utilities operating in Maryland - Allegheny Power, Choptank Electric Cooperative, Inc., Conectiv and SMECO - filed separate appeals in Baltimore City Circuit Court seeking a judicial review of recent decisions by the Maryland Commission in which the Commission asserted its authority to restructure the electric utility industry without authorization from the Maryland State Legislature. The Company believes that the proper way to ensure progress is for the legislature, in its 1999 session, to grant the Commission authority to proceed. Accordingly, the utilities asked the court to defer action on the appeal until after completion of the 1999 legislative session, which began in January 1999. On December 18, 1998, the Company filed a motion for voluntary dismissal of its appeal without prejudice. The

Company's motion was filed pursuant to an agreement among Conectiv, Allegheny Power, SMECO, Choptank Electric Cooperative and the Maryland Public Service Commission that the Commission's restructuring orders were not "final orders" within the meaning of the law governing the powers of the Commission, and, further, that the appeals challenging the Commission's authority to implement retail choice without enabling legislation could be filed after the Commission issues its order on the pending applications for rehearing filed by the Company and several other parties. All of the other utility appellants either have filed or will file similar motions to dismiss their appeals.

District of Columbia

In September 1996, the District of Columbia Public Service Commission issued an order designating the issues to be examined regarding electric industry structure and competition. The Company filed comments on the designated issues in early 1997, and on August 31, 1998, the Commission Staff issued its proposal for bringing choice of electric suppliers to District of Columbia customers. The Staff's proposal is currently under the review of the full Commission, which may ultimately reach different conclusions. Pursuant to the Staff's recommendation, competition would be phased in over a two-year period beginning January 1, 2001. Customers representing one-fifth of the electric load in a particular customer class would be able to choose their electric generation supplier at that time. On January 1, 2002, the eligible group increases to one-half of any one customer class, and all customers will then become eligible one year later. The Staff proposed the establishment of working groups to address issues such as conservation, environmental compliance, consumer protection, provision of universal service, supplier certification and the need for legislation to pave the way for choice. More difficult issues such as the design of unbundled rates and stranded cost estimation and recovery would be addressed in future adjudicatory proceedings. An order was issued by the full Commission on December 30, 1998, in response to the Staff report. The order requires that the Company file a stranded cost study and unbundled rates for the District of Columbia by February 1, 1999.

SMECO Agreement

The Company has had a rolling 10-year full service power supply requirements contract with the SMECO, the Company's principal wholesale customer, with a peak load of approximately 600 megawatts. The wholesale portion currently represents approximately 10% of the Company's total kilowatt-hour sales.

The contract, by its terms, is extended for an additional year on January 1 of each year, unless notice is given by either party of termination of the contract at the end of the 10-year period. The contract allows SMECO to reduce by up to 20% each year the percentage of the annual requirements it is obligated to purchase under the contract, with a five-year advance notice for each such reduction.

On December 31, 1998, the Company and SMECO entered into a new full-requirements agreement that supersedes their existing rolling 10-year power supply contract. The agreement will continue the current total rate for electricity, but with a non-varying fuel component, and will become effective as of January 1, 1999, if accepted by FERC without change or modification. The agreement will expire on December 31, 2001, following which SMECO will make a one-time termination payment to the Company of $19 million, which compensates the Company for future earnings it would otherwise have received under the 10-year contract. SMECO may elect by January 15, 2000, however, to advance the termination date to December 31, 2000, in which case the termination payment would be $26 million. The Company filed the agreement with FERC for acceptance on December 31, 1998, and expects a decision during the first quarter of 1999. In light of the information contained in the following paragraph, it currently is anticipated that SMECO will elect a December 31, 2000, termination date. The Company will record the applicable

termination payment as income upon acceptance of the agreement by FERC. After the termination date, capacity previously used to supply SMECO would be used to serve the Company's retail customers. To the extent the Company makes sales of such capacity in the competitive marketplace, such sales would be used to offset costs otherwise charged to retail customers. Accordingly, applicable costs are expected to be fully recovered in rates charged to retail customers under historical rate-making principles.

On January 25, 1999, a wholly owned unregulated subsidiary of PCI signed a contract with SMECO to supply SMECO's full-requirements for power (approximately 600 MW of peak load) during the four-year period starting January 1, 2001. This contract is subject to acceptance by FERC of the agreement outlined in the preceding paragraph. The subsidiary was the winning bidder in response to SMECO's Summer 1998 call for proposals for a full-requirements provider of electricity. A firm commitment has been secured from a third party for the delivery of power sufficient to serve SMECO's full requirements. Both the sales commitment to SMECO and the third-party purchase agreement are at fixed prices that do not vary with future changes in market conditions. The subsidiary sells electricity and natural gas and also provides energy services to commercial and industrial customers primarily in the mid-Atlantic region. The new SMECO contract represents the first wholesale electric power contract the subsidiary has secured.

Leases

The Company leases its general office building and certain data processing and duplicating equipment, motor vehicles, communication system and construction equipment under long-term lease agreements. The lease of the general office building expires in 2002, and leases of equipment extend for periods of up to six years. Charges under such leases are accounted for as operating expenses or construction expenditures, as appropriate.

Rents, including property taxes and insurance, net of rental income from subleases, aggregated approximately $18.4 million in 1998, $17.1 million in 1997 and $16.2 million in 1996. The approximate annual commitments under all operating leases, reduced by rentals to be received under subleases, are $10.8 million in 1999, $7.9 million in 2000, $5.1 million in 2001, $1.6 million in 2002, $.6 million in 2003 and a total of $4.8 million in the years thereafter.

The Company leases its consolidated control center, an integrated energy management system used by the Company's power dispatchers to centrally control the operation of the Company's generating units, transmission system and distribution system. The lease is accounted for as a capital lease and was recorded at the present value of future lease payments, which totaled $152 million. The lease requires semi-annual payments of $7.6 million over a 25-year period and provides for transfer of ownership of the system to the Company for $1 at the end of the lease term. Under SFAS No. 71, the amortization of leased assets is modified so that the total of interest on the obligation and amortization of the leased asset is equal to the rental expense allowed for rate-making purposes. This lease has been treated as an operating lease for rate-making purposes. Accordingly, electric plant in service includes a regulatory asset of approximately $28 million and $21 million at December 31, 1998 and 1997, respectively.

Fuel Contracts

The Company has numerous coal contracts for aggregate annual deliveries of approximately three million tons, all of which expire by May 31, 1999. Deliveries under these contracts and the replacement contracts are expected to provide approximately 75% of the estimated system coal requirements in 1999. The Company will purchase the balance of its coal requirements on a spot basis from a variety of suppliers. Prices under the Company's current coal contracts are generally determined by reference to base amounts adjusted to reflect provisions for changes in suppliers' costs, which in turn are determined by reference to published indices and limited by current market prices.

Capacity Purchase Agreements

The Company's long-term capacity purchase agreements with FirstEnergy Corp. (FirstEnergy, formerly Ohio Edison) and Allegheny Energy, Inc. (AEI) commenced June 1, 1987, and are expected to continue at the 450-megawatt level through 2005. Under the terms of the agreements with FirstEnergy and AEI, the Company is required to make capacity payments, subject to certain contingencies, that include a share of FirstEnergy's fixed operating and maintenance cost. The Company also has a 25-year agreement with Panda for a 230-megawatt gas-fueled combined-cycle cogenerator project in Prince George's County, Maryland. In addition, the Company continues to purchase capacity and associated energy from a municipally financed resource recovery facility in Montgomery County, Maryland. The capacity expense under these agreements, including an allocation of a portion of FirstEnergy's fixed operating and maintenance costs, was $149.8 million, $145.2 million and $120 million in 1998, 1997 and 1996, respectively. Commitments under these agreements are estimated at $203 million in 1999, $204 million in 2000, $209 million in 2001, $210 million in 2002 and 2003 and $1.2 billion in the years thereafter.

The Company began a 25-year purchase agreement in June 1990 with SMECO for 84 megawatts of capacity supplied by a combustion turbine installed and owned by SMECO at the Company's Chalk Point Generating Station. The Company is responsible for all costs associated with operating and maintaining the facility. The Company is accounting for this agreement as a capital lease, recorded at fair market value, which totaled $37.1 million at the date construction was completed. The capacity payment to SMECO is approximately $5.5 million per year. Under SFAS No. 71, amortization of leased assets is modified so that the total of interest on the obligation and amortization of the leased asset is equal to rental expense allowed for rate-making purposes. This agreement has been treated as an operating lease for rate-making purposes. Accordingly, electric plant in service includes a regulatory asset of approximately $9 million and $8 million at December 31, 1998 and 1997, respectively.

Environmental Contingencies

The Company is subject to contingencies associated with environmental matters, principally related to possible obligations to remove or mitigate the effects on the environment of the disposal of certain substances at the sites discussed below.

On May 22, 1998, the State of Maryland issued final regulations entitled "Post RACT Requirements for Nitrogen Oxides (NOx) Sources (NOx Budget Proposal)," requiring a 65% reduction

in NOx emissions at the Company's Maryland generating units by May 1, 1999. The regulations allow the purchase or trade of NOx emission allowances to fulfill this obligation. The Company appealed this regulation to the Circuit Court for Charles County, Maryland, on June 19, 1998, on the basis that the regulation does not provide adequate time for the installation of NOx emission reduction technology and that there is no functioning NOx allowance market. On July 17, 1998, the case was moved to the Circuit Court for Baltimore City and consolidated with a similar appeal filed by Baltimore Gas and Electric Company. The Company believes it is unlikely that a market containing NOx allowances sufficient to ensure compliance will be functioning by May 1999; presently, eight states have enacted the rules necessary to create such a market. A preliminary plan for installing the best available removal technology on the Company's largest coal-fired units would require capital expenditures of approximately $170 million and would yield NOx reductions of nearly 85% beginning in year 2004. The Company cannot predict the outcome of this litigation and is evaluating its options in the event of an adverse decision. Also, on September 24, 1998, the EPA issued rules for reducing interstate transport of ozone. The Company's preliminary plan for NOx reductions of 85% by 2004 appears to be consistent with the EPA rules.

The Company's generating stations operate under National Pollutant Discharge Eliminating System (NPDES) permits. A NPDES renewal application submitted in July 1993 for the Benning station is pending. NPDES permits were issued for the Potomac River station in February 1994, the Morgantown station in February 1995, the Dickerson station in August 1996 and the Chalk Point station in September 1996. An NPDES renewal application was submitted for the Potomac River station in August 1998.

In October 1997, the Company received notice from the EPA that it, along with 68 other parties, may be a Potentially Responsible Party (PRP) under the Comprehensive Environmental Response Compensation and Liability Act (CERCLA or Superfund) at the Butler Mine Tunnel Superfund site in Pittstown Township, Luzerne County, Pennsylvania. The site is a mine drainage tunnel with an outfall on the Susquehanna River where oil waste was disposed of via a borehole in the tunnel. The letter notifying the Company of its potential liability also contained a request for a reimbursement of approximately $.8 million for response costs incurred by EPA at the site. The letter requested that the Company submit a good faith proposal to conduct or finance the remedial action contained in a July 1996 Record of Decision (ROD). The EPA estimates the present cost of the remedial action to be $3.7 million. While the Company cannot predict its liability at this site, the Company believes that it will not have a material adverse effect on its financial position or results of operations.

In December 1995, the Company received notice from the EPA that it is a PRP with respect to the release or threatened release of radioactive and mixed radioactive and hazardous wastes at a site in Denver, Colorado, operated by RAMP Industries, Inc. Evidence indicates that the Company's connection to the site arises from an agreement with a vendor to package, transport and dispose of two laboratory instruments containing small amounts of radioactive material at a Nevada facility. While the Company cannot predict its liability at this site, the Company believes that it will not have a material adverse effect on its financial position or results of operations.

In October 1995, the Company received notice from the EPA that it, along with several hundred other companies, may be a PRP in connection with the Spectron Superfund Site located in Elkton, Maryland. The site was operated as a hazardous waste disposal, recycling, and processing facility from 1961 to 1988. A group of PRPs allege, based on records they have collected, that the Company's share of liability at this site is .0042%. The EPA has also indicated that a de minimis settlement is likely to be appropriate for this site. While the outcome of negotiations and the ultimate liability with respect to this site cannot be predicted, the Company believes that its liability at this site will not have a material adverse effect on its financial position or results of operations.

In December 1987, the Company was notified by the EPA that it, along with several other utilities and nonutilities, is a PRP in connection with the polychlorinated biphenyl compounds (PCBs) contamination of a Philadelphia, Pennsylvania, site owned by a nonaffiliated company. In the early 1970s, the Company sold scrap transformers, some of which may have contained some level of PCBs, to a metal reclaimer operating at the site. In October 1994, a Remedial Investigation/Feasibility Study (RI/FS) including a number of possible remedies was submitted to the EPA. In December 1997, the EPA signed a ROD that set forth a selected remedial action plan with estimated implementation costs of approximately $17 million. On June 26, 1998, the EPA issued a unilateral Administrative Order to the Company and 12 other PRPs to conduct the design and actions called for in the ROD. To date, the Company has accrued $1.7 million for its share of these costs.

Litigation

During 1993, the Company was served with Amended Complaints filed in three jurisdictions (Prince George's County, Baltimore City and Baltimore County), in separate ongoing, consolidated proceedings each denominated "In re: Personal Injury Asbestos Case." The Company (and other defendants) were brought into these cases on a theory of premises liability under which

plaintiffs argue that the Company was negligent in not providing

a safe work environment for employees of its contractors who allegedly were exposed to asbestos while working on the Company's property. Initially, a total of approximately 448 individual plaintiffs added the Company to their Complaints. While the pleadings are not entirely clear, it appears that each plaintiff seeks $2 million in compensatory damages and $4 million in punitive damages from each defendant. In a related proceeding in the Baltimore City case, the Company was served, in September 1993, with a third-party complaint by Owens Corning Fiberglass, Inc. (Owens Corning) alleging that Owens Corning was in the process of settling approximately 700 individual asbestos-related cases and seeking a judgment for contribution against the Company on the same theory of alleged negligence set forth above in the plaintiffs' case. Subsequently, Pittsburgh Corning Corp. (Pittsburgh Corning) filed a third-party complaint against the Company, seeking contribution for the same plaintiffs involved in the Owens Corning third-party complaint. Since the initial filings in 1993, approximately 65 additional individual suits have been filed against the Company. The third-party complaints involving Pittsburgh Corning and Owens Corning were dismissed by the Baltimore City Court during 1994 without any payment by the Company. Through December 31, 1998, approximately 400 of the individual plaintiffs have dismissed their claims against the Company. No payments were made by the Company in connection with the dismissals. While the aggregate amount specified in the remaining suits would exceed $400 million, the Company believes the amounts are greatly exaggerated, as were the claims already disposed of. The amount of total liability, if any, and any related insurance recovery cannot be precisely determined at this time; however, based on information and relevant circumstances known at this time, the Company does not believe these suits will have a material adverse effect on its financial position. However, an unfavorable decision rendered against the Company could have a material adverse effect on results of operations in the year in which a decision is rendered.

The Company is involved in other legal and administrative (including environmental) proceedings before various courts and agencies with respect to matters arising in the ordinary course of business. Management is of the opinion that the final disposition of these proceedings will not have a material adverse effect on the Company's financial position or results of operations.

Labor Agreement

A new four-year Agreement between the Company and Local 1900 of the International Brotherhood of Electrical Workers (IBEW) was ratified on December 18, 1998, by Union members. The Agreement provides for a general wage increase of 3% each year in 1999, 2000 and 2001, beginning February 14, 1999, and a 3% increase in wages in the fourth year of the contract (2002) unless either

party elects to reopen the Agreement. The Company also agreed to a 3% lump-sum payment for the period of January 3, 1999, to February 14, 1999. In addition, the Agreement resolves important issues that would arise in the event of a divestiture of the Company's generating assets and establishes a framework for ongoing progress towards improving management and union relations with joint committees. At December 31, 1998, 2,286 of the Company's 3,716 employees were represented by the IBEW.

Termination of Proposed Merger

In December 1997, the Company and Baltimore Gas and Electric Company announced the cancellation of their proposed merger to create Constellation Energy Corporation. As a result, the Company recorded a $52.5 million nonoperating charge ($32.6 million net of income tax or 28 cents per share) to write off its cumulative deferred merger-related costs.

(14) Selected Nonutility Subsidiary Financial Information

Selected financial information of PCI is presented below. Subsidiary equity at December 31, 1998, and December 31, 1997, was $243.4 million and $227 million, respectively. These amounts include $7.8 million and $6.5 million of unrealized appreciation, at December 31, 1998 and 1997, respectively, relating to the marketable securities portfolio on an after-tax basis.

	For the year ended December 31,		
	1998	1997	1996
	(Millions of Dollars)		
Income			
Leasing activities	$ 73.3	$ 75.6	$ 91.7
Marketable securities	19.3	28.6	33.7
Energy services	28.0	6.3	-
Utility-related services	14.5	16.2	7.7
Other	8.4	(1.6)	(11.5)
	143.5	125.1	121.6
Expenses			
Interest	56.2	69.0	83.4
Operating and other	57.4	35.2	34.6
Depreciation	23.5	35.6	41.3
Income tax credit	(8.7)	(31.8)	(54.6)
	128.4	108.0	104.7
Net earnings from nonutility subsidiary	$ 15.1	$ 17.1	$ 16.9

Marketable Securities

PCI's marketable securities, primarily preferred stocks with mandatory redemption features, are classified as available for sale for financial reporting purposes. Net unrealized gains or losses on such securities are reflected, net of tax, in stockholder's equity. The net unrealized gains on marketable securities, which relate primarily to mandatory redeemable preferred stock, are shown below:

	December 31,		
	1998	1997	1996
	(Millions of Dollars)		
Market Value	$ 231.1	$ 302.5	$ 377.2
Cost	219.1	292.6	375.6
Net unrealized gain	$ 12.0	$ 9.9	$ 1.6

Included in net unrealized gains and losses are gross unrealized gains of $12.4 million and gross unrealized losses of $.4 million at December 31, 1998, gross unrealized gains of $13.9 million and gross unrealized losses of $4 million at December 31, 1997, and gross unrealized gains of $9.9 million and gross unrealized losses of $8.3 million at December 31, 1996.

In determining gross realized gains and losses on sales or maturities of securities, specific identification is used. Gross realized gains were $4.7 million, $7.5 million and $4.7 million

in 1998, 1997 and 1996, respectively. Gross realized losses were $2.5 million, $.6 million and $1.1 million in 1998, 1997 and 1996, respectively.

At December 31, 1998, the contractual maturities for mandatorily redeemable preferred stock are $12.9 million within one year, $91.8 million from one to five years, $76.2 million from five to 10 years and $37.3 million for over 10 years.

Leasing Activities

PCI's net investment in finance leases is summarized below.

	December 31, 1998	1997
	(Millions of Dollars)	
Rents receivable	$ 555.1	$ 664.2
Estimated residual values	69.7	88.0
Less: Unearned and deferred income	(225.6)	(288.6)
Investment in finance leases	399.2	463.6
Less: Deferred taxes arising from finance leases	(134.3)	(119.5)
Net investment in finance leases	$ 264.9	$ 344.1

Minimum lease payments receivable from finance leases, primarily aircraft, for each of the years 1999 through 2003 are $26.7 million, $29.5 million, $29 million, $19.3 million and $19.4 million, respectively. Net income from leveraged leases was $14.7 million in 1998, $16.4 million in 1997 and $22.5 million in 1996.

Rent payments receivable from aircraft operating leases for each of the years 1999 through 2003 are $31.2 million in 1999, $27.7 million in 2000, $21.5 million in 2001, $2.6 million in 2002 and zero in 2003.

(15) Segment Information

The Company has identified the utility and nonutility business operations as its two segments. The factors used to identify these segments are that the Company organizes its business around differences in products, services and regulatory environments and that the operating results for each segment are regularly reviewed by the Company's chief operating decision-maker in order to make decisions about resources and assess performance.

Revenues for the utility segment are derived from the generation, transmission, distribution and sale of electric energy. The nonutility segment, which primarily consists of the operations of the Company's wholly owned subsidiary, PCI, derives its revenue from investment programs, energy-related businesses and telecommunication services.

The following table presents information about the Company's reportable segments for the years ended December 31, 1998, 1997 and 1996:

<TABLE>

General Segment Information

(Millions of Dollars)
<CAPTION>

1998	Utility	Nonutility	Segment Totals
<S>	<C>	<C>	<C>
Revenues	$ 2,063.9	$ 143.5	$ 2,207.4
Operating expenses and other	1,334.8	57.4	1,392.2
Depreciation and amortization	239.8	23.5	263.3
Income tax expense (credit)	130.5	(8.7)	121.8
Operating Income	358.8	71.3	430.1
Interest Expense	147.6	56.2	203.8
Net Income	$ 211.2	$ 15.1	$ 226.3
Total Assets	$ 5,843.2	$ 1,086.4	$ 6,929.6
Expenditures for Assets	$ 206.2	$ -	$ 206.2

1997	Utility	Nonutility	Segment Totals
Revenues	$ 1,863.5	$ 125.1	$ 1,988.6
Operating expenses and other	1,210.2	35.2	1,245.4
Depreciation and amortization	232.0	35.6	267.6
Income tax expense (credit)	117.7	(31.8)	85.9
Operating Income	303.6	86.1	389.7
Interest Expense	138.9	69.0	207.9
Net Income	$ 164.7	$ 17.1	$ 181.8
Total Assets	$ 5,779.3	$ 1,167.3	$ 6,946.6
Expenditures for Assets	$ 217.2	$ -	$ 217.2

1996	Utility	Nonutility	Segment Totals
Revenues	$ 2,010.3	$ 121.6	$ 2,131.9
Operating expenses and other	1,293.7	34.6	1,328.3
Depreciation and amortization	223.0	41.3	264.3
Income tax expense (credit)	134.1	(54.6)	79.5
Operating Income	359.5	100.3	459.8
Interest Expense	139.4	83.4	222.8
Net Income	$ 220.1	$ 16.9	$ 237.0
Total Assets	$ 5,724.8	$ 1,363.8	$ 7,088.6
Expenditures for Assets	$ 179.9	$ -	$ 179.9

The Company's revenues from external customers are earned primarily within the United States and principally all of the Company's long-lived assets are held in the United States. In addition, there were no material transactions between segments.

Total segment assets of $6,929.6 million, $6,946.6 million and $7,088.6 million as of December 31, 1998, 1997 and 1996, respectively, include $243.4 million, $227 million and $196.3 million, representing the utility segment's investment in the nonutility subsidiary and $31.4 million, $12 million and $.4 million of intersegment net receivables. As of December 31, 1998, 1997 and 1996, respectively, these amounts are eliminated in consolidation and therefore not reflected in the Company's total assets as recorded on the Consolidated Balance Sheets.

</TABLE>

<TABLE>
(16) Quarterly Financial Summary (Unaudited)
<CAPTION>

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
	(Millions of Dollars, except Per Share Data)				
<S>	<C>	<C>	<C>	<C>	<C>
1998					
Operating Revenue	$ 369.8	479.4	670.2	366.7	1,886.1
Total Revenue	$ 380.4	528.5	750.8	404.2	2,063.9
Operating Expenses	$ 344.5	432.8	564.8	367.5	1,709.6
Operating Income	$ 35.9	95.7	186.0	36.7	354.3
Net Income (Loss)	$ 7.5	66.0	153.1	(.3)	226.3
Earnings (Loss) for Common Stock	$ 3.4	56.0	151.1	(2.2)	208.3
Basic Earnings (Loss) per Common Share	$ .03	.47	1.27	(.02)	1.76
Diluted Earnings (Loss) per Common Share	$ .03	.46	1.23	(.02)	1.73
Dividends per Share	$ .415	.415	.415	.415	1.66
1997					
Operating Revenue	$ 374.5	439.5	618.2	378.6	1,810.8
Total Revenue	$ 389.1	451.0	633.0	390.4	1,863.5
Operating Expenses	$ 346.8	370.4	466.5	354.4	1,538.1
Operating Income	$ 42.3	80.6	166.5	36.0	325.4
Net Income (Loss)	$ 23.0	50.1	136.0	(27.3)	181.8
Earnings (Loss) for Common Stock	$ 18.9	46.0	131.8	(31.4)	165.3
Basic Earnings (Loss) per Common Share	$ .16	.39	1.11	(.27)	1.39
Diluted Earnings (Loss) per Common Share	$ .16	.38	1.07	(.27)	1.38
Dividends per Share	$ .415	.415	.415	.415	1.66
1996					
Operating Revenue	$ 385.3	462.7	614.3	372.5	1,834.8
Total Revenue	$ 436.6	501.8	658.2	413.7	2,010.3
Operating Expenses	$ 392.6	406.5	491.9	370.9	1,661.9
Operating Income	$ 44.0	95.3	166.3	42.8	348.4
Net Income	$ 14.7	72.3	138.7	11.3	237.0
Earnings for Common Stock	$ 10.6	68.1	134.6	7.1	220.4
Basic Earnings per Common Share	$ .09	.57	1.14	.06	1.86
Diluted Earnings per Common Share	$ .09	.56	1.09	.06	1.82
Dividends per Share	$ .415	.415	.415	.415	1.66

The Company's sales of electric energy are seasonal and, accordingly, comparisons by quarter within a year are not meaningful.

The totals of the four quarterly basic earnings per common share and diluted earnings per common share may not equal the basic earnings per common share and diluted earnings per common share for the year due to changes in the number of common shares outstanding during the year and, with respect to the diluted earnings per common share, changes in the amount of dilutive securities.

</TABLE>

<TABLE>
Stock Market Information
<CAPTION>

1998	High	Low	1997	High	Low
<S>	<C>	<C>	<C>	<C>	<C>
1st Quarter	$25-11/16	$23-7/16	1st Quarter	$26	$23-7/8
2nd Quarter	$25-7/16	$23-1/16	2nd Quarter	$24-7/8	$21-1/8
3rd Quarter	$26-5/8	$23-1/8	3rd Quarter	$23-3/4	$21
4th Quarter	$27-13/16	$24-7/8	4th Quarter	$26	$21
(Close $26-5/16)			(Close $25-13/16)		
Shareholders at December 31, 1998: 72,607					

</TABLE>

<TABLE>
Selected Consolidated Financial Data
<CAPTION>

	1998	1997	1996	1995	1994	1993	1988
	(Millions, except Per Share Data)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Operating Revenue	$ 1,886.1	1,810.8	1,834.8	1,822.4	1,790.6	1,702.4	1,349.8
Total Revenue	$ 2,063.9	1,863.5	2,010.3	1,876.1	1,823.1	1,725.2	1,411.6
Operating Expenses	$ 1,709.6	1,538.1	1,661.9	1,528.4	1,498.6	1,400.5	1,138.6

Net Earnings (Loss) from Nonutility Subsidiary	$	15.1	17.1	16.9	(124.4)	19.1	25.1	27.9
Net Income	$	226.3	181.8	237.0	94.4	227.2	241.6	211.1
Earnings for Common Stock	$	208.3	165.3	220.4	77.5	210.7	225.3	201.8
Basic Common Shares Outstanding (Average)		118.5	118.5	118.5	118.4	118.0	115.6	94.4
Diluted Common Shares Outstanding (Average)		124.2	124.3	124.3	118.5	124.0	121.6	97.3
Basic Earnings (Loss) Per Common Share								
Utility Operations	$	1.63	1.25 <F1	1.72	1.70	1.63	1.73	1.84
Nonutility Subsidiary	$	.13	.14	.14	(1.05)	.16	.22	.30
Consolidated	$	1.76	1.39 <F1	1.86	.65	1.79	1.95	2.14
Diluted Earnings (Loss) Per Common Share								
Utility Operations	$	1.61	1.24 <F1	1.69	1.70	1.60	1.70	1.82
Nonutility Subsidiary	$	.12	.14	.13	(1.05)	.15	.21	.29
Consolidated	$	1.73	1.38 <F1	1.82	.65	1.75	1.91	2.11
Cash Dividends Per Common Share	$	1.66	1.66	1.66	1.66	1.66	1.64	1.38
Investment in Property and Plant	$	6,657.8	6,514.1	6,321.6	6,161.1	5,974.2	5,701.5	3,945.7
Net Investment in Property and Plant	$	4,521.2	4,486.3	4,423.2	4,400.3	4,334.4	4,167.6	2,857.0
Utility Assets	$	5,568.4	5,540.2	5,526.3	5,503.1	5,327.6	5,036.8	3,267.5
Nonutility Subsidiary Assets	$	1,086.4	1,167.4	1,365.6	1,615.0	1,674.3	1,665.1	879.0
Total Assets	$	6,654.8	6,707.6	6,891.9	7,118.1	7,001.9	6,701.9	4,146.5
Long-Term Utility Obligations (including redeemable preferred stock)	$	2,034.0	2,042.5	1,910.1	1,960.6	1,867.0	1,736.6	1,243.5

<FN>
<F1>Includes ($.28) as the net effect of the write-off of merger-related costs.
</FN>

</TABLE>

Appendix A

1. The Use of Revenue pie chart presents the following information.

(Thousands of Dollars)

1998 Use of Revenue

Fuel and Purchased Energy	$ 649,998	31%
Wages and Benefits	167,798	8
Materials and Services	140,923	7
Capacity Purchase Payments	155,693	8
Taxes	335,757	16*
Depreciation and Amortization	239,824	12*
Interest	147,588	7*
Common Stock Dividends	196,648	9*
Preferred Stock Dividends	18,080	1*
Retained Income	11,619	1*
	$2,063,928	100%

*Plant-Related Costs

Appendix A

2. The Cooling Degree Hours bar chart presents the following information.

Year	% of 20-Year Average
1994	103%
1995	103%
1996	83%
1997	79%
1998	93%

Appendix A

3. The System Fuel Costs line chart presents the following information.

Year	Coal	Oil	Gas	System
1989	$1.69	$2.78	$2.52	$1.95
1990	1.77	3.00	2.34	1.94
1991	1.78	2.76	2.18	1.93
1992	1.72	2.50	2.32	1.85
1993	1.72	2.55	2.88	1.90
1994	1.73	2.70	2.49	1.95
1995	1.60	3.22	2.10	1.74
1996	1.62	3.55	2.92	1.80
1997	1.65	3.80	2.87	1.84
1998	1.55	2.71	2.63	1.72

Appendix A

4. The Construction Expenditures bar chart presents the following information.

	Year	Construction Expenditures (excluding AFUDC, CCRF & Clean Air Act)	Clean Air Act Expenditures	Total Construction Expenditures (excluding AFUDC & CCRF)
Actual:	1994	$234	$58	$292
	1995	187	27	214
	1996	176	4	180
	1997	203	14	217
	1998	195	11	206
Forecast:	1999	163	22	185
	2000	158	17	175
	2001	135	30	165
	2002	132	33	165
	2003	145	30	175

RESTATED ARTICLES OF INCORPORATION

AND ARTICLES OF RESTATEMENT

OF

POTOMAC ELECTRIC POWER COMPANY

These Restated Articles of Incorporation and Articles of Restatement were duly adopted on December 21, 1992 by the Board of Directors of Potomac Electric Power Company (hereinafter sometimes called the "Company"), a District of Columbia corporation and a domestic corporation of the Commonwealth of Virginia, in accordance with the provisions of Section 58a of the District of Columbia Business Corporation Act, D.C. Code Section 29-358.1, and Chapter 522 of the Virginia State Corporation Act, Va. Code Section 13.1-711 (1989 Replacement Volume). The Company's Articles of Incorporation were originally filed in the District of Columbia on April 28, 1896, and Articles of Reincorporation of an Existing Domestic Corporation were filed in the District of Columbia on January 20, 1957.

The Restated Articles of Incorporation and Articles of Restatement only restate and integrate and do not further amend the provisions of the Company's articles of incorporation as previously amended or supplemented, and there is no discrepancy between those provisions and the provisions of these restated articles.

The Restated Articles of Incorporation and Articles of Restatement of the Company are as follows:

I. The name of the Company is

POTOMAC ELECTRIC POWER COMPANY.

II. The duration of the Company shall be perpetual.

III. The purposes for which the Company is organized are:

(A) To manufacture, produce, generate, buy, sell, lease, deal in, transmit and distribute (i) power, light, energy and heat in the form of electricity or otherwise, (ii) by-products thereof and (iii) appliances, facilities and equipment for use in connection therewith;

(B) To acquire (by construction, purchase, condemnation, lease or otherwise), use, maintain, operate, deal

in and dispose of, power plants, dams, substations, office buildings, service buildings, transmission lines, distribution lines, and all other buildings, machinery, property (real, personal or mixed) and facilities (including water power and other sites), and all fixtures, equipments and appliances, necessary, appropriate, incidental or convenient for its corporate purposes; and

(C) To conduct business as a public service company, which business is briefly described as the purchase, manufacture, generation, transmission, distribution and sale, both at wholesale and at retail, of electricity or other power or energy for light, heat and power purposes in the District of Columbia, the Commonwealth of Virginia, the State of Maryland and elsewhere.

IV. The aggregate number of shares which the Company shall have authority to issue is 215,042,227 divided into three classes: the first consisting of 6,242,227 shares of the par value of $50 each; the second consisting of 8,800,000 shares of the par value of $25 each; and the third consisting of 200,000,000 shares of the par value of $1 each.

V. Said 6,242,227 shares of the par value of $50 each are designated as Serial Preferred Stock; said 8,800,000 shares of the par value of $25 each are designated as Preference Stock; and said 200,000,000 shares of the par value of $1 each are designated as Common Stock. Such of said authorized shares of Serial Preferred Stock, Preference Stock and Common Stock as are unissued at any time may be issued, in whole or in part, at any time or from time to time by action of the Board of Directors of the Company, subject to the laws in force in the District of Columbia and the Commonwealth of Virginia and the terms and conditions set forth in the Articles of Incorporation, as amended, of the Company.

The preferences, qualifications, limitations, and restrictions, the special or relative rights, and the voting power in respect of the shares of each said class are as follows:

(A) SERIAL PREFERRED STOCK

(a) Subject to the provisions hereafter in this subdivision (A) set forth, the Serial Preferred Stock may be divided into and issued, from time to time, in one or more series as the Board of Directors may determine, and the Board of Directors is hereby expressly authorized to adopt from time to time resolutions, in respect of any unissued shares of Serial Preferred Stock, to fix and determine:

(1) The division of such shares into series and the designation and authorized number of the shares of the particular series;

(2) The rate of dividend for the particular series;

(3) The price or prices at and the terms and conditions on which shares of the particular series may be redeemed;

(4) The amount payable upon shares of the particular series in the event of voluntary liquidation;

(5) Sinking fund provisions (if any) for the redemption or purchase of shares of the particular series; and

(6) The terms and conditions (if any) on which the shares of the particular series may be converted into other classes of stock of the Company;

All shares of Serial Preferred Stock shall be of equal rank with each other, regardless of series, and all shares thereof shall be identical except as to the above listed relative rights and preferences, in respect of any or all of which there may be variations between different series as fixed and determined by the Board of Directors in said resolutions. All shares of the Serial Preferred Stock of any one series shall be identical with each other in all respects.

(b) The following terms, as used in this subdivision (A), shall have the following meanings:

(1) The term senior stock shall mean any class of stock ranking in its claim to assets or dividends prior to the 1,600,000 shares of Serial Preferred Stock created hereby;

(2) The term parity stock shall mean any class of stock ranking in its claim to assets or dividends on a parity with the Serial Preferred Stock, but shall not include any of the 1,600,000 shares of Serial Preferred Stock created hereby, nor shall it include any increase in the authorized amount of the Serial Preferred Stock; and

(3) The term junior stock shall mean the Common Stock and any other class of stock ranking in its claim to assets or dividends junior to the Serial Preferred Stock.

(c) The holders of the Serial Preferred Stock shall be entitled to receive, but only when and as declared by the Board of Directors, cumulative cash dividends in the case of each series at the annual rate for such series theretofore fixed by the Board of Directors as hereinbefore provided, payable quarter-yearly on the first days of March, June, September and December in each year to stockholders of record on the respective dates fixed for the purpose by the Board of Directors as dividends are declared.

No dividend shall be declared on any shares of the Serial Preferred Stock unless there shall likewise be declared on all shares of the

Serial Preferred Stock at the time outstanding like dividends, ratably in proportion to the respective annual dividend rates fixed therefor.

The dividends on shares of the Serial Preferred Stock shall be cumulative from the quarter-yearly dividend payment date next preceding the date of issue of such shares, unless such shares shall have been issued after the record date and before the payment date for a particular dividend, in which case the dividends shall be cumulative from the quarter-yearly dividend payment date next ensuing after the date of issue of such shares. Unless dividends on all outstanding shares of the Serial Preferred Stock, at the annual dividend rate or rates fixed therefor, shall have been paid for all past quarter-yearly dividend periods to which they are entitled, and the full dividend thereon at said rate or rates for the quarter-yearly dividend period current at the time shall have been paid or declared and set apart for payment, but without interest on accumulated dividends, and unless all sinking fund payments, if any, theretofore required to have been made shall have been made or provided for, no dividends shall be declared and no other distribution shall be made on any junior stock, and no junior stock shall be purchased, retired or otherwise acquired for value by the Company. No dividend shall be declared on any junior stock payable more than 120 days after the date of declaration.

The holders of the Serial Preferred Stock shall not be entitled to receive any dividends thereon other than the dividends referred to in this subdivision (c).

(d) The Company, at the option of the Board of Directors or by the operation of the sinking fund, if any, provided for the Serial Preferred Stock of any series, may, from time to time, subject to such terms and conditions, if any, as may be fixed by the Board of Directors with respect to any series as hereinbefore provided, redeem the whole or any part of such series at any time

outstanding, by paying in cash the applicable redemption price therefor theretofore fixed by the Board of Directors as hereinbefore provided.

Notice of every such redemption shall be given by publication at least once in each of two calendar weeks in each of two daily newspapers printed in the English language, one published and of general circulation in the City of Washington, District of Columbia, and the other in the Borough of Manhattan, The City of New York, the first publication to be at least thirty days and not more than sixty days prior to the date fixed for such redemption. At least thirty days' and not more than sixty days' previous notice of every such redemption shall also be mailed to the holders of record of the shares so to be redeemed, at their respective addresses as the same shall appear on the books of the Company; but failure to mail such notice or any defect therein or in the mailing thereof shall not affect the validity of the proceedings for the redemption of any shares so to be redeemed.

In case of the redemption of a part only of any series of the Serial Preferred Stock at the time outstanding, the Company or its duly authorized agent shall select by lot the shares so to be redeemed. The Board of Directors shall have full power and authority, subject to the limitations and provisions herein contained, to prescribe the manner in which the drawings by lot shall be conducted and the terms and conditions upon which the Serial Preferred Stock shall be redeemed from time to time.

If such notice of redemption shall have been duly given by publication, and if on or before the redemption date specified therein the funds necessary for such redemption shall have been set aside by the Company, separate and apart from its other funds, in trust for the account of the holders of the shares so called for redemption, so as to be and continue to be available therefor, then, notwithstanding that any certificate for shares so called for redemption shall not have been surrendered for cancellation, the shares represented thereby shall no longer be deemed to be outstanding on and after such redemption date, and all rights with respect to such shares shall forthwith on such redemption date cease and terminate, except only the right of the holders thereof to receive the amount payable upon redemption thereof, without interest.

Provided, however, in the alternative, that, after giving notice by publication of any such redemption as hereinbefore provided or after giving to the bank or trust company referred to below irrevocable authorization to give or complete such notice by

publication, and prior to the redemption date specified in such notice, the Company may deposit in trust, for the account of the holders of the shares of Serial Preferred Stock so to be redeemed, the funds necessary for such redemption with a bank or trust company in good standing, organized and doing business under the laws of the United States or of any state or territory or of the District of Columbia and having its principal office in the City of Washington, District of Columbia, or in the Borough of Manhattan, The City of New York, having capital, surplus and undivided profits aggregating at least Ten Million Dollars, designated in such notice of redemption, and thereupon all shares of the Serial Preferred Stock with respect to which such deposit shall have been made shall no longer be deemed to be outstanding, and all rights with respect to such shares of Serial Preferred Stock shall forthwith upon such deposit in trust cease and terminate, except only the right of the holders thereof to receive from such bank or trust company at any time after the time of such deposit the funds so deposited, without interest and the right to exercise, on or before such redemption date privileges of conversion or exchange, if any, not theretofore expiring.

Shares of Serial Preferred Stock purchased or redeemed pursuant to any obligation of the Company to purchase or redeem shares for a sinking fund, shares redeemed pursuant to the provisions hereof or purchased and for

which credit shall have been taken against any sinking fund obligation, and shares surrendered pursuant to any conversion right, shall not be reissued or otherwise disposed of and shall be canceled. Any other shares of Serial Preferred Stock redeemed or otherwise acquired by the Company shall continue to be part of the authorized capital stock of the Company and may thereafter, in the discretion of the Board of Directors and to the extent permitted by law, be sold or reissued from time to time, as part of the same or another series, subject to the terms and conditions herein set forth.

If and so long as the Company shall be in default in the payment of any quarter-yearly dividend on shares of any series of the Serial Preferred Stock, or shall be in default in the payment of funds into or the setting aside of funds for any sinking fund created for any series of the Serial Preferred Stock, the Company may not (other than by the use of unapplied funds, if any, paid into or set aside for a sinking fund or funds prior to such default) (i) redeem any shares of the Serial Preferred Stock unless all shares thereof are redeemed, or (ii) purchase or otherwise acquire for a consideration any shares of the Serial Preferred Stock, except pursuant to offers of sale made by holders of the

Serial Preferred Stock in response to an invitation for tenders given simultaneously by the Company by mail to the holders of record of all shares of the Serial Preferred Stock then outstanding.

(e) In the event of any voluntary liquidation, dissolution or winding up of the Company, then, before any distribution or payment shall be made to the holders of any junior stock, the holder of each share of the Serial Preferred Stock shall be entitled to be paid in full in cash the amount fixed with respect to such share by the Board of Directors as hereinbefore provided, together with an amount computed at the annual dividend rate therefor from the date upon which dividends thereon became cumulative to the date fixed for the payment thereof, less the aggregate of the dividends theretofore paid thereon. If such payments shall have been made in full to the holders of the Serial Preferred Stock, the remaining assets and funds of the Company shall be distributed among the holders of the Common Stock and any other junior stock according to their respective rights, preferences, restrictions, qualifications and shares.

In the event of any involuntary liquidation, dissolution or winding up of the Company, then, before any distribution or payment shall be made to the holders of any junior stock, the holder of each share of the Serial Preferred Stock shall be entitled to be paid in full the par value thereof in cash, together with an amount computed at the annual dividend rate therefor from the date upon which dividends thereon became cumulative to the date fixed for the payment thereof, less the aggregate of the dividends theretofore paid thereon. If such payments shall have been made in full to the holders of the Serial Preferred Stock, the remaining assets and funds of

the Company shall be distributed among the holders of the Common Stock and any other junior stock according to their respective rights, preferences, restrictions, qualifications and shares.

With respect to the payments to be made in the event of voluntary or involuntary liquidation, dissolution or winding up of the Company, all series of the Serial Preferred Stock shall rank ratably according to their respective interests without preference of any series thereof over any other series.

(f) Subject to the limitations hereinafter specified, whenever the full dividends on the Serial Preferred Stock at the time outstanding for all past quarter-yearly dividend periods shall have been paid and the full dividend thereon for the quarter-yearly

dividend period then current shall have been paid or declared and a sum sufficient for the payment thereof set apart, then such dividends (payable in cash, stock or otherwise) as may be determined by the Board of Directors may be declared on the Common Stock and any other junior stock, and the Serial Preferred Stock shall not be entitled to participate in any such dividends.

(g) So long as any shares of the Serial Preferred Stock are outstanding, no amendment to the Articles of Incorporation of the Company which would (i) create, change any junior stock into, or increase the rights and preferences of, any senior or parity stock, (ii) increase the authorized amount of the Serial Preferred Stock in excess of the 1,600,000 shares created hereby or the authorized amount of any senior or parity stock, or (iii) change the express terms of the outstanding shares of Serial Preferred Stock in any manner substantially prejudicial to the holders thereof, shall be made without the affirmative consent (given in writing without a meeting or by a vote at a meeting duly called for the purpose) of the holders of more than two thirds of the aggregate number of shares of the Serial Preferred Stock then outstanding; but any such amendment may be made with such affirmative consent, together with such additional vote or consent of stockholders as from time to time may be required by law; provided, however, that if any such amendment would change the express terms of the outstanding shares of Serial Preferred Stock of any particular series in any manner substantially prejudicial to the holders thereof without correspondingly affecting the holders of the outstanding shares of Serial Preferred Stock of all series, then, in lieu of such consent of the holders of Serial Preferred Stock (or, if such consent of the holders of the outstanding shares of Serial Preferred Stock is required by law, in addition thereto), a like affirmative consent of the holders of more than two thirds of the Serial Preferred Stock of the affected series at the time outstanding shall be necessary for making such amendment.

(h) So long as any shares of the Serial Preferred Stock are outstanding, the Company shall not, without the affirmative consent (given in

writing without a meeting or by a vote at a meeting duly called for the purpose) of the holders of at least a majority of the aggregate number of shares of the Serial Preferred Stock then outstanding:

(1) issue any shares of the Serial Preferred Stock, in excess of 300,000 shares thereof at any one time outstanding, or issue any shares of senior or parity

stock (either directly or by reclassification), unless for a period of twelve consecutive calendar months within the fifteen calendar months next preceding the date on which such shares are to be issued net earnings (after depreciation and taxes but before deducting interest) have been at least one and one-half times the annual interest charges and dividend requirements on all indebtedness of the Company and on all shares of Serial Preferred Stock and senior and parity stock which shall then be outstanding; for the purpose of such computation, the shares and any indebtedness proposed to be issued in connection with such issue shall be included, but any indebtedness or shares proposed to be retired in connection with such issue shall be excluded, and in determining such net earnings, the Board of Directors of the Company shall make such adjustments, by way of increase or decrease in such net earnings, as shall in their opinion be necessary to give effect, for the entire twelve months for which such net earnings are determined, to any acquisition or disposition of property the earnings of which can be separately ascertained, and to any issue, sale, assumption or retirement of securities, which shall have occurred after the commencement of such twelve months' period and prior to or in connection with the issue of the shares of the Serial Preferred Stock or senior or parity stock; or

(2) issue any shares of the Serial Preferred Stock, in excess of 300,000 shares thereof at any one time outstanding, or issue any shares of senior or parity stock (either directly or by reclassification), unless immediately after such proposed issue the aggregate of (i) the capital of the Company applicable to its stock ranking junior as to assets and dividends and (ii) the surplus of the Company shall be not less than the aggregate amount payable upon involuntary liquidation to the holders of the Serial Preferred Stock and of senior and parity stock then to be outstanding, excluding from such computation all stock to be retired through such proposed issue; or

(3) issue any unsecured notes, debentures or other securities representing unsecured indebtedness, or assume or guarantee any such unsecured securities, other than for the extension, renewal or refunding of outstanding debt securities theretofore issued or assumed, or for the redemption or retirement of shares of the Serial Preferred Stock or of any senior or parity stock, if immediately after such issue or assumption the total principal amount of such unsecured securities then

outstanding would exceed twenty-five per cent of the aggregate of

(i) the total principal amount of all bonds or other securities representing secured indebtedness issued, assumed or guaranteed by the Company and then to be outstanding and (ii) the capital and surplus of the Company as then stated on its books less any known excess of book value of the Company's physical property which is devoted to public use over (I) the actual cost thereof to the Company and (II) as to such property as was not acquired as the result of arm's length negotiations, the actual cost thereof to the one first devoting the same to public use; or

(4) merge or consolidate with or into any other corporation or corporations or sell or lease all or substantially all of its assets, unless such merger, consolidation, sale or lease, or the issue and assumption of all securities to be issued or assumed in connection with any such merger, consolidation, sale or lease shall have been ordered, approved or permitted by the regulatory authority or authorities having jurisdiction in the premises; provided that the provisions of this clause (4) shall not apply to a purchase, lease or other acquisition by the Company of the franchises or assets of another corporation, or otherwise apply in any manner which does not involve a merger or consolidation or sale or lease by the Company of all or substantially all of its assets.

(i) So long as any shares of the Serial Preferred Stock are outstanding, the Company shall not pay any dividends on its Common Stock (other than dividends payable in Common Stock) or make any distribution on, or purchase or otherwise acquire for value, any of its Common Stock (each such payment, distribution, purchase and/or acquisition being herein referred to as a "Common Stock dividend"), except to the extent permitted by the following provisions:

(1) No Common Stock dividend shall be declared or paid in an amount which, together with all other Common Stock dividends declared in the year ending on (and including) the date of the declaration of such Common Stock dividend, would in the aggregate exceed 50% of the net earnings of the Company for the period consisting of the twelve consecutive calendar months ending on the last day of the calendar month next preceding the declaration of such Common Stock dividend, after deducting from such net earnings dividends accruing on any stock other than Common Stock of the Company during such period, if at the end of such period, the ratio (herein referred to as the "capitalization ratio") of the sum of (i) the capital represented by the Common Stock (including premiums on Common Stock) and (ii) the surplus accounts of the Company, to the sum of (I) the total capital and (II) the surplus accounts of the Company (after adjustment in each case of the surplus

accounts to reflect payment of such Common Stock dividend) would be less than 20%.

(2) If such capitalization ratio, determined as aforesaid, shall be 20% or more, but less than 25%, no Common Stock dividend shall be declared or paid in an amount which, together with all other Common Stock dividends declared in the year ending on (and including) the date of the declaration of such Common Stock dividend, would in the aggregate exceed 75% of the net earnings of the Company for the period consisting of the twelve consecutive calendar months ending on the last day of the calendar month next preceding the declaration of such Common Stock dividend after deducting from such net earnings dividends accruing on any stock other than the Common Stock of the Company during such period; and

(3) If such capitalization ratio, determined as aforesaid, shall be in excess of 25%, no Common Stock dividend shall be declared or paid which would reduce such capitalization ratio to less than 25% except to the extent permitted by the next preceding subparagraphs (1) and (2).

For the purposes of this subdivision (i) the total capital of the Company shall be deemed to consist of the aggregate of (x) the principal amount of all outstanding indebtedness of the Company represented by bonds, notes or other evidences of indebtedness maturing by their terms one year or more after the date of the issue thereof and (y) the par or stated value of all outstanding capital stock (including premiums on capital stock) of all classes of the Company. All indebtedness and shares of stock of the Company acquired by the Company and held in its treasury shall be excluded in determining total capital.

Purchases or other acquisitions of Common Stock shall be deemed, for the purposes of the foregoing provisions of this subdivision (i), to have been declared as dividends as of the date on which such purchases or acquisitions are consummated.

(j) No holder of Serial Preferred Stock shall be entitled as such as a matter of right to subscribe for or purchase any part of any new or additional issue of stock, or securities convertible into, or carrying or evidencing any right to purchase, stock, of any class whatever, whether now or hereafter authorized, and whether issued for cash, property, services or otherwise.

(k) Except as otherwise in subdivisions (g) and (h) of this subdivision (A) or by statute specifically provided, the Serial Preferred Stock shall have no voting power unless and until dividends payable thereon are in default in an amount equivalent to four full quarter-yearly dividends

on the Serial Preferred Stock at the time outstanding. In such event and until such default shall have been remedied as hereinafter provided, the holders of Serial Preferred Stock, voting separately, shall become entitled to elect twenty-five percent of the Board of Directors, or the smallest number of directors that exceeds twenty-five percent of the Board, but in no event less than two directors, and the other stockholders then entitled to vote for the election of directors, voting separately by classes if so required by the provisions applicable to such classes, shall be entitled to elect the remaining directors of the Company. Upon the accrual of such special right to the holders of Serial Preferred Stock a meeting of the stockholders then entitled to vote for the election of directors shall be held upon notice promptly given, as provided in the By-Laws for a special meeting, by the President or the Chairman of the Board of the Company. If within fifteen days after the accrual of such special right to the holders of Serial Preferred Stock, the President and the Chairman of the Board of the Company shall fail to call such meeting, then such meeting shall be held upon notice, as provided in the By-Laws for a special meeting, given by the holders of not less than five hundred shares of Serial Preferred Stock after filing with the Company notice of their intention so to do. The terms of office of all persons who may be directors of the Company at the time shall terminate upon the election of directors by the holders of Serial Preferred Stock, whether or not at the time of such termination the remaining directors of the Company shall have been elected; and thereafter and during the continuance of such special right of the holders of Serial Preferred Stock, the Board of Directors shall be divided into two or more classes, one class consisting of the directors to be elected by the holders of Serial Preferred Stock and the other class or classes consisting of the directors to be elected by the other stockholders entitled to vote for the election of directors, and the directors of each such class elected at such meeting, or at any adjournment thereof, and the directors of each such class elected at any subsequent annual meeting for the election of directors, held during the continuance of such special right, shall hold office until the next succeeding annual election and until their respective successors by classes are elected and qualified.

However, if and when all dividends then in default on the Serial Preferred Stock shall be paid (and such dividends shall be declared and paid as soon as reasonably practicable out of surplus or net profits, but without diminishing the amount of capital of the Company), the holders of Serial Preferred Stock shall be divested of such special right, but subject always to the same provisions for the revesting of such special right in the holders

of Serial Preferred Stock in the case of any similar future default or defaults. Whenever the holders of Serial Preferred Stock shall be so divested of such special right, the method of election of the Board of Directors by the vote of the other stockholders entitled to vote for the election of directors exclusively shall be restored, and the election of directors shall take place

at the next succeeding annual meeting for the election of directors, or at any adjournment thereof.

(l) Except as hereinafter provided, during the continuance of the special right of the holders of Serial Preferred Stock to elect directors as provided in subdivision (k) of this subdivision (A), at all meetings for the election of directors the presence in person or by proxy of the holders of record of a majority of the outstanding shares of Serial Preferred Stock shall be necessary to constitute a quorum for the election of directors whom the holders of Serial Preferred Stock are entitled to elect, and the presence in person or by proxy of the holders of record of a majority of the outstanding shares of each other class of stock then entitled to vote for the election of directors shall be necessary to constitute a quorum for the election of the directors whom the holders of such class of stock are entitled to elect. In the absence of such a quorum of the holders of stock of any particular class then entitled to vote for the election of directors, the holders of a majority of the shares of the stock of such class so present in person or represented by proxy may adjourn from time to time the meeting for the election of directors to be elected by such stock, without notice other than announcement at the meeting, until the requisite quorum of holders of such stock shall be obtained. However, at the first meeting for the election of directors after any accrual of the special right of the holders of Serial Preferred Stock, and at any subsequent annual meeting for the election of directors held during the continuance of such special right, if there shall not be such a quorum of the holders of Serial Preferred Stock the meeting shall be adjourned from time to time as above provided until such quorum shall have been obtained; provided that, if such quorum shall not have been obtained within ninety days from the date of such meeting as originally called (or, in the case of any annual meeting held during the continuance of such special right, from the date fixed for such annual meeting), the presence in person or by proxy of the holders of record of one third of the outstanding shares of Serial Preferred Stock shall then be sufficient to constitute a quorum for the election of the directors whom the holders of Serial Preferred Stock are then entitled to elect. The absence of a quorum of the holders of any class of stock then entitled to vote for the election of directors shall

not, except as hereinafter provided, prevent or invalidate the election by the other class or classes of stockholders of the directors which they are entitled to elect, if the necessary quorum of stockholders of such other class or classes is present in person or represented by proxy at any such meeting or any adjournment thereof. However, at the first meeting for the election of directors after any accrual of the special right of the holders of Serial Preferred Stock to elect directors as provided in subdivision (k) of this subdivision (A), the absence of a quorum of the holders of Serial Preferred Stock shall prevent the election of directors by the holders of Common Stock until the election of directors by the holders of Serial Preferred Stock after a quorum of the holders of Serial Preferred Stock shall have been obtained.

(B) PREFERENCE STOCK

(a) Subject to the provisions hereafter in this subdivision (B) set forth, the Preference Stock may be divided into and issued, from time to time, in one or more series as the Board of Directors may determine, and the Board of Directors is hereby expressly authorized to adopt from time to time resolutions, in respect of any unissued shares of Preference Stock, to fix and determine:

(1) The division of such shares into series and the designation and authorized number of shares of the particular series;

(2) The rate of dividend and the time of payment for the particular series and the dates from which dividends on all shares of such series issued prior to the record date for the first dividend on shares of such series shall be cumulative;

(3) The price or prices at and the terms and conditions on which shares of the particular series may be redeemed;

(4) The amount payable upon shares of the particular series in the event of voluntary liquidation;

(5) Sinking fund provisions (if any) for the redemption or purchase of shares of the particular series; and

(6) The terms and conditions (if any) on which the shares of the particular series may be converted into other classes of stock of the Company.

All shares of Preference Stock shall be of equal rank with each

other, regardless of series, and all shares thereof shall be identical except as to the above listed relative rights and preferences, in respect of any or all of which there may be variations between different series as fixed and determined by the Board of Directors in said resolutions. All shares of the Preference Stock of any one series shall be identical with each other in all respects. All shares of the Preference Stock shall be subject to the prior rights and preferences of the Serial Preferred Stock as defined in subdivision (A) above and any other senior stock as defined in subdivision (b) (1) below hereafter authorized.

(b) The following terms, as used in this subdivision (B), shall have the following meanings:

(1) The term senior stock as used in this subdivision (B) shall mean the Serial Preferred Stock and any other class of stock ranking in

its claim to assets or dividends prior to the 5,000,000 shares of Preference Stock created hereby;

(2) The term parity stock as used in this subdivision (B) shall mean any class of stock ranking in its claim to assets or dividends on a parity with the Preference Stock, but shall not include any of the 8,800,000 shares of Preference Stock provided for hereby, nor shall it include any increase in the authorized amount of the Preference Stock; and

(3) The term junior stock as used in this subdivision (B) shall mean the Common Stock and any other class of stock ranking in its claim to assets or dividends junior to the Preference Stock.

(c) The holders of the Preference Stock shall be entitled, subject to the prior rights and preferences of senior stock, to receive, but only when and as declared by the Board of Directors, cumulative cash dividends in the case of each series at the annual rate for such series theretofore fixed by the Board of Directors as hereinbefore provided, payable quarter-yearly on the first days of March, June, September and December (or such other quarter-yearly dates for a particular series as the Board of Directors may determine prior to the issue thereof as hereinbefore provided) in each year to stockholders of record on the respective dates fixed for the purpose by the Board of Directors as dividends are declared.

No dividend shall be declared on any shares of

Preference Stock of any series for any particular dividend period unless dividends in full have been paid or declared and set apart for payment or are contemporaneously declared and set apart for payment on the Preference Stock of all series then outstanding for all dividend periods terminating at or before the end of the particular dividend period. When dividends at the respective annual dividend rates are not paid in full on any shares of Preference Stock, the shares of all series of Preference Stock shall share ratably in the payment of dividends including accumulations, if any, in accordance with the sums which would be payable on such shares if all dividends were declared and paid in full.

The dividends on shares of Preference Stock shall be cumulative in the case of all shares of each particular series (a) if issued prior to the record date for the first dividend on shares of such series, then from the date theretofore fixed for the purpose by the Board of Directors as hereinbefore provided, or, if no such date is so fixed, then from the date on which the shares of such series shall have been originally issued, (b) if issued after the record date for a dividend on shares of such series and before the payment date for such dividend then from such dividend payment date; and (c) otherwise from the quarterly dividend payment date next preceding the date of issue of such shares. Unless dividends on all

outstanding shares of the Preference Stock, at the annual dividend rate or rates fixed therefor, shall have been paid for all past quarter-yearly dividend periods to which they are entitled, and the full dividend thereon at said rate or rates for the quarter-yearly dividend periods current at the time shall have been paid or declared and set apart for payment, but without interest on accumulated dividends, and unless all sinking fund payments, if any, theretofore required to have been made shall have been made or provided for, no dividends shall be declared and no other distribution shall be made on any junior stock, and no junior stock shall be purchased, retired or otherwise acquired for value by the Company. No dividend shall be declared on any junior stock payable more than 120 days after the date of declaration.

The holders of the Preference Stock shall not be entitled to receive any dividends thereon other than the dividends referred to in this subdivision (c).

(d) The Company, at the option of the Board of Directors or by the operation of the sinking fund, if any, provided for the Preference Stock of any series, may, from time to time, subject to

such terms and conditions, if any, as may be fixed by the Board of Directors with respect to any series as hereinbefore provided, and subject to the prior rights and preferences of senior stock, redeem the whole or any part of such series at any time outstanding, by paying in cash the applicable redemption price theretofore fixed by the Board of Directors as hereinbefore provided.

Notice of every such redemption shall be given by publication at least once in each of two calendar weeks in each of two daily newspapers printed in the English language, one published and of general circulation in the City of Washington, District of Columbia, and the other in the Borough of Manhattan, The City of New York, the first publication to be at least thirty days and not more than sixty days prior to the date fixed for such redemption. At least thirty days' and not more than sixty days' previous notice of every such redemption shall also be mailed to the holders of record of the shares so to be redeemed, at their respective addresses as the same shall appear on the books of the Company; but failure to mail such notice or any defect therein or in the mailing thereof shall not affect the validity of the proceedings for the redemption of any shares so to be redeemed.

In case of the redemption of a part only of any series of the Preference Stock at the time outstanding, the Company or its duly authorized agent shall select by lot the shares so to be redeemed. The Board of Directors shall have full power and authority, subject to the limitations and provisions herein contained, to prescribe the manner in which the drawings by lot shall be conducted and the terms and conditions upon which the Preference Stock shall be redeemed from time to time.

If such notice of redemption shall have been duly given by publication, and if on or before the redemption date specified therein the funds necessary for such redemption shall have been set aside by the Company, separate and apart from its other funds, in trust for the account of the holders of the shares so called for redemption so as to be and continue to be available therefor, then, notwithstanding that any certificate for shares so called for redemption shall not have been surrendered for cancellation, the shares represented thereby shall no longer be deemed to be outstanding on and after such redemption date, and all rights with respect to such shares shall forthwith on such redemption date cease and terminate, except only the right of the holders thereof to receive the amount payable upon redemption thereof, without interest.

Provided, however, in the alternative, that after

giving notice by publication of any such redemption as hereinbefore provided or after giving to the bank or trust company referred to below irrevocable authorization to give or complete such notice by publication, and prior to the redemption date specified in such notice, the Company may deposit in trust, for the account of the holders of the shares of Preference Stock so to be redeemed, the funds necessary for such redemption with a bank or trust company in good standing, organized and doing business under the laws of the United States or of any state or territory or of the District of Columbia and having its principal office in the City of Washington, District of Columbia, or in the Borough of Manhattan, The City of New York, having capital, surplus and undivided profits aggregating at least Ten Million Dollars, designated in such notice of redemption, and thereupon all shares of the Preference Stock with respect to which such deposit shall have been made shall no longer be deemed to be outstanding, and all rights with respect to such shares of Preference Stock shall forthwith upon such deposit in trust cease and terminate, except only the right of the holders thereof to receive from such bank or trust company at any time after the time of such deposit the funds so deposited, without interest and the right to exercise, on or before such redemption date privileges of conversion or exchange, if any, not theretofore expiring.

Shares of Preference Stock purchased or redeemed pursuant to any obligation of the Company to purchase or redeem shares for a sinking fund, shares redeemed pursuant to the provisions hereof or purchased and for which credit shall have been taken against any sinking fund obligation, and shares surrendered pursuant to any conversion right, shall not be reissued or otherwise disposed of and shall be cancelled. Any other shares of Preference Stock redeemed or otherwise acquired by the Company shall continue to be part of the authorized capital stock of the Company and may thereafter, in the discretion of the Board of Directors and to the extent permitted by law, be sold or reissued from time to time, as part of the same or another series, subject to the terms and conditions herein set forth.

If and so long as the Company shall be in default in the payment of any quarter-yearly dividend on shares of any series of the Preference Stock, or shall be in default in the payment of funds into or the setting aside of funds for any sinking fund created for any series of the Preference Stock, the Company may not (other than by the use of unapplied funds, if any, paid into or set aside for a sinking fund or funds prior to such default) (i) redeem any shares of the Preference Stock unless all shares thereof are redeemed, or (ii) purchase or otherwise acquire for a consideration

any shares of the Preference Stock, except pursuant to offers of sale made by holders of the Preference Stock in response to an invitation for tenders given simultaneously by the Company by mail to the holders of record of all shares of the Preference Stock then outstanding.

(e) In the event of any voluntary liquidation, dissolution or winding up of the Company, then, before any distribution or payment shall be made to the holders of any junior stock, the holder of each share of the Preference Stock shall be entitled, subject to the prior rights and preferences of senior stock, to be paid in full in cash the amount fixed with respect to such share by the Board of Directors as hereinbefore provided, together with an amount computed at the annual dividend rate therefor from the date upon which dividends thereon became cumulative to the date fixed for the payment thereof, less the aggregate of the dividends theretofore paid thereon. If such payments shall have been made in full to the holders of the Preference Stock, the remaining assets and funds of the Company shall be distributed among the holders of the Common Stock and any other junior stock according to their respective rights, preferences, restrictions, qualifications and shares.

In the event of any involuntary liquidation, dissolution or winding up of the Company, then, before any distribution or payment shall be made to the holders of any junior stock, the holder of each share of the Preference Stock shall be entitled, subject to the prior rights and preferences of senior stock, to be paid in full the par value thereof in cash, together with an amount computed at the annual dividend rate therefor from the date upon which dividends thereon became cumulative to the date fixed for the payment thereof, less the aggregate of the dividends theretofore paid thereon. If such payments shall have been made in full to the holders of the Preference Stock, the remaining assets and funds of the Company shall be distributed among the holders of the Common Stock and any other junior stock according to their respective rights, preferences, restrictions, qualifications and shares.

With respect to the payments to be made in the event of voluntary or involuntary liquidation, dissolution or winding up of the Company, all series of the Preference Stock shall rank ratably according to their respective interests without preference of any series thereof over any other series.

(f) Whenever the full dividends on the Preference Stock at the time outstanding for all past quarter-yearly dividend periods

shall have been paid and the full dividend thereon for the quarter-yearly dividend period then current shall have been paid or declared and a sum sufficient for the payment thereof set apart, then such dividends (payable in cash, stock or otherwise) as may be determined by the Board of Directors may be declared on the Common Stock and any other junior stock, and the Preference Stock shall not be entitled to participate in any such dividends.

(g) So long as any shares of the Preference Stock are outstanding, no amendment to the Articles of Incorporation of the Company which would (i) create, change any junior stock into, or increase the rights and preferences of, any senior or parity stock, (ii) increase the authorized amount of the Preference Stock in excess of the 5,000,000 shares created hereby or the authorized amount of any senior or parity stock, or (iii) change the express terms of the outstanding shares of Preference Stock in any manner substantially prejudicial to the holders thereof, shall be made without the affirmative consent (given in writing without a meeting or by a vote at a meeting duly called for the purpose) of the holders of more than two thirds of the aggregate number of shares of the Preference Stock then outstanding; but any such amendment may be made with such affirmative consent, together with such additional vote or consent of stockholders as from time to time may be required by law; provided, however, that if any such amendment would change the express terms of the outstanding shares of Preference Stock of any particular series in any manner substantially prejudicial to the holders thereof without correspondingly affecting the holders of the outstanding shares of Preference Stock of all series, then, in lieu of such consent of the holders of Preference Stock (or, if such consent of the holders of the outstanding shares of Preference Stock is required by law, in addition thereto), a like affirmative consent of the holders of more than two thirds of the Preference Stock of the affected series at the time outstanding shall be necessary for making such amendment.

(h) So long as any shares of the Preference Stock are outstanding, the Company shall not, without the affirmative consent (given in writing without a meeting or by a vote at a meeting duly called for the purpose) of the holders of at least a majority of the aggregate number of shares of the Preference Stock then outstanding, merge or consolidate with or into any other corporation or corporations or sell or lease all or substantially all of its assets, unless such merger, consolidation, sale or lease, or the issue and assumption of all securities to be issued or assumed in connection with any such merger, consolidation, sale or lease shall have been ordered, approved or permitted by the regulatory authority or authorities having jurisdiction in the premises; provided that the provisions of this subdivision (h) shall not apply to a purchase, lease or other acquisition by the Company of the franchises or assets of another corporation, or

otherwise apply in any manner

which does not involve a merger or consolidation or sale or lease by the Company of all or substantially all of its assets.

(i) No holder of Preference Stock shall be entitled as such as a matter of right to subscribe for or purchase any part of any new or additional issue of stock, or securities convertible into, or carrying or evidencing any right to purchase, stock, of any class whatever, whether now or hereafter authorized, and whether issued for cash, property, services or otherwise.

(j) Except as otherwise in subdivisions (g) and (h) of this subdivision (B) or by statute specifically provided, the Preference Stock shall have no voting power unless and until dividends payable thereon are in default in an amount equivalent to six full quarter-yearly dividends on the Preference Stock at the time outstanding. In such event and until such default shall have been remedied as hereinafter provided, the holders of Preference Stock, voting separately, shall become entitled to elect two directors of the Company at the next meeting of stockholders for the election of directors (unless all dividends then in default on the Preference Stock shall have been paid), and the other stockholders then entitled to vote for the election of directors, voting separately by classes if so required by the provisions applicable to such classes, shall be entitled to elect the remaining directors of the Company. During the continuance of such special right of the holders of Preference Stock, the Board of Directors shall be divided into two or more classes, one consisting of the directors to be elected by the holders of Preference Stock and the other class or classes consisting of the directors to be elected by the other stockholders entitled to vote for the election of directors, and the directors of each such class elected at any meeting for the election of directors, held during the continuance of such special right, shall hold office, subject to the rights of any senior stock, until the next succeeding annual election and until their respective successors by classes are elected and qualified.

However, if and when all dividends then in default on the Preference Stock shall be paid (and such dividends shall be declared and paid as soon as reasonably practicable out of surplus or net profits, but without diminishing the amount of capital of the Company), the holders of Preference Stock shall be divested of such special right, but subject always to the same provisions for the revesting of such special right in the holders of Preference Stock in the case of any similar future default or defaults. Whenever the holders of Preference Stock shall be so divested of

such special right, the method of election of the Board of Directors by the vote of the other stockholders entitled to vote for the election of directors exclusively shall be restored and the election of directors shall take place at the next succeeding annual meeting for the election of directors, or at any adjournment thereof.

(k) Except as hereinafter provided, during the continuance of the special right of the holders of Preference Stock to elect directors as provided in subdivision (j) of this subdivision (B), at all meetings for the election of directors the presence in person or by proxy of the holders of record of a majority of the outstanding shares of Preference Stock shall be necessary to constitute a quorum for the election of directors whom the holders of Preference Stock are entitled to elect, and the presence in person or by proxy of the holders of record of a majority of the outstanding shares of each other class of stock then entitled to vote for the election of directors shall, except as otherwise provided in subdivision (1) of subdivision (A), be necessary to constitute a quorum for the election of the directors whom the holders of such class of stock are entitled to elect. In the absence of such a quorum of the holders of stock of any particular class then entitled to vote for the election of directors, the holders of a majority of the shares of the stock of such class so present in person or represented by proxy may adjourn from time to time the meeting for the election of directors to be elected by such stock, without notice other than announcement at the meeting, until the requisite quorum of holders of such stock shall be obtained. The absence of a quorum of the holders of any class of stock then entitled to vote for the election of directors shall not, except as hereinbefore provided, prevent or invalidate the election by the other class or classes of stockholders of the directors which they are entitled to elect, if the necessary quorum of stockholders of such other class or classes is present in person or represented by proxy at any such meeting or any adjournment thereof.

(C) COMMON STOCK

(a) No holder of Common Stock shall be entitled as such as a matter of right to subscribe for or purchase any part of any new or additional issue of stock, or securities convertible into, or carrying or evidencing any right to purchase, stock, of any class whatever, whether now or hereafter authorized, and whether issued for cash, property, services or otherwise.

(b) Except as otherwise provided by statute or by this

Article V, voting rights for all purposes shall be vested exclusively in the holders of the Common Stock, who shall have one vote for each share held by them.

VI. The following provisions are set forth herein for the regulation of the internal affairs of the Company:

At the date hereof, the Company has issued and outstanding $120,000,000 aggregate principal amount of First Mortgage Bonds issued under and secured by the lien of the Company's Mortgage and Deed of Trust dated July 1, 1936, as amended and supplemented, heretofore made by the Company to The Riggs National Bank of Washington, D.C., as

Trustee, which Mortgage and Deed of Trust, as amended and supplemented, constitutes a lien on substantially all the properties and franchises of the Company, other than cash, accounts receivable and other liquid assets, securities, leases by the Company as lessor, equipment and materials not installed as part of the fixed property, and electric energy and other materials, merchandise or supplies produced or purchased by the Company for sale, distribution or use. The Board of Directors of the Company may from time to time cause to be issued additional First Mortgage Bonds to be secured by said Mortgage and Deed of Trust, as heretofore or hereafter amended and supplemented, without limitation as to principal amount and without action by or approval of the Company's shareholders, and in connection therewith may cause to be executed and delivered by the Company such supplemental indentures, containing such additional covenants, as the Board may approve.

Without the assent of the shareholders of any class the stated capital of the Company may, from time to time, be reduced in respect of shares of its Serial Preferred Stock reacquired in conversion and cancelled.

VII. The address of the Company's registered office in the District of Columbia is 1900 Pennsylvania Avenue, N. W.; and the name of its registered agent at such address is Jack E. Strausman.

The address of the Company's registered office in Virginia is 8280 Greensboro Drive, #900, P.O. Box 9346, Tyson's Corner, McLean, Virginia 22102; and the name of its registered agent at such address is John S. Stump, who is a resident of Virginia and a member of the Virginia State Bar.

VIII. Unless otherwise provided in the By-Laws, the number of

directors of the Company shall be twelve (12).

IX. The business and affairs of the Company shall be managed by or under the direction of the Board of Directors. The number of directors shall be determined in accordance with the provisions of Article VIII. The directors shall be divided into three classes, designated Class I, Class II and Class III. Each class shall consist, as nearly as may be possible, of one-third of the total number of directors constituting the entire Board of Directors. At the 1987 annual meeting of shareholders, Class I directors shall be elected for a one-year term, Class II directors for a two-year term, and Class III directors for a three-year term. At each succeeding annual meeting of shareholders beginning in 1988, successors to the class of directors whose term expires at that annual meeting shall be elected for a three-year term. If the number of directors is changed in accordance with the provisions of Article VIII, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as

possible, and any additional director of any class elected to fill a vacancy resulting from an increase in such class shall hold office for a term that shall coincide with the remaining term of that class, but in no case will a decrease in the number of directors shorten the term of any incumbent director. A director shall hold office until the annual meeting for the year in which his term expires and until his successor shall be elected and shall qualify, subject, however, to prior death, resignation, retirement, age and service limitations as may be set forth in the By-Laws, disqualification or removal from office. Any vacancy on the Board of Directors that results from other than an increase in the number of directors may be filled by a majority of the Board of Directors then in office even if less than a quorum, or by a sole remaining director. The term of any director elected by the Board of Directors to fill a vacancy not resulting from an increase in the number of directors shall expire at the next shareholders' meeting at which directors are elected, and the remainder of such term, if any, shall be filled by a director elected at such meeting.

Notwithstanding the foregoing, whenever the holders of any class of stock issued by the Company shall have the right, voting separately by class or series, to elect directors at an annual or special meeting of shareholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the terms of the Articles of Incorporation applicable thereto, and such directors so elected shall not be divided into classes pursuant to this Article IX unless expressly

provided by such terms.

Subject to the provisions of the preceding paragraphs, directors elected pursuant to this Article IX may be removed only for cause.

X. In addition to any other vote that may be required by law or these Articles of Incorporation or the By-Laws of the Company, the affirmative vote of the holders of four-fifths of all the capital stock entitled to vote shall be required to amend, alter, or repeal Articles IX and X of these Articles of Incorporation, and Article I, Section 1, the second through the fourth paragraphs, Article I, Section 2, and Article II, Section 1 of the By-Laws of the Company; provided, however, that the power of the Board of Directors to amend, alter, or repeal the By-Laws shall not be affected by this Article X.

XI. (A) In addition to any affirmative vote required by law or these Articles of Incorporation or the By-Laws of the Company, and except as otherwise expressly provided in Paragraph (B) of this Article XI, a Business Combination (as hereinafter defined) shall require the affirmative vote of not less than sixty-six and two-thirds percent (66-2/3%) of the votes entitled to be cast by the holders of all the then outstanding shares of Voting Stock (as hereinafter defined), voting together as a single class, excluding Voting Stock beneficially owned by any Interested Shareholder (as hereinafter defined). Such affirmative vote shall be required notwithstanding the fact

that no vote may be required, or that a lesser percentage or separate class vote may be specified, by law or in any agreement with any national securities exchange or otherwise.

(B) The provisions of the preceding Paragraph (A) shall not be applicable to any particular Business Combination, and such Business Combination shall require only such affirmative vote, if any, as is required by law or by any other provision of these Articles of Incorporation or the By-Laws of the Company, or any agreement with any national securities exchange, if all of the conditions specified in either of the following Paragraphs (1) or (2) are met or, in the case of a Business Combination not involving the payment of consideration to the holders of the Company's outstanding Capital Stock (as hereinafter defined), if the condition specified in the following Paragraph (1) is met:

(1) The Business Combination shall have been approved by a majority (whether such approval is made prior to or

subsequent to the acquisition of beneficial ownership of the Voting Stock that caused the Interested Shareholder to become an Interested Shareholder) of the Continuing Directors (as hereinafter defined).

(2) All of the following conditions shall have been met with respect to every class or series of outstanding Capital Stock, whether or not the Interested Shareholder has previously acquired beneficial ownership of any shares of a particular class or series of Capital Stock:

(a) The aggregate amount of cash and the Fair Market Value (as hereinafter defined), as of the date of the consummation of the Business Combination, of consideration other than cash to be received per share by holders of Common Stock in such Business Combination shall be at least equal to the highest amount determined under clauses (i), (ii), (iii), and (iv) below:

(i) (if applicable) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by or on behalf of the Interested Shareholder for any share of Common Stock in connection with the acquisition by the Interested Shareholder of beneficial ownership of shares of Common Stock (x) within the two-year period immediately prior to the first public announcement of the proposed Business Combination (the "Announcement Date") or (y) in the transaction in which it became an Interested Shareholder, whichever is higher, in either case as adjusted for any

subsequent stock split, stock dividend, subdivision or reclassification with respect to Common Stock;

(ii) the Fair Market Value per share of Common Stock on the Announcement Date or on the date on which the Interested Shareholder became an Interested Shareholder (the "Determination Date"), whichever is higher, as adjusted for any subsequent stock split, stock dividend, subdivision or reclassification with respect to Common Stock;

(iii) (if applicable) the price per share equal to the Fair Market Value per share of Common Stock determined pursuant to the immediately preceding clause (ii), multiplied by the ratio of (x)

the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by or on behalf of the Interested Shareholder for any share of Common Stock in connection with the acquisition by the Interested Shareholder of beneficial ownership of shares of Common Stock within the two-year period immediately prior to the Announcement Date, as adjusted for any subsequent stock split, stock dividend, subdivision or reclassification with respect to Common Stock to (y) the Fair Market Value per share of Common Stock on the first day in such two-year period on which the Interested Shareholder acquired beneficial ownership of any share of Common Stock, as adjusted for any subsequent stock split, stock dividend, subdivision or reclassification with respect to Common Stock; and

(iv) the Company's net income per share of Common Stock for the four full consecutive fiscal quarters immediately preceding the Announcement Date, multiplied by the higher of the then price/earnings multiple (if any) of such Interested Shareholder or the highest price/earnings multiple of the Company within the two-year period immediately preceding the Announcement Date (such price/earnings multiples being determined by dividing the highest price per share during a day as reported in the Wall Street Journal from the Composite Tape for the New York Stock Exchange by the immediately preceding publicly reported twelve-months earnings per share).

(b) The aggregate amount of cash and the Fair Market Value, as of the date of the consummation of the Business Combination, of

consideration other than cash to be received per share by holders of shares of any class or series of outstanding Capital Stock, other than Common Stock, shall be at least equal to the highest amount determined under clauses (i), (ii), (iii), and (iv) below:

(i) (if applicable) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by or on behalf of the Interested Shareholder for any share of such class or series of Capital Stock in connection with the acquisition by the Interested Shareholder of

beneficial ownership of shares of such class or series of Capital Stock (x) within the two-year period immediately prior to the Announcement Date or (y) in the transaction in which it became an Interested Shareholder, whichever is higher, in either case as adjusted for any subsequent stock split, stock dividend, subdivision or reclassification with respect to such class or series of Capital Stock;

(ii) the Fair Market Value per share of such class or series of Capital Stock on the Announcement Date or on the Determination Date, whichever is higher, as adjusted for any subsequent stock split, stock dividend, subdivision or reclassification with respect to such class or series of Capital Stock;

(iii) (if applicable) the price per share equal to the Fair Market Value per share of such class or series of Capital Stock determined pursuant to the immediately preceding clause (ii), multiplied by the ratio of (x) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by or on behalf of the Interested Shareholder for any share of such class or series of Capital Stock in connection with the acquisition by the Interested Shareholder of beneficial ownership of shares of such class or series of Capital Stock within the two-year period immediately prior to the Announcement Date, as adjusted for any subsequent stock split, stock dividend, subdivision or reclassification with respect to such class or series of Capital Stock to (y) the Fair Market Value per share of such class or series of Capital Stock on the first day in such two-year period on which the Interested Shareholder acquired beneficial ownership of any share of such class or series of Capital Stock, as adjusted for any subsequent stock split, stock dividend, subdivision or

reclassification with respect to such class or series of Capital Stock; and

(iv) (if applicable) the highest preferential amount per share to which the holders of shares of such class or series of Capital Stock would be entitled in the event of any voluntary or

involuntary liquidation, dissolution or winding up of the affairs of the Company regardless of whether the Business Combination to be consummated constitutes such an event.

(c) The consideration to be received by holders of a particular class or series of outstanding Capital Stock shall be in cash or in the same form as previously has been paid by or on behalf of the Interested Shareholder in connection with its direct or indirect acquisition of beneficial ownership of shares of such class or series of Capital Stock. If the consideration previously paid by the Interested Shareholder to acquire shares of any class or series of Capital Stock varied among the recipients thereof as to form, the form of consideration to be paid for such class or series of Capital Stock in connection with the Business Combination shall be either cash or the form used to acquire beneficial ownership of the largest number of shares of such class or series of Capital Stock previously acquired by the Interested Shareholder.

(d) After the Determination Date and prior to the consummation of such Business Combination: (i) except as approved by a majority of the Continuing Directors, there shall have been no failure to declare and pay at the regular date therefor any full quarterly dividends (whether or not cumulative) payable in accordance with the terms of any outstanding Capital Stock; (ii) there shall have been no reduction in the annual rate of dividends paid on the Common Stock (except as necessary to reflect any stock split, stock dividend or subdivision of the Common Stock), except as approved by a majority of the Continuing Directors; (iii) there shall have been an increase in the annual rate of dividends paid on the Common Stock as necessary to reflect any reclassification (including any reverse stock split), recapitalization, reorganization or any similar transaction that has the effect of reducing the number of outstanding shares of Common Stock, unless the failure so to increase such annual rate is approved by a majority of the Continuing Directors; and (iv) such Interested Shareholder shall not have become the beneficial owner of any additional shares of Capital Stock except as part of the transaction that results in such Interested Shareholder becoming

an Interested Shareholder and except in a transaction that, after giving effect thereto, would not result in an increase in the Interested Shareholder's percentage of

beneficial ownership of any class or series of Capital Stock.

(e) After the Determination Date, such Interested Shareholder shall not have received the benefit, directly or indirectly (except proportionately as a shareholder of the Company), of any loans, advances, guarantees, pledges or other financial assistance or any tax credits or other tax advantages provided by the Company, whether in anticipation of or in connection with such Business Combination or otherwise.

(f) A proxy or information statement describing the proposed Business Combination and complying with the requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder (the "Act") (or any subsequent provisions replacing such Act, rules or regulations) shall be mailed to all shareholders of the Company at least 30 days prior to the consummation of such Business Combination (whether or not such proxy or information statement is required to be mailed pursuant to such Act or subsequent provisions). The proxy or information statement shall contain on the first page thereof, in a prominent place, any statement as to the advisability (or inadvisability) of the Business Combination that the Continuing Directors, or any of them, may choose to make and, if deemed advisable by a majority of the Continuing Directors, the opinion of an investment banking firm selected by a majority of the Continuing Directors as to the fairness (or not) of the terms of the Business Combination from a financial point of view to the holders of the outstanding shares of Capital Stock other than the Interested Shareholder and its Affiliates or Associates (as hereinafter defined), such investment banking firm to be paid a reasonable fee for its services by the Company.

(g) Such Interested Shareholder shall not have made any major change in the Company's business or equity capital structure without the approval of a majority of the Continuing Directors.

(C) The following definitions shall apply with respect to this Article XI:

(1) The term "Business Combination" shall mean:

(a) any merger or consolidation of the Company or any Subsidiary (as hereinafter defined) with (i) any Interested

Shareholder or (ii) any other company (whether or not itself an Interested Shareholder) which is or after such merger or consolidation would be an Affiliate or Associate of an Interested Shareholder; or

(b) any sale, lease, exchange, mortgage, pledge, transfer or other disposition or security arrangement, investment, loan, advance, guarantee, agreement to purchase, agreement to pay, extension of credit, joint venture participation or other arrangement (in one transaction or a series of transactions) with or for the benefit of any Interested Shareholder or any Affiliate or Associate of any Interested Shareholder involving any assets, securities or commitments of the Company or any Subsidiary having an aggregate Fair Market Value and/or involving aggregate commitments of $10,000,000 or more or constituting more than 5 percent of the book value of the total assets (in the case of transactions involving assets or commitments other than Capital Stock) or 5 percent of the shareholders' equity (in the case of transactions in Capital Stock) of the entity in question (the "Substantial Part"), as reflected in the most recent fiscal year-end consolidated balance sheet of such entity existing at the time the shareholders of the Company would be required, pursuant to Paragraph A of this Article XI, to approve or authorize the Business Combination involving the assets, securities and/or commitments constituting any Substantial Part; or

(c) the adoption of any plan or proposal for the liquidation or dissolution of the Company which is voted for or consented to by any Interested Shareholder or any Affiliate or Associate thereof; or

(d) any reclassification of securities (including any reverse stock split), or recapitalization of the Company, or any merger or consolidation of the Company with any of its Subsidiaries or any other transaction (whether or not with or otherwise involving an Interested Shareholder) that has the effect, directly or indirectly, of increasing the proportionate share of any class or series of Capital Stock, or any securities convertible into Capital Stock or into equity securities of any Subsidiary, that is beneficially owned by any Interested Shareholder or any Affiliate or Associate of any Interested Shareholder; or

(e) any agreement, contract or other arrangement providing for any one or more of the actions

specified in the foregoing clauses (a) to (d).

(2) The term "Capital Stock" shall mean all capital stock of the Company authorized to be issued from time to time under Article IV of these Articles of Incorporation, and the term "Voting Stock" shall mean all Capital Stock that by its terms may be voted on all matters submitted to shareholders of the Company generally.

(3) The term "person" shall mean any individual, firm, company or other entity and shall include any group comprised of any person and any other person with whom such person or any Affiliate or Associate of such person has any agreement, arrangement or understanding, directly or indirectly, for the purpose of acquiring, holding, voting or disposing of Capital Stock.

(4) The term "Interested Shareholder" shall mean any person (other than the Company or any Subsidiary and other than any profit-sharing, employee stock ownership or other employee benefit plan of the Company or any Subsidiary or any trustee of or fiduciary with respect to any such plan when acting in such capacity) who (a) is the beneficial owner of Voting Stock representing ten percent (10%) or more of the votes entitled to be cast by the holders of all then outstanding shares of Voting Stock; or (b) is an Affiliate or Associate of the Company and at any time within the two-year period immediately prior to the Announcement Date was the beneficial owner of Voting Stock representing ten percent (10%) or more of the votes entitled to be cast by the holders of all then outstanding shares of Voting Stock.

(5) A person shall be a "beneficial owner" of any Capital Stock (a) which such person or any of its Affiliates or Associates beneficially owns, directly or indirectly; (b) which such person or any of its Affiliates or Associates has, directly or indirectly, (i) the right to acquire (whether such right is exercisable immediately or subject only to the passage of time), pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise, or (ii) the right to vote pursuant to any agreement, arrangement or understanding; or (c) which is beneficially owned, directly or indirectly, by any other person with which such person or any of its Affiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any shares of Capital Stock. For purposes of determining whether a person is an

Interested Shareholder pursuant to Paragraph (4) of this Section (C), the number of shares of Capital Stock deemed to be outstanding shall include shares deemed beneficially owned by such person through application of this Paragraph (5) of Section (C), but shall not include any other shares of Capital Stock that may be issuable pursuant to any agreement, arrangement or

understanding, or upon exercise of conversion rights, warrants or options, or otherwise.

(6) The terms "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 under the Act as in effect on the date that Article XI is approved by the Board (the term "registrant" in said Rule 12b-2 meaning in this case the Company).

(7) The term "Subsidiary" means any company of which a majority of any class of equity security is beneficially owned by the Company; provided, however, that for the purposes of the definition of Interested Shareholder set forth in Paragraph (4) of this Section (C), the term "Subsidiary" shall mean only a company of which a majority of each class of equity security is beneficially owned by the Company.

(8) The term "Continuing Director" means any member of the Board of Directors of the Company (the "Board of Directors"), while such person is a member of the Board of Directors, who is not an Affiliate or Associate or representative of the Interested Shareholder and was a member of the Board of Directors prior to the time that the Interested Shareholder became an Interested Shareholder, and any successor of a Continuing Director while such successor is a member of the Board of Directors, who is not an Affiliate or Associate or representative of the Interested Shareholder and is recommended or elected to succeed the Continuing Director by a majority of Continuing Directors.

(9) The term "Fair Market Value" means (a) in the case of cash, the amount of such cash; (b) in the case of stock, the highest closing sale price during the 30-day period immediately preceding the date in question of a share of such stock on the Composite Tape for New York Stock Exchange-Listed Stocks, or, if such stock is not quoted on the Composite Tape, on the New York Stock Exchange, or, if such stock is not listed on such Exchange, on the principal United States securities exchange registered under the Act on which such stock is listed, or, if such stock is not listed on any such exchange, the highest

closing bid quotation with respect to a share of such stock during the 30-day period preceding the date in question on the National Association of Securities Dealers, Inc. Automated Quotations System or any similar system then in use, or if no such quotations are available, the fair market value on the date in question of a share of such stock as determined by a majority of the Continuing Directors in good faith; and (c) in the case of property other than cash or stock, the fair market value of such property on the date in question as determined in good faith by a majority of the Continuing Directors.

(10) In the event of any Business Combination in which the Company survives, the phrase "consideration other than cash to be received" as used in Paragraphs (2)(a) and (2)(b) of Section (B) of this Article XI shall include the shares of Common Stock and/or the shares of any other class or series of Capital Stock retained by the holders of such shares.

(D) A majority of the Continuing Directors shall have the power and duty to determine for the purposes of this Article XI, on the basis of information known to them after reasonable inquiry, (a) whether a person is an Interested Shareholder, (b) the number of shares of Capital Stock or other securities beneficially owned by any person, (c) whether a person is an Affiliate or Associate of another, (d) whether the assets that are the subject of any Business Combination have, or the consideration to be received for the issuance or transfer of securities by the Company or any Subsidiary in any Business Combination has, an aggregate Fair Market Value of $10,000,000 or more, and (e) whether the assets or securities that are the subject of any Business Combination constitute a Substantial Part. Any such determination made in good faith shall be binding and conclusive on all parties.

(E) Nothing contained in this Article XI shall be construed to relieve any Interested Shareholder from any fiduciary obligation imposed by law.

(F) The fact that any Business Combination complies with the provisions of Section (B) of this Article XI shall not be construed to impose any fiduciary duty, obligation or responsibility on the Board of Directors, or any member thereof, to approve such Business Combination or recommend its adoption or approval to the shareholders of the Company, nor shall such compliance limit, prohibit or otherwise restrict in any manner the Board of Directors, or any member thereof, with respect to evaluations of or actions and responses taken with respect to such Business Combination.

(G) Notwithstanding any other provisions of these Articles of Incorporation or the By-Laws of the Company (and notwithstanding the fact that a lesser percentage or separate class vote may be specified by law, these Articles of Incorporation or the By-Laws of the Company), the affirmative vote of the holders of not less than four-fifths of the votes entitled to be cast by the holders of all the then outstanding shares of Voting Stock, voting together as a single class, shall be required to amend or repeal, or adopt any provisions inconsistent with, this Article XI; provided, however, that this Section (G) shall not apply to, and such four-fifths vote shall not be required for, any amendment, repeal or adoption unanimously recommended by the Board of Directors if all of such directors are persons who would be eligible to serve as Continuing Directors within the meaning of Section (C), Paragraph (8) of this Article XI.

IN WITNESS WHEREOF, Potomac Electric Power Company has duly caused these Restated Articles of Incorporation to be duly executed (in duplicate) in its name by Dennis R. Wraase, one of its Senior Vice Presidents, and by Betty K. Cauley, its Secretary, and its corporate seal to be hereunto affixed and duly attested by Betty K. Cauley, its Secretary, all as of the 22nd day of December, 1992.

POTOMAC ELECTRIC POWER COMPANY

[Corporate Seal]

Attest:

By /s/ D. R. WRAASE
Dennis R. Wraase
Senior Vice President

/s/ BETTY K. CAULEY
Betty K. Cauley
Secretary

By /s/ BETTY K. CAULEY
Betty K. Cauley
Secretary

DISTRICT OF COLUMBIA, ss.:

I, Indiana C. Shepp, a notary public, do hereby certify that on this 22nd day of December, 1992, personally appeared before me Dennis R. Wraase, who, being by me first duly sworn, declared that he is a Senior Vice President of Potomac Electric Power Company, that he signed the foregoing document as Senior Vice President of the corporation, and that the statements therein contained are true.

/s/ INDIANA C. SHEPP
Notary Public, D. C.

[NOTARIAL SEAL]

My commission expires: June 14, 1992.

CERTIFICATE OF
POTOMAC ELECTRIC POWER COMPANY

Pursuant to Virginia Code Section 13.1-711 D., Potomac Electric Power Company, through Betty K. Cauley, it Secretary and Associate General Counsel, hereby certifies that the accompanying Restated Articles of Incorporation and Articles of Restatement do not contain an amendment to the Articles of Incorporation requiring shareholder approval and were duly adopted by the Board of Directors of the Company on December 21, 1992.

WHEREFORE, this Certificate has been duly executed this 22nd day of December, 1992.

POTOMAC ELECTRIC POWER COMPANY

By: /s/ BETTY K. CAULEY
Betty K. Cauley
Secretary and Associate General Counsel

ARTICLES OF AMENDMENT

TO THE

ARTICLES OF INCORPORATION

OF

POTOMAC ELECTRIC POWER COMPANY

Pursuant to the provisions of Section 29-356 of Title 29 of the District of Columbia Code (Section 56 of the District of Columbia Business Corporation Act, as amended) and Section 13.1-710 of the Code of Virginia (chapter 522 of the Virginia Stock Corporation Act), the undersigned corporation adopts these Articles

of Amendment to its Articles of Incorporation.

FIRST:

The name of the Company is Potomac Electric Power Company.

SECOND:

The following amendment to the Articles of Incorporation was adopted by the shareholders of the corporation in the manner prescribed by the District of Columbia Business Corporation Act and the Virginia State Corporation Act:

Article IV of the Articles of Incorporation is hereby amended to read as follows:

> IV. The aggregate number of shares which the Company shall have authority to issue is 220,042,227 divided into three classes: the first consisting of 11,242,227 shares of the par value of $50 each; the second consisting of 8,800,000 shares of the par value of $25 each; and the third consisting of 200,000,000 shares of the par value of $1 each.

The first paragraph of Article V of the Articles of Incorporation is hereby amended to read as follows:

> V. Said 11,242,227 shares of the par value of $50 each are designated as Serial Preferred Stock; said 8,800,000 shares of the par value of $25 each are designated as Preference Stock; and said 200,000,000 shares of the par value of $1 each are designated as Common Stock. Such of said authorized shares of Serial Preferred Stock, Preference Stock and Common Stock as are unissued at any time may be issued, in whole or in part, at such time, or from time to time, by action of the Board of Directors of the Company, subject to the laws in force in the District of Columbia and the Commonwealth of Virginia and the terms and conditions set forth in the Articles of Incorporation, as amended of the Company.

The number of shares of Serial Preferred Stock appearing in Article V, Section (A), subparagraphs (b)(1) and (2) and (g) is hereby amended to read 11,242,227.

THIRD:

The amendment to increase by 5,000,000 shares the authorized number of shares of Serial Preferred Stock was proposed and recommended by the Board of Directors of the corporation and submitted to and approved by its shareholders in accordance with

the corporation's Articles of Incorporation and applicable law.

FOURTH:

The amendment was adopted by the shareholders on May 20, 1993. The number of shares of the corporation outstanding at the time of such adoption was 120,430,936. The number of shares entitled to vote at such time on the amendment was 119,962,841, the designation and number of which shares of each class were as follows:

Class	Number of Shares
Common Stock	114,471,011
Serial Preferred Stock	5,491,830

The number of shares of each class entitled to vote on the amendment that were voted for and against the amendment were:

Class	Number of Shares Voted For	Against
Common Stock	78,854,276	7,415,274
Serial Preferred Stock	4,263,996	234,178

FIFTH:

The amendment does not provide for an exchange, reclassification, or cancellation of issued shares.

SIXTH:

The amendment does not effect a change in the amount of stated capital, or paid-in surplus, or both, of the corporation.

IN WITNESS WHEREOF, the Potomac Electric Power Company has caused these Articles of Amendment to be duly executed (in duplicate) in its name by William T. Torgerson, one of its Vice Presidents, and by Mary T. Howard, one of its Assistant Secretaries, and its corporate seal to be hereunto affixed and duly attested by Mary T. Howard, one of its Assistant Secretaries, all as of the 20th day of May, 1993.

POTOMAC ELECTRIC POWER COMPANY

(Corporate Seal)

By: /s/ WILLIAM T. TORGERSON
Vice President

ATTEST:

/s/ M. T. HOWARD
Assistant Secretary

By: /s/ M. T. HOWARD
Assistant Secretary

DISTRICT OF COLUMBIA, ss.:

I, Indiana C. Shepp, a notary public, do hereby certify that on this 20th day of May, 1993, personally appeared before me William T. Torgerson, who, being by me first duly sworn, declared that he is a Vice President of Potomac Electric Power Company, that he signed the foregoing document as Vice President of the corporation, and that the statements therein are true.

/s/ INDIANA C. SHEPP
Notary Public, D. C.

[NOTARIAL SEAL]

My commission expires: June 14, 1995

DISTRICT OF COLUMBIA
STATEMENT OF
CANCELLATION OF REDEEMABLE SHARES
OF
POTOMAC ELECTRIC POWER COMPANY

Under the provisions of Section 29-359 of Chapter 3 of Title 29 of the District of Columbia Code, 1981 Edition (Section 59 of the District of Columbia Business Corporation Act, as amended), the undersigned corporation submits this statement of cancellation, pursuant to the provisions of its articles of incorporation, of redeemable shares of the corporation reacquired by it subsequent to the close of business on December 17, 1992, and prior to the close of business on December 16, 1993, through their conversion, in accordance with their terms, into shares of its common stock, and through redemption subsequent to the close of business on December 17, 1992, and prior to the close of business on December 16, 1993 of 30,000 shares of Serial Preferred Stock, $3.37 Series of 1987:

FIRST: The name of the corporation is Potomac Electric Power

Company.

SECOND: The aggregate number of shares which the corporation had authority to issue is 220,042,227*, itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Common Stock	-	200,000,000
Preference Stock	Undesignated as to series	8,800,000
Serial Preferred Stock	$2.44 Series of 1957	300,000
	$2.46 Series of 1958	300,000
	$2.28 Series of 1965	400,000
	$2.44 Convertible Series of 1966	10,027
	$3.82 Series of 1969	500,000
	$3.37 Series of 1987	982,200
	Auction Series A	1,000,000
	$3.89 Series of 1991	1,000,000
	$3.40 Series of 1992	1,000,000
	Undesignated as to series	5,750,000

*Includes additional shares authorized in Articles of Amendment to the Articles of Incorporation dated May 20, 1993.

THIRD: The number of shares of the corporation so cancelled is 31,183 itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Serial Preferred Stock	$2.44 Convertible Series of 1966	1,183
	$3.37 Series of 1987	30,000

FOURTH: The number of shares which the corporation has authority to issue after giving effect to such cancellation is 220,011,044, itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Common Stock	-	200,000,000
Preference Stock	Undesignated as to series	8,800,000
Serial Preferred Stock	$2.44 Series of 1957	300,000
	$2.46 Series of 1958	300,000
	$2.28 Series of 1965	400,000
	$2.44 Convertible Series of 1966	8,844
	$3.82 Series of 1969	500,000
	$3.37 Series of 1987	952,200
	Auction Series A	1,000,000
	$3.89 Series of 1991	1,000,000
	$3.40 Series of 1992	1,000,000
	Undesignated as to series	5,750,000

FIFTH: The aggregate number of issued shares of the corporation after giving effect to such cancellation is 122,926,152 itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Common Stock	-	117,465,108
Preference Stock	-	NONE
Serial Preferred Stock	$2.44 Series of 1957	300,000
	$2.46 Series of 1958	300,000
	$2.28 Series of 1965	400,000
	$2.44 Convertible Series of 1966	8,844
	$3.82 Series of 1969	500,000
	$3.37 Series of 1987	952,200
	Auction Series A	1,000,000
	$3.89 Series of 1991	1,000,000
	$3.40 Series of 1992	1,000,000

SIXTH: After giving effect to such cancellation, the amounts

of the stated capital and paid-in surplus of the corporation, computed in accordance with the provisions of the District of Columbia Business Corporation Act, as amended, are $390,517,308 and $989,419,430.89, respectively.

DATED: December 21, 1993

POTOMAC ELECTRIC POWER COMPANY

By /s/ H. L. DAVIS
H. Lowell Davis
Vice Chairman and
Chief Financial Officer

[Corporate Seal]
Attest:

/s/ M. T. HOWARD
M. T. Howard
Assistant Secretary

DISTRICT OF COLUMBIA, ss.:

I, Lisa A. Poole, a Notary Public, do hereby certify that on this 21st day of December, 1993, personally appeared before me H. Lowell Davis, who, being by me first duly sworn, declared that he is Vice Chairman and Chief Financial Officer of Potomac Electric Power Company, that he signed the foregoing document as Vice Chairman and Chief Financial Officer of the corporation, and that the statements therein contained are true.

/s/ LISA A. POOLE
Notary Public, D. C.

[Notarial Seal]

ARTICLES OF AMENDMENT

OF

POTOMAC ELECTRIC POWER COMPANY

Under the provisions of Section 13.1-652 of the Code of

Virginia, as amended, the undersigned corporation submits these Articles of Amendment.

FIRST: The name of the corporation is Potomac Electric Power Company.

SECOND: The reduction in the number of authorized shares of the corporation is 31,183, itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Serial Preferred Stock	$2.44 Convertible Series of 1966	1,183
	$3.37 Series of 1987	30,000

THIRD: The total number of authorized shares of the corporation remaining after giving effect to such reduction is 220,011,044, itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Common Stock	-	200,000,000
Preference Stock	Undesignated as to series	8,800,000
Serial Preferred Stock	$2.44 Series of 1957	300,000
	$2.46 Series of 1958	300,000
	$2.28 Series of 1965	400,000
	$2.44 Convertible Series of 1966	8,844
	$3.82 Series of 1969	500,000
	$3.37 Series of 1987	952,200
	Auction Series A	1,000,000
	$3.89 Series of 1991	1,000,000
	$3.40 Series of 1992	1,000,000
	Undesignated as to series	5,750,000

The Articles of Incorporation prohibit the reissuance of acquired shares.

FOURTH: The reduction in the number of authorized shares was duly authorized by the Board of Directors on December 20, 1993.

DATED: December 21, 1993

POTOMAC ELECTRIC POWER COMPANY

By /s/ H. L. DAVIS
H. Lowell Davis
Vice Chairman and
Chief Financial Officer

[Corporate Seal]
Attest:

/s/ M. T. HOWARD
M. T. Howard
Assistant Secretary

DISTRICT OF COLUMBIA
STATEMENT OF
CANCELLATION OF REDEEMABLE SHARES
OF
POTOMAC ELECTRIC POWER COMPANY

Under the provisions of Section 29-359 of Chapter 3 of Title 29 of the District of Columbia Code, 1981 Edition (Section 59 of the District of Columbia Business Corporation Act, as amended), the undersigned corporation submits this statement of cancellation, pursuant to the provisions of its articles of incorporation, of redeemable shares of the corporation reacquired by it subsequent to the close of business on December 16, 1993, and prior to the close of business on December 12, 1994, through their conversion, in accordance with their terms, into shares of its common stock, and through redemption subsequent to the close of business on December 16, 1993, and prior to the close of business on December 12, 1994 of 50,949 shares of Serial Preferred Stock, $3.37 Series of 1987:

FIRST: The name of the corporation is Potomac Electric Power Company.

SECOND: The aggregate number of shares which the corporation

had authority to issue is 220,011,044, itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Common Stock	-	200,000,000
Preference Stock	Undesignated as to series	8,800,000
Serial Preferred Stock	$2.44 Series of 1957	300,000
	$2.46 Series of 1958	300,000
	$2.28 Series of 1965	400,000
	$2.44 Convertible Series of 1966	8,844
	$3.82 Series of 1969	500,000
	$3.37 Series of 1987	952,200
	Auction Series A	1,000,000
	$3.89 Series of 1991	1,000,000
	$3.40 Series of 1992	1,000,000
	Undesignated as to series	5,750,000

THIRD: The number of shares of the corporation so cancelled is 51,610 itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Serial Preferred Stock	$2.44 Convertible Series of 1966	661
	$3.37 Series of 1987	50,949

FOURTH: The number of shares which the corporation has authority to issue after giving effect to such cancellation is 219,959,434, itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Common Stock	-	200,000,000
Preference Stock	Undesignated as to series	8,800,000
Serial Preferred Stock	$2.44 Series of 1957	300,000
	$2.46 Series of 1958	300,000
	$2.28 Series of 1965	400,000

	$2.44 Convertible Series of 1966	8,183
	$3.82 Series of 1969	500,000
	$3.37 Series of 1987	901,251
	Auction Series A	1,000,000
	$3.89 Series of 1991	1,000,000
	$3.40 Series of 1992	1,000,000
	Undesignated as to series	5,750,000

FIFTH: The aggregate number of issued shares of the corporation after giving effect to such cancellation is 123,557,532 itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Common Stock	-	118,148,098
Preference Stock	-	NONE
Serial Preferred Stock	$2.44 Series of 1957	300,000
	$2.46 Series of 1958	300,000
	$2.28 Series of 1965	400,000
	$2.44 Convertible Series of 1966	8,183
	$3.82 Series of 1969	500,000
	$3.37 Series of 1987	901,251
	Auction Series A	1,000,000
	$3.89 Series of 1991	1,000,000
	$3.40 Series of 1992	1,000,000

SIXTH: After giving effect to such cancellation, the amounts of the stated capital and paid-in surplus of the corporation, computed in accordance with the provisions of the District of Columbia Business Corporation Act, as amended, are $388,619,798 and $1,004,683,941.72, respectively.

DATED: December 16, 1994

POTOMAC ELECTRIC POWER COMPANY

By /s/ H. L. DAVIS
H. Lowell Davis
Vice Chairman and
Chief Financial Officer

[Corporate Seal]
Attest:

/s/ M. T. HOWARD
M. T. Howard
Assistant Secretary

DISTRICT OF COLUMBIA, ss.:

I, Indiana C. Shepp, a Notary Public, do hereby certify that on this 16th day of December, 1994, personally appeared before me H. Lowell Davis, who, being by me first duly sworn, declared that he is Vice Chairman and Chief Financial Officer of Potomac Electric Power Company, that he signed the foregoing document as Vice Chairman and Chief Financial Officer of the corporation, and that the statements therein contained are true.

/s/ INDIANA C. SHEPP
Notary Public, D. C.

[Notarial Seal] My commission expires: June 14, 1995

ARTICLES OF AMENDMENT

OF

POTOMAC ELECTRIC POWER COMPANY

Under the provisions of Section 13.1-652 of the Code of Virginia, as amended, the undersigned corporation submits these Articles of Amendment.

FIRST: The name of the corporation is Potomac Electric Power Company.

SECOND: The reduction in the number of authorized shares of the corporation is 51,610, itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Serial Preferred Stock	$2.44 Convertible Series of 1966	661
	$3.37 Series of 1987	50,949

THIRD: The total number of authorized shares of the corporation remaining after giving effect to such reduction is 219,959,434, itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Common Stock	-	200,000,000
Preference Stock	Undesignated as to series	8,800,000
Serial Preferred Stock	$2.44 Series of 1957	300,000
	$2.46 Series of 1958	300,000
	$2.28 Series of 1965	400,000
	$2.44 Convertible Series of 1966	8,183
	$3.82 Series of 1969	500,000
	$3.37 Series of 1987	901,251
	Auction Series A	1,000,000
	$3.89 Series of 1991	1,000,000
	$3.40 Series of 1992	1,000,000
	Undesignated as to series	5,750,000

The Articles of Incorporation prohibit the reissuance of acquired shares.

FOURTH: The reduction in the number of authorized shares was duly authorized by the Board of Directors on December 15, 1994.

DATED: December 16, 1994

POTOMAC ELECTRIC POWER COMPANY

By /s/ H. L. DAVIS
H. Lowell Davis
Vice Chairman and
Chief Financial Officer

[Corporate Seal]

Attest:

/s/ M. T. HOWARD
M. T. Howard
Assistant Secretary

DISTRICT OF COLUMBIA
STATEMENT OF
CANCELLATION OF REDEEMABLE SHARES
OF
POTOMAC ELECTRIC POWER COMPANY

Under the provisions of Section 29-359 of Chapter 3 of Title 29 of the District of Columbia Code, 1981 Edition (Section 59 of the District of Columbia Business Corporation Act, as amended), the undersigned corporation submits this statement of cancellation, pursuant to the provisions of its articles of incorporation, of redeemable shares of the corporation reacquired by it subsequent to the close of business on December 12, 1994, and prior to the close of business on December 14, 1995, through their conversion, in accordance with their terms, into shares of its common stock, and through redemption subsequent to the close of business on December 12, 1994, and prior to the close of business on December 14, 1995 of 31,555 shares of Serial Preferred Stock, $3.37 Series of 1987:

FIRST: The name of the corporation is Potomac Electric Power Company.

SECOND: The aggregate number of shares which the corporation had authority to issue is 219,959,434 itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Common Stock	-	200,000,000
Preference	Undesignated as to series	8,800,000

Serial Preferred Stock	$2.44 Series of 1957	300,000
	$2.46 Series of 1958	300,000
	$2.28 Series of 1965	400,000
	$2.44 Convertible Series of 1966	8,183
	$3.82 Series of 1969	500,000
	$3.37 Series of 1987	901,251
	Auction Series A	1,000,000
	$3.89 Series of 1991	1,000,000
	$3.40 Series of 1992	1,000,000
	Undesignated as to series	5,750,000

THIRD: The number of shares of the corporation so cancelled is 33,212 itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Serial Preferred Stock	$2.44 Convertible Series of 1966	1,657
	$3.37 Series of 1987	31,555

FOURTH: The number of shares which the corporation has authority to issue after giving effect to such cancellation is 219,926,222, itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Common Stock	-	200,000,000
Preference Stock	Undesignated as to series	8,800,000
Serial Preferred Stock	$2.44 Series of 1957	300,000
	$2.46 Series of 1958	300,000
	$2.28 Series of 1965	400,000
	$2.44 Convertible Series of 1966	6,526
	$3.82 Series of 1969	500,000
	$3.37 Series of 1987	869,696
	Auction Series A	1,000,000
	$3.89 Series of 1991	1,000,000
	$3.40 Series of 1992	1,000,000
	Undesignated as to series	5,750,000

FIFTH: The aggregate number of issued shares of the

corporation after giving effect of such cancellation is 123,870,682 itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Common Stock	-	118,494,460
Preference Stock	-	NONE
Serial Preferred Stock	$2.44 Series of 1957	300,000
	$2.46 Series of 1958	300,000
	$2.28 Series of 1965	400,000
	$2.44 Convertible Series of 1966	6,526
	$3.82 Series of 1969	500,000
	$3.37 Series of 1987	869,696
	Auction Series A	1,000,000
	$3.89 Series of 1991	1,000,000
	$3.40 Series of 1992	1,000,000

SIXTH: After giving effect to such cancellation, the amounts of the stated capital and paid-in surplus of the corporation, computed in accordance with the provisions of the District of Columbia Business Corporation Act, as amended, are $387,305,560 and $1,010,531,171.08, respectively.

DATED: December 20, 1995

POTOMAC ELECTRIC POWER COMPANY

By /s/ H. L. DAVIS
H. Lowell Davis
Vice Chairman and
Chief Financial Officer

[Corporate Seal]

Attest:

/s/ ELLEN SHERIFF ROGERS
Ellen Sheriff Rogers
Assistant Secretary

DISTRICT OF COLUMBIA, ss.:

I, Michelle T. Brown, a Notary Public, do hereby certify that on this 20th day of December, 1995, personally appeared before me H. Lowell Davis, who, being by first duly sworn, declared that he is Vice Chairman and Chief Financial Officer of Potomac Electric Power Company, that he signed the foregoing document as Vice Chairman and Chief Financial Officer of the corporation, and that the statements therein contained are true.

/s/ MICHELLE T. BROWN
Notary Public, D. C.

[Notarial Seal] My commission expires: 11-14-97

ARTICLES OF AMENDMENT

OF

POTOMAC ELECTRIC POWER COMPANY

Under the provisions of Section 13.1-652 of the Code of Virginia, as amended, the undersigned corporation submits these Articles of Amendment.

FIRST: The name of the corporation is Potomac Electric Power Company.

SECOND: The reduction in the number of authorized shares of the corporation is 33,212, itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Serial Preferred Stock	$2.44 Convertible Series of 1966	1,657
	$3.37 Series of 1987	31,555

THIRD: The total number of authorized shares of the corporation remaining after giving effect to such reduction is 219,926,222, itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Common Stock	-	200,000,000
Preference Stock	Undesignated as to series	8,800,000
Serial Preferred Stock	$2.44 Series of 1957	300,000
	$2.46 Series of 1958	300,000
	$2.28 Series of 1965	400,000
	$2.44 Convertible Series of 1966	6,526
	$3.82 Series of 1969	500,000
	$3.37 Series of 1987	869,696
	Auction Series A	1,000,000
	$3.89 Series of 1991	1,000,000
	$3.40 Series of 1992	1,000,000
	Undesignated as to series	5,750,000

The Articles of Incorporation prohibit the reissuance of acquired shares.

FOURTH: The reduction in the number of authorized shares was duly authorized by the Board of Directors on December 18, 1995.

DATED: December 20, 1995

POTOMAC ELECTRIC POWER COMPANY

By /s/ H. LOWELL DAVIS
H. Lowell Davis
Vice Chairman and
Chief Financial Officer

[Corporate Seal]

Attest:

/s/ ELLEN SHERIFF ROGERS
Ellen Sheriff Rogers
Assistant Secretary

DISTRICT OF COLUMBIA
STATEMENT OF
CANCELLATION OF REDEEMABLE SHARES
OF
POTOMAC ELECTRIC POWER COMPANY

Under the provisions of Section 29-359 of Chapter 3 of Title 29 of the District of Columbia Code, 1981 Edition (Section 59 of the District of Columbia Business Corporation Act, as amended), the undersigned corporation submits this statement of cancellation, pursuant to the provisions of its articles of incorporation, of redeemable shares of the corporation reacquired by it subsequent to the close of business on December 14, 1995, and prior to the close of business on December 12, 1996, through their conversion, in accordance with their terms, into shares of its common stock:

FIRST: The name of the corporation is Potomac Electric Power Company.

SECOND: The aggregate number of shares which the corporation had authority to issue is 219,926,222 itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Common Stock	-	200,000,000
Preference	Undesignated as to series	8,800,000

Serial Preferred Stock	$2.44 Series of 1957	300,000
	$2.46 Series of 1958	300,000
	$2.28 Series of 1965	400,000
	$2.44 Convertible Series of 1966	6,526
	$3.82 Series of 1969	500,000
	$3.37 Series of 1987	869,696
	Auction Series A	1,000,000
	$3.89 Series of 1991	1,000,000
	$3.40 Series of 1992	1,000,000
	Undesignated as to series	5,750,000

THIRD: The number of shares of the corporation so cancelled is 573 itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Serial Preferred Stock	$2.44 Convertible Series of 1966	573

FOURTH: The number of shares which the corporation has authority to issue after giving effect to such cancellation is 219,925,649, itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Common Stock	-	200,000,000
Preference Stock	Undesignated as to series	8,800,000
Serial Preferred Stock	$2.44 Series of 1957	300,000
	$2.46 Series of 1958	300,000
	$2.28 Series of 1965	400,000
	$2.44 Convertible Series of 1966	5,953
	$3.82 Series of 1969	500,000
	$3.37 Series of 1987	869,696
	Auction Series A	1,000,000
	$3.89 Series of 1991	1,000,000
	$3.40 Series of 1992	1,000,000
	Undesignated as to series	5,750,000

FIFTH: The aggregate number of issued shares of the corporation after giving effect of such cancellation is 123,875,670 itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Common Stock	-	118,500,021
Preference Stock	-	NONE
Serial Preferred Stock	$2.44 Series of 1957	300,000
	$2.46 Series of 1958	300,000
	$2.28 Series of 1965	400,000
	$2.44 Convertible Series of 1966	5,953
	$3.82 Series of 1969	500,000
	$3.37 Series of 1987	869,696
	Auction Series A	1,000,000
	$3.89 Series of 1991	1,000,000
	$3.40 Series of 1992	1,000,000

SIXTH: After giving effect to such cancellation, the amounts of the stated capital and paid-in surplus of the corporation, computed in accordance with the provisions of the District of Columbia Business Corporation Act, as amended, are $387,282,471 and $1,010,424,927.80, respectively.

DATED: December 17, 1996

POTOMAC ELECTRIC POWER COMPANY

By /s/ D. R. WRAASE
Dennis R. Wraase
Senior Vice President and

Chief Financial Officer

[Corporate Seal]

Attest:

/s/ ELLEN SHERIFF ROGERS
Ellen Sheriff Rogers
Secretary

DISTRICT OF COLUMBIA, ss.:

I, Lisa A. Poole, a Notary Public, do hereby certify that on this 17th day of December, 1996, personally appeared before me Dennis R. Wraase, who, being by me first duly sworn, declared that he is Senior Vice President and Chief Financial Officer of Potomac Electric Power Company, that he signed the foregoing document as Senior Vice President and Chief Financial Officer of the corporation, and that the statements therein contained are true.

/s/ LISA A. POOLE
Notary Public, D. C.

[Notarial Seal] My commission expires: 7-31-97

ARTICLES OF AMENDMENT

OF

POTOMAC ELECTRIC POWER COMPANY

Under the provisions of Section 13.1-652 of the Code of Virginia, as amended, the undersigned corporation submits these Articles of Amendment.

FIRST: The name of the corporation is Potomac Electric Power Company.

SECOND: The reduction in the number of authorized shares of the corporation is 573, itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Serial Preferred Stock	$2.44 Convertible Series of 1966	573

THIRD: The total number of authorized shares of the corporation remaining after giving effect to such reduction is 219,925,649, itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Common Stock	-	200,000,000
Preference Stock	Undesignated as to series	8,800,000
Serial Preferred Stock	$2.44 Series of 1957	300,000
	$2.46 Series of 1958	300,000
	$2.28 Series of 1965	400,000
	$2.44 Convertible Series of 1966	5,953
	$3.82 Series of 1969	500,000
	$3.37 Series of 1987	869,696
	Auction Series A	1,000,000
	$3.89 Series of 1991	1,000,000
	$3.40 Series of 1992	1,000,000
	Undesignated as to series	5,750,000

The Articles of Incorporation prohibit the reissuance of acquired shares.

FOURTH: The reduction in the number of authorized shares was duly authorized by the Board of Directors on December 16, 1996.

DATED: December 17, 1996

POTOMAC ELECTRIC POWER COMPANY

By /s/ D. R. WRAASE
Dennis R. Wraase
Senior Vice President and
Chief Financial Officer

[Corporate Seal]

Attest:

/s/ ELLEN SHERIFF ROGERS
Ellen Sheriff Rogers
Secretary

DISTRICT OF COLUMBIA
STATEMENT OF
CANCELLATION OF REDEEMABLE SHARES
OF
POTOMAC ELECTRIC POWER COMPANY

Under the provisions of Section 29-359 of Chapter 3 of Title 29 of the District of Columbia Code, 1981 Edition (Section 59 of the District of Columbia Business Corporation Act, as amended), the undersigned corporation submits this statement of cancellation, pursuant to the provisions of its articles of incorporation, of redeemable shares of the corporation reacquired by it subsequent to the close of business on December 12, 1996, and prior to the close of business on December 11, 1997, through their conversion, in accordance with their terms, into shares of its common stock, and through redemption subsequent to the close of business on December 12, 1996, and prior to the close of business on December 11, 1997 of 30,000 shares of Serial Preferred Stock, $3.37 Series of 1987.

FIRST: The name of the corporation is Potomac Electric Power Company.

SECOND: The aggregate number of shares which the corporation had authority to issue is 219,925,649 itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Common Stock	-	200,000,000
Preference	Undesignated as to series	8,800,000

Serial Preferred Stock	$2.44 Series of 1957	300,000
	$2.46 Series of 1958	300,000
	$2.28 Series of 1965	400,000
	$2.44 Convertible Series of 1966	5,953
	$3.82 Series of 1969	500,000
	$3.37 Series of 1987	869,696
	Auction Series A	1,000,000
	$3.89 Series of 1991	1,000,000
	$3.40 Series of 1992	1,000,000
	Undesignated as to series	5,750,000

THIRD: The number of shares of the corporation so cancelled is

30,148 itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Serial Preferred Stock	$2.44 Convertible Series of 1966	148
	$3.37 Series of 1987	30,000

FOURTH: The number of shares which the corporation has authority

to issue after giving effect to such cancellation is

219,895,501, itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Common Stock	-	200,000,000
Preference Stock	Undesignated as to series	8,800,000
Serial Preferred Stock	$2.44 Series of 1957	300,000
	$2.46 Series of 1958	300,000
	$2.28 Series of 1965	400,000
	$2.44 Convertible Series of 1966	5,805
	$3.82 Series of 1969	500,000
	$3.37 Series of 1987	839,696
	Auction Series A	1,000,000
	$3.89 Series of 1991	1,000,000
	$3.40 Series of 1992	1,000,000
	Undesignated as to series	5,750,000

FIFTH: The aggregate number of issued shares of the corporation

after giving effect of such cancellation is 123,846,381

itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Common Stock	-	118,500,880
Preference Stock	-	NONE
Serial Preferred Stock	$2.44 Series of 1957	300,000
	$2.46 Series of 1958	300,000
	$2.28 Series of 1965	400,000
	$2.44 Convertible Series of 1966	5,805
	$3.82 Series of 1969	500,000
	$3.37 Series of 1987	839,696
	Auction Series A	1,000,000
	$3.89 Series of 1991	1,000,000
	$3.40 Series of 1992	1,000,000

SIXTH: After giving effect to such cancellation, the amounts of the stated capital and paid-in surplus of the corporation, computed in accordance with the provisions of the District of Columbia Business Corporation Act, as amended, are $385,775,930 and $1,010,219,386.21, respectively.

DATED: December 17, 1997

POTOMAC ELECTRIC POWER COMPANY

By: /S/ D. R. WRAASE
Dennis R. Wraase
Senior Vice President and
Chief Financial Officer

[Corporate Seal]

Attest:

/S/ ELLEN SHERIFF ROGERS
Ellen Sheriff Rogers
Secretary

DISTRICT OF COLUMBIA, ss.:

I, Loretta S. Thompson, a Notary Public, do hereby certify that on this 17th day of December, 1997, personally appeared before me Dennis R. Wraase, who, being by me first duly sworn, declared that he is Senior Vice President and Chief Financial Officer of Potomac Electric Power Company, that he signed the foregoing document as Senior Vice President and Chief Financial Officer of the corporation, and that the statements therein contained are true.

/S/ LORETTA S. THOMPSON
Notary Public, D. C.

[Notarial Seal] My commission expires: 12/31/2002

ARTICLES OF AMENDMENT
OF
POTOMAC ELECTRIC POWER COMPANY

Under the provisions of Section 13.1-652 of the Code of Virginia, as amended, the undersigned corporation submits these Articles of Amendment.

FIRST: The name of the corporation is Potomac Electric Power Company.

SECOND: The reduction in the number of authorized shares of the corporation is 30,148, itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Serial Preferred		

Stock	$2.44 Convertible Series of 1966	148
	$3.37 Series of 1987	30,000

THIRD: The total number of authorized shares of the corporation remaining after giving effect to such reduction is 219,895,501, itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Common Stock	-	200,000,000
Preference Stock	Undesignated as to series	8,800,000
Serial Preferred Stock	$2.44 Series of 1957	300,000
	$2.46 Series of 1958	300,000
	$2.28 Series of 1965	400,000
	$2.44 Convertible Series of 1966	5,805
	$3.82 Series of 1969	500,000
	$3.37 Series of 1987	839,696
	Auction Series A	1,000,000
	$3.89 Series of 1991	1,000,000
	$3.40 Series of 1992	1,000,000
	Undesignated as to series	5,750,000

The Articles of Incorporation prohibit the reissuance of acquired shares.

FOURTH: The reduction in the number of authorized shares was duly authorized by the Board of Directors on December 15, 1997.

DATED: December 17, 1997

[Corporate Seal] POTOMAC ELECTRIC POWER COMPANY
Attest:

/S/ ELLEN SHERIFF ROGERS
Ellen Sheriff Rogers
Secretary

/S/ D. R. WRAASE
Dennis R. Wraase
Senior Vice President and
Chief Financial Officer

DISTRICT OF COLUMBIA

STATEMENT OF
CANCELLATION OF REDEEMABLE SHARES
OF
POTOMAC ELECTRIC POWER COMPANY

Under the provisions of Section 29-359 of Chapter 3 of Title 29 of the District of Columbia Code, 1981 Edition (Section 59 of the District of Columbia Business Corporation Act, as amended), the undersigned corporation submits this statement of cancellation, pursuant to the provisions of its articles of incorporation, of redeemable shares of the corporation reacquired by it subsequent to the close of business on December 12, 1997, and prior to the close of business on December 11, 1998, through their conversion, in accordance with their terms, into shares of its common stock, and through redemption subsequent to the close of business on December 12, 1997, and prior to the close of business on December 11, 1998 of 1,278 shares of Serial Preferred Stock, $2.44 Convertible Series of 1966, 500,000 shares of Serial Preferred Stock, $3.82 Series of 1969, 839,696 shares of Serial Preferred Stock, $3.37 Series of 1987 and 1,000,000 shares of Serial Preferred Stock, $3.89 Series of 1991.

FIRST: The name of the corporation is Potomac Electric Power Company.

SECOND: The aggregate number of shares which the corporation had authority to issue is 219,895,501 itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Common Stock	-	200,000,000
Preference	Undesignated as to series	8,800,000
Serial Preferred Stock	$2.44 Series of 1957	300,000
	$2.46 Series of 1958	300,000
	$2.28 Series of 1965	400,000
	$2.44 Convertible Series of 1966	5,805
	$3.82 Series of 1969	500,000
	$3.37 Series of 1987	839,696
	Auction Series A	1,000,000
	$3.89 Series of 1991	1,000,000
	$3.40 Series of 1992	1,000,000
	Undesignated as to series	5,750,000

THIRD: The number of shares of the corporation so cancelled is 2,345,501 itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Serial Preferred Stock	$2.44 Convertible Series of 1966	5,805
	$3.82 Series of 1969	500,000
	$3.37 Series of 1987	839,696
	$3.89 Series of 1991	1,000,000

FOURTH: The number of shares which the corporation has authority to issue after giving effect to such cancellation is 217,550,000, itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Common Stock	-	200,000,000
Preference Stock	Undesignated as to series	8,800,000
Serial Preferred Stock	$2.44 Series of 1957	300,000
	$2.46 Series of 1958	300,000
	$2.28 Series of 1965	400,000
	Auction Series A	1,000,000
	$3.40 Series of 1992	1,000,000
	Undesignated as to series	5,750,000

FIFTH: The aggregate number of issued shares of the corporation after giving effect of such cancellation is 121,527,287 itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Common Stock	-	118,527,287

Preference Stock	-	NONE
Serial Preferred Stock	$2.44 Series of 1957	300,000
	$2.46 Series of 1958	300,000
	$2.28 Series of 1965	400,000
	Auction Series A	1,000,000
	$3.40 Series of 1992	1,000,000

SIXTH: After giving effect to such cancellation, the amounts of the stated capital and paid-in surplus of the corporation, computed in accordance with the provisions of the District of Columbia Business Corporation Act, as amended, are $268,527,287 and $1,011,568,625.09, respectively.

DATED: December 16, 1998

(Corporate Seal) POTOMAC ELECTRIC POWER COMPANY
Attest:

/s/ ELLEN SHERIFF ROGERS
_____
Ellen Sheriff Rogers
Secretary

/s/ D. R. WRAASE
By _____
Dennis R. Wraase
Senior Vice President and
Chief Financial Officer

DISTRICT OF COLUMBIA, ss.:

I, Lisa A. Poole, a Notary Public, do hereby certify that on this 16th day of December, 1998 personally appeared before me Dennis R. Wraase, who, being by me first duly sworn, declared that he is Senior Vice President and Chief Financial Officer of Potomac Electric Power Company, that he signed the foregoing document as Senior Vice President and Chief Financial Officer of the corporation, and that the statements therein contained are true.

/s/ LISA A. POOLE

Notary Public, D. C.

[Notarial Seal] My commission expires: 7-31-02

ARTICLES OF AMENDMENT
OF
POTOMAC ELECTRIC POWER COMPANY

Under the provisions of Section 13.1-652 of the Code of Virginia, as amended, the undersigned corporation submits these Articles of Amendment.

FIRST: The name of the corporation is Potomac Electric Power Company.

SECOND: The reduction in the number of authorized shares of the corporation is 2,345,501, itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Serial Preferred Stock	$2.44 Convertible Series of 1966	5,805
	$3.82 Series of 1969	500,000
	$3.37 Series of 1987	839,696
	$3.89 Series of 1991	1,000,000

THIRD: The total number of authorized shares of the corporation remaining after giving effect to such reduction is 217,550,000, itemized as follows:

CLASS	SERIES	NUMBER OF SHARES
Common Stock	-	200,000,000
Preference Stock	Undesignated as to series	8,800,000
Serial Preferred		

Stock	$2.44 Series of 1957	300,000
	$2.46 Series of 1958	300,000
	$2.28 Series of 1965	400,000
	Auction Series A	1,000,000
	$3.40 Series of 1992	1,000,000
	Undesignated as to series	5,750,000

The Articles of Incorporation prohibit the reissuance of acquired shares.

FOURTH: The reduction in the number of authorized shares was duly authorized by the Board of Directors on December 14, 1998.

DATED: December 16, 1998

[Corporate Seal]
Attest:

POTOMAC ELECTRIC POWER COMPANY

/s/ ELLEN SHERIFF ROGERS
_____
Ellen Sheriff Rogers
Secretary

By /s/ D. R. WRAASE
_____
Dennis R. Wraase
Senior Vice President and
Chief Financial Officer

By-Laws

of

POTOMAC ELECTRIC POWER COMPANY
WASHINGTON, D. C.

As amended through
October 22, 1998

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POTOMAC ELECTRIC POWER COMPANY

BY-LAWS

_____

ARTICLE I

SECTION 1. The annual meeting of the stockholders of the Company shall be held on such day, at such time and place within

or without the District of Columbia as the Board of Directors or the Executive Committee shall designate for the purpose of electing directors and of transacting such other business as may properly be brought before the meeting.

At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board, otherwise properly brought before the meeting by or at the direction of the Board, or otherwise properly brought before the meeting by a stockholder. In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of Potomac Electric Power Company. To be timely, a stockholder's notice must be received at the principal executive offices of the Company not less than 60 days nor more than 85 days prior to the meeting; provided, however, that in the event that less than 65 days' notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the fifteenth day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made, whichever first occurs. A stockholder's notice to the Secretary shall set forth (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and record address of the stockholder proposing such business, (iii) the class and number of shares of the Company that are beneficially owned by the stockholder, and (iv) any material interest of the stockholder in such business.

Notwithstanding anything in the By-Laws to the contrary, no business shall be conducted at the annual meeting except in accordance with the procedures set forth in this Article I, Section 1; provided, however, that nothing in this Article I, Section 1 shall be deemed to preclude discussion by any stockholder of any business properly brought before the annual meeting in accordance with such procedures.

The Chairman of an annual meeting shall, if the facts warrant, determine that business was not properly brought before the meeting in accordance with the provisions of this Article I, Section 1, and if he should so determine, he shall so declare to

the meeting and any such business not properly brought before the meeting shall not be transacted.

SECTION 2. Special meetings of the stockholders, when called, shall be held at such time and place within or without the District of Columbia and may be called by the Board of Directors, or the Executive Committee, or the holders of record of not less than one-fifth of all the outstanding shares entitled to vote at the meeting, or, if the meeting is for the purpose of enabling the holders of the Serial Preferred Stock of the Company to elect directors upon the conditions set forth in the Articles of Incorporation of the Company, such meeting shall be called as therein provided.

SECTION 3. Written notice stating the place, day and hour of each meeting of the stockholders and the purpose or purposes for which the meeting is called shall be given not less than ten days (or such longer period as may be prescribed by law) and not more than fifty days before the date of the meeting to each stockholder of record entitled to vote at the meeting, by depositing such notice in the United States mail addressed to the respective stockholders at their addresses as they appear on the records of the Company, with postage thereon prepaid.

In connection with the first election of a portion of the members of the Board of Directors by the holders of the Serial Preferred Stock upon accrual of such right, as provided in the Articles of Incorporation of the Company, the Company shall prepare and mail to the holders of the Serial Preferred Stock entitled to vote thereon such proxy forms, communications and documents as may be deemed appropriate for the purpose of soliciting proxies for the election of directors by the holders of the Serial Preferred Stock.

The Secretary or an Assistant Secretary of the Company shall cause to be made, at least ten days before each meeting of stockholders, a complete list of the stockholders entitled to vote at such meeting or any adjournment thereof, with the address of and the number of shares held by each. Such list, for a period of ten days prior to such meeting, shall be kept on file at the principal place of business of the Company and shall be subject to inspection for any proper purpose by any stockholder at any time during usual business hours. Such list shall also be produced and kept open at the time and place of the meeting and shall be subject to the inspection for any proper purpose of any stockholder during the whole time of the meeting.

SECTION 4. At each meeting of stockholders the holders of record of a majority of the outstanding shares entitled to vote at such meeting, represented in person or by proxy, shall constitute a quorum, except as otherwise provided by law or by

the Articles of Incorporation of the Company. The affirmative vote of the holders of a majority of the shares represented at a duly organized meeting at which a quorum was present at the time of organization, and entitled to vote on the subject matter, shall be the act of the stockholders, unless the vote of the holders of a greater

number, or voting by classes, is required by law or by the Articles of Incorporation of the Company and except that in elections of directors those receiving the greatest numbers of votes shall be deemed elected even though not receiving a majority. If a meeting cannot be organized because a quorum has not attended, the holders of a majority of the shares represented at the meeting may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall have been obtained, when any business may be transacted which might have been transacted at the meeting as first convened had there been a quorum.

SECTION 5. Meetings of the stockholders shall be presided over by the Chairman of the Board or, if he is not present, by the President or, if neither is present, by a Vice Chairman or, if no such officer is present, by a chairman to be chosen at the meeting. The Secretary of the Company or, if he is not present, an Assistant Secretary of the Company or, if neither is present, a secretary to be chosen at the meeting, shall act as Secretary of the meeting.

SECTION 6. Each stockholder entitled to vote at any meeting may so vote either in person or by proxy executed in writing by the stockholder or by his duly authorized attorney-in-fact and shall be entitled to one vote on each matter submitted to a vote for each share of stock of the Company having voting power thereon registered in his name at the date fixed for the determination of the stockholders entitled to vote at the meeting.

SECTION 7. At all elections of directors the voting shall be by ballot. At all such elections, the Chairman of the meeting shall appoint two inspectors of election, unless such appointment shall be unanimously waived by the stockholders present in person or represented by proxy at the meeting and entitled to vote for the election of directors. No director or candidate for the office of director shall be appointed as such inspector. The inspectors, before entering upon the discharge of their duties, shall take and subscribe an oath or affirmation faithfully to execute the duties of inspector at such meeting with strict

impartiality and according to the best of their ability, and shall take charge of the polls and after the balloting shall make a certificate of the result of the vote taken.

SECTION 8. In order to determine who are stockholders of the Company for any proper purpose, the Board of Directors either may close the stock transfer books or, in lieu thereof, may fix in advance a date as the record date for such determination, such date in any case to be not more than fifty days (and, in the case of a meeting of stockholders, not less than ten days or such longer period as may be required by law) prior to the date on which the particular action, requiring such determination, is to be taken. When such a record date has been so fixed for the determination of stockholders entitled to vote at a meeting, such determination shall apply to any adjournment thereof.

ARTICLE II

BOARD OF DIRECTORS

SECTION 1. The Board of Directors of the Company shall consist of twelve persons, each of whom shall be a stockholder of the Company. The directors shall be divided into three classes, designated Class I, Class II, and Class III. Each of the classes shall have four directors. At the 1987 annual meeting of stockholders, Class I directors shall be elected for a one-year term, Class II directors for a two-year term, and Class III directors for a three-year term. At each succeeding annual meeting of stockholders beginning in 1988, successors to the class of directors whose term expires at that annual meeting shall be elected for a three-year term. Except as otherwise provided in the Articles of Incorporation of the Company and in these By-Laws, the directors shall hold office until the annual meeting of the stockholders for the year in which their respective terms expire and until their respective successors shall have been elected and qualified. No person shall be eligible for election as a director after he shall have attained his seventieth birthday, and no person shall be eligible to serve as a director beyond the next annual meeting after he shall have attained his seventieth birthday. No director who is a full time employee of the Company shall be eligible to serve as a director beyond the next annual meeting after termination of his employment with the Company, provided, that (a) this provision shall not apply to a director who is serving or has served as Chief Executive Officer and (b) a director serving at the time of termination of employment as Vice Chairman shall be permitted to continue as director until the expiration of his three-year term.

Seven members of the Board shall constitute a quorum for the transaction of business, but if any meeting of the Board cannot be organized because a quorum has not attended, a majority of those present may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall have been obtained, when any business may be transacted which might have been transacted at the meeting as first convened had there been a quorum. The acts of a majority of the directors present at a meeting at which a quorum is present shall, except as otherwise provided by law, by the Articles of Incorporation of the Company, or by these By-Laws, be the acts of the Board of Directors.

Only persons who are nominated in accordance with the following procedures shall be eligible for election as Directors. Nominations of persons for election to the Board of the Company may be made at the annual meeting of stockholders by or at the direction of the Board of Directors, by any nominating committee or person appointed by the Board, or by any stockholder of the Company entitled to vote for the election of Directors at the meeting who complies with the notice procedures set forth in this Article II, Section 1. Such nominations, other than those made by or at the direction of the Board or by a nominating committee or person appointed by the Board, shall be made pursuant to timely notice in writing to the Secretary of Potomac Electric Power Company. To be timely, a stockholder's notice shall be received at the principal executive offices of the Company not less than 60 days nor more than 85 days prior to the meeting; provided, however, that in the event that less than 65 days' notice or prior public disclosure of the date of the meeting is given or

made to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the fifteenth day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made, whichever first occurs. Such stockholder's notice to the Secretary shall set forth (a) as to each person whom the stockholder proposes to nominate for election or reelection as a Director, (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class and number of shares of capital stock of the Company that are beneficially owned by the person and (iv) any other information relating to the person that is required to be disclosed in solicitations for proxies for election of Directors pursuant to Section 14(a) of the Securities Exchange Act of 1934, as amended; and (b) as to the stockholder

giving the notice (i) the name and record address of the stockholder and (ii) the class and number of shares of capital stock of the Company that are beneficially owned by the stockholder. The Company may require any proposed nominee to furnish such other information as may reasonably be required by the Company to determine the eligibility of such proposed nominee to serve as Director of the Company. No person shall be eligible for election as a Director of the Company unless nominated in accordance with the procedures set forth herein.

The Chairman of the meeting shall, if the facts warrant, determine that a nomination was not made in accordance with the foregoing procedure, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

The Board of Directors, as soon as is reasonably practicable after the initial election of Directors by the stockholders in each year, shall elect one of its number Chairman of the Board, who may be, but is not required to be, an officer and employee of the Company.

SECTION 2. Any vacancy, from any cause other than an increase in the number of Directors, occurring among the directors shall be filled without undue delay by a majority of the remaining directors who were elected, or whose predecessors in office were elected, by the same class of stockholders as that which elected the last incumbent of the vacant directorship. The term of any director elected by the remaining directors to fill a vacancy (other than one caused by an increase in the number of directors) shall expire at the next stockholders' meeting at which directors are elected.

SECTION 3. Regular meetings of the Board of Directors shall be held at the office of the Company in the District of Columbia (unless otherwise fixed by resolution of the Board) at such time as may from time to time be fixed by resolution of the Board. Special meetings of the Board may be held upon call of the Executive Committee, or the Chairman of the Board, or the President, or a Vice Chairman, by oral, telegraphic or written notice, setting forth the time and place (either within or without the District of Columbia) of the meeting, duly served on or sent or mailed to each director not less than two days before the meeting. A meeting of the Board may be held without notice, immediately after, and at the same place as, the annual meeting of the stockholders. A waiver

in writing of any notice, signed by a director, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice to such director. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board need be specified in any notice, or waiver of notice, of such meeting.

SECTION 4. Meetings of the Board of Directors shall be presided over by the Chairman of the Board or, if he is not present, by the President or, if neither is present, by a Vice Chairman or, if no such officer is present, by a chairman to be chosen at the meeting. The Secretary of the Company or, if he is not present, an Assistant Secretary of the Company or, if neither is present, a secretary to be chosen at the meeting, shall act as secretary of the meeting.

SECTION 5. The Board of Directors may, by resolution or resolutions adopted by not less than the number of directors necessary to constitute a quorum of the Board, designate an Executive Committee consisting of not less than three nor more than seven directors. Except as otherwise provided by law, the Executive Committee shall have and may exercise, when the Board is not in session, all of the powers of the Board in the management of the property, business and affairs of the Company; but the Executive Committee shall not have power to fill vacancies in the Board, or to change the membership of, or to fill vacancies in, the Executive Committee, or to adopt, alter, amend, or repeal by-laws of the Company. The Board shall have the power at any time to fill vacancies in, to change the membership of, or to dissolve, the Executive Committee. The Executive Committee may make rules for the conduct of its business and fix the time and place of its meetings, and may appoint such committees and assistants as it shall from time to time deem necessary. A majority of the members of the Executive Committee shall constitute a quorum, and the acts of a majority of the members of the Committee present at a meeting at which a quorum is present shall be the acts of said Committee. All action taken by the Executive Committee shall be reported to the Board at its regular meeting next succeeding the taking of such action.

SECTION 6. The Board of Directors may also, by resolution or resolutions adopted by not less than the number of directors necessary to constitute a quorum of the Board, designate one or more other committees, each such committee to consist of such number of directors as the Board may from time to time determine, which, to the extent provided in said resolution or resolutions, shall have and may exercise such limited authority as the Board may authorize. Such committee or committees shall have such name or names as the Board may from time to time determine. The Board shall have the power at any time to fill vacancies in, to change

the membership of, or to dissolve, any such committee. A majority, or such other number as the Board may designate, of the members of any such committee shall constitute a quorum. Each such committee may make rules for the conduct of its business and fix the time and place of its meetings unless the Board shall otherwise provide. All action taken by any such committee shall be reported to the Board at its regular meeting next succeeding the taking of such action, unless otherwise directed.

SECTION 7. The Board of Directors shall fix the compensation to be paid to each director who is not a salaried employee of the Company for serving as a director and for attendance at meetings of the Board and committees thereof, and may authorize the payment to directors of expenses incurred in attending any such meeting or otherwise incurred in connection with the business of the Company. This By-Law shall not be construed to preclude any Director from serving the Company in any other capacity and receiving compensation therefor.

SECTION 8. At a special meeting called expressly for such purpose (i) any director elected by the holders of the Serial Preferred Stock, or elected by directors to fill a vacancy among the directors elected by the holders of such stock, may be removed, only for cause, by a vote of the holders of a majority of the shares of Serial Preferred Stock, and the resulting vacancy may be filled, for the unexpired term of the director so removed, by a vote of the holders of such Stock; and (ii) any director elected by the holders of the Common Stock, or elected by directors to fill a vacancy among the directors elected by the holders of such stock, may be removed, only for cause, by a vote of the holders of a majority of the shares of Common Stock, and the resulting vacancy may be filled, for the unexpired term of the director so removed, by a vote of the holders of such Stock.

SECTION 9. With respect to a Company officer, director, or employee, the Company shall indemnify, and with respect to any other individual the Company may indemnify, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding (an "Action"), whether civil, criminal, administrative, arbitrative or investigative (including an Action by or in the right of the Company) by reason of the fact that he is or was a director, officer, employee or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys'

fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such Action; except in relation to matters as to which he shall be finally adjudged in such Action to have knowingly violated the criminal law or be liable for willful misconduct in the performance of his duty to the Company. The termination of any Action by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not of itself create a presumption that the person was guilty of willful misconduct.

Any indemnification (unless ordered by a court) shall be made by the Company only as authorized in the specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because he has met the applicable standard of conduct set forth above. In the case of any director, such determination shall be made: (1) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such Action; or (2) if such a quorum is not obtainable, by majority vote of a committee duly designated by the Board of Directors (in which designation directors who are parties may participate) consisting solely of two or more directors not at the time parties to the proceeding; or (3) by special legal counsel selected by the Board of Directors or its committee in the manner prescribed by clause

(1) or (2) of this paragraph, or if such a quorum is not obtainable and such a committee cannot be designated, by majority vote of the Board of Directors, in which selection directors who are parties may participate; or (4) by vote of the shareholders, in which vote shares owned by or voted under the control of directors, officers and employees who are at the time parties to the Action may not be voted. In the case of any officer, employee, or agent other than a director, such determination may be made (i) by the Board of Directors or a committee thereof; (ii) by the Chairman of the Board of the Company or, if the Chairman is a party to such Action, the President of the Company, or (iii) such other officer of the Company, not a party to such Action, as such person specified in clause (i) or (ii) of this paragraph may designate. Authorization of indemnification and evaluation as to reasonableness of expenses shall be made in the same manner as the determination that indemnification is permissible, except that if the determination is made by special legal counsel, authorization of indemnification and evaluation as to reasonableness of expenses shall be made by those entitled hereunder to select such legal counsel.

Expenses incurred in defending an Action for which

indemnification may be available hereunder shall be paid by the Company in advance of the final disposition of such Action as authorized in the manner provided in the preceding paragraph, subject to execution by the person being indemnified of a written undertaking to repay such amount if and to the extent that it shall ultimately be determined by a court that such indemnification by the Company is not permitted under applicable law.

It is the intention of the Company that the indemnification set forth in this Section 9 of Article II, shall be applied to no less extent than the maximum indemnification permitted by law. In the event that any right to indemnification or other right hereunder may be deemed to be unenforceable or invalid, in whole or in part, such unenforceability or invalidity shall not affect any other right hereunder, or any right to the extent that it is not deemed to be unenforceable. The indemnification provided herein shall be in addition to, and not exclusive of, any other rights to which those indemnified may be entitled under any by-law, agreement, vote of stockholders, or otherwise, and shall continue as to a person who has ceased to be a director, officer, employee, or agent and inure to the benefit of such person's heirs, executors, and administrators.

SECTION 10. The Board of Directors may, in its discretion, at any time elect one or more persons to the position of Advisory Director, to serve as such during the pleasure of the Board, but, except for a director who has served as Chief Executive Officer, no person shall be eligible to serve as an Advisory Director beyond the next annual meeting after he shall have attained his seventy-second birthday. Advisory Directors so elected by the Board shall be entitled to attend, and take part in discussions at, meetings of the Board of Directors, but shall not be considered members of the Board for quorum or voting purposes. Advisory Directors shall receive the same compensation as members of the Board.

SECTION 11. In any proceeding brought by a stockholder in the right of the Company or brought by or on behalf of the stockholders of the Company, no monetary damages shall be assessed against an officer or director. The liability of an officer or director shall not be limited as provided in this section if the officer or director engaged in willful misconduct or a knowing violation of the criminal law.

ARTICLE III

OFFICERS

SECTION 1. The Board of Directors, as soon as reasonably practicable after the initial election of directors by stockholders in each year, may elect a Chairman of the Board as an officer of the Company, shall elect a President, may elect one or more Vice Chairmen and shall elect one or more Vice Presidents (who may be given such other descriptive titles as the Board may specify), a Secretary, a Treasurer and a Comptroller, and from time to time may elect such Assistant Secretaries, Assistant Treasurers, Assistant Comptrollers and other officers, and appoint such other agents, as it may deem desirable. Any two or more offices may be held by the same person, except the offices of President and Secretary. The Board of Directors shall elect the Chairman of the Board or one of the above officers Chief Executive Officer of the Company.

SECTION 2. The term of office of all officers shall be until the next succeeding annual election of officers and until their respective successors shall have been elected and qualified; but any officer or agent elected or appointed by the Board of Directors may be removed, with or without cause, by the affirmative vote of a majority of the members of the Board whenever in their judgment the best interests of the Company will be served thereby. Such removal shall be without prejudice to contract rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create contract rights. Unless specifically authorized by resolution of the Board of Directors, no agreement for the employment of any officer for a period longer than one year shall be made.

SECTION 3. Subject to such limitations as the Board of Directors or the Executive Committee may from time to time prescribe, the officers of the Company shall each have such authority and perform such duties in the management of the property, business and affairs of the Company as by custom generally pertain to their respective offices, as well as such authority and duties as from time to time may be conferred by the Board of Directors, the Executive Committee or the Chief Executive Officer.

SECTION 4. The salaries of all officers, employees and agents of the Company shall be determined and fixed by the Board of Directors, or pursuant to such authority as the Board may from time to time prescribe.

ARTICLE IV

CERTIFICATES OF STOCK

SECTION 1. The shares of the capital stock of the Company shall be represented by certificates, provided that the Board of Directors of the Company may provide by resolution that some or all of the shares of any or all of its classes or series of capital stock may be uncertificated shares. Except as otherwise expressly provided by law, the rights and obligations of the holders of uncertificated shares and the rights and obligations of the holders of certificates representing shares of the same class and series shall be identical. Shares of the capital stock of the Company that are evidenced by certificates shall be in such form as the Board of Directors may from time to time prescribe. Such certificates shall be signed by the President or a Vice President and by the Secretary or an Assistant Secretary, shall be sealed with the seal of the Company, or a facsimile thereof, shall be countersigned and registered in such manner, if any, as the Board may by resolution prescribe. Where such a certificate is countersigned by a transfer agent (other than the Company or an employee of the Company), or by a transfer clerk and registered by a registrar, the signatures thereon of the President or Vice President and the Secretary or Assistant Secretary may be facsimiles. In case any officer who has signed or whose facsimile signature has been placed upon any such certificate shall have ceased to be such officer before such certificate is issued, it may be issued by the Company with the same effect as if such officer had not ceased to hold such office at the date of its issue.

SECTION 2. The shares of the capital stock of the Company shall be transferable on the books of the Company by the holders thereof in person or by duly authorized attorney, and, if represented by certificates, upon surrender and cancellation of the certificates evidencing such shares, with duly executed assignment and power of transfer endorsed thereon or attached thereto, and with such proof of the authenticity of the signatures as the Company or its agents may reasonably require and, if uncertificated, upon receipt of appropriate instructions.

SECTION 3. No certificate evidencing shares of the capital stock of the Company shall be issued in place of any certificate alleged to have been lost, stolen, or destroyed, except upon production of such evidence of the loss, theft or destruction, and upon such indemnification of the Company and its agents by such person or persons and in such manner, as the Board of Directors may from time to time prescribe.

ARTICLE V

CHECKS, NOTES, CONTRACTS, ETC.

All checks and drafts on the Company's bank accounts, bills of exchange, promissory notes, acceptances, obligations, other instruments for the payment of money, and endorsements other than

for deposit in a bank account of the Company shall be signed by the Treasurer or an Assistant Treasurer and shall be countersigned by the Chief Executive Officer, the President, a Vice Chairman or a Vice President, unless otherwise authorized by the Board of Directors; provided that checks drawn on the Company's dividend and/or special accounts may bear the manual signature, or the facsimile signature, affixed thereto by a mechanical device, of such officer or agent as the Board of Directors shall authorize.

All contracts, bonds and other agreements and undertakings of the Company shall be executed by the Chief Executive Officer, the President, a Vice Chairman or a Vice President and by such other officer or officers, if any, as may be designated, from time to time, by the Board of Directors and, in the case of any such document required to be under seal, the corporate seal shall be affixed thereto and attested by the Secretary or an Assistant Secretary.

Whenever any instrument is required by this Article to be signed by more than one officer of the Company, no person shall so sign in more than one capacity.

ARTICLE VI

FISCAL YEAR

The fiscal year of the Company shall begin on the first day of January in each year and shall end on the thirty-first day of December following.

ARTICLE VII

OFFICES

The principal office of the Company shall be situated in the District of Columbia. The registered office of the Company in Virginia shall be situated in the County of Fairfax. The Company may have such other offices at such places, within the District of Columbia, the Commonwealth of Virginia, or elsewhere, as shall be determined from time to time by the Board of Directors or by the Chief Executive Officer.

ARTICLE VIII

AMENDMENTS

Except as otherwise provided by law, the Board of Directors may alter, amend, or repeal the By-Laws of the Company, or adopt new By-Laws, at any meeting of the Board, by the affirmative vote of not less than the number of directors necessary to constitute a quorum of the Board.

PREAMBLE

THIS COLLECTIVE BARGAINING AGREEMENT IS MADE BY AND BETWEEN POTOMAC ELECTRIC POWER COMPANY (HEREINAFTER REFERRED TO AS THE "COMPANY") AND LOCAL UNION #1900 OF THE INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS (HEREINAFTER REFERRED TO AS THE "UNION"). THE PARTIES DO HEREBY AGREE AS FOLLOWS:

ARTICLE 1

MANAGEMENT

Section 1.01. By reason of the nature of the business of the Company it is essential, and is therefore agreed, that the management of the Company, the supervision and control of all operations and the direction of the working forces, including, but not limited to, the right to hire, suspend, furlough, discipline, discharge for cause, promote, demote, or transfer employees, and the right to operate the Company, shall be vested in, and reserved to, the Company, except as herein limited.

ARTICLE 2

BARGAINING UNIT

Section 2.01. The Union is recognized as the sole collective bargaining agent for the bargaining unit, which is composed of all employees of the Company at all work locations, regardless of the method of pay, excluding only confidential employees, property protection employees (guards), and professional, supervisory and management employees.

Section 2.02. Regular employees are employees whose employment is reasonably expected to be permanent at the time they are employed, and it is contemplated that they will work in each calendar week a normal workweek.

Section 2.03. Temporary employees are employees whose employment is with the definite understanding that the employment is not of a permanent nature, but it is contemplated that they will work a normal workweek while employed. The Company will inform the Union of the employment and assigned Department of such employees and the expected duration of their employment.

Section 2.04. Whenever the terms "employee" or "employees" are used in this Agreement, they shall refer only to employees in the

bargaining unit as identified herein unless specifically stated otherwise.

Section 2.05. Casual employees are employees who are employed to work part-time of less than a normal workday or a normal workweek. They may be assigned to bargaining unit work but are not in the bargaining unit or subject to this Agreement. These employees will not in any instance deprive qualified regular employees of overtime work. The Company will inform the Union of the employment and assigned Departments of such employees.

Section 2.06. Any existing bargaining unit job moved from bargaining unit to non-bargaining unit will be negotiated with the Union by the Company.

Section 2.07. The Union and the Company shall keep each other informed as to the individuals authorized to act in Union-Management relationships.

Section 2.08. It is the continuing policy of the Company and the Union that the provisions of this Agreement shall be applied to all employees without regard to race, color, religion, national origin, age, sex, handicap, or status as a disabled veteran or veteran of the Vietnam Era.

Section 2.09. The use of the masculine or feminine gender in this Agreement shall be construed as including both genders and not as sex limitations unless the Agreement clearly requires a different construction.

ARTICLE 3

UNION MEMBERSHIP AND DUES DEDUCTION

Section 3.01. It is agreed that upon completion of one (1) month of continuous service employees in bargaining unit positions shall, as a condition of employment, arrange to either:

(a) Become a member of the Union and maintain membership in the Union in good standing in accordance with its Constitution and Bylaws; or

(b) In the case of an employee who is a member of and adheres to established and traditional tenets or teachings of a bona fide religion, body, or sect which has historically held conscientious objections to joining or financially supporting labor organizations, tender sums equal to the dues and initiation fees of the Union to a non-religious non-labor organization charitable fund exempt from taxation

under Section 5.01(c)(3) of Title 26 of the Internal Revenue Code, chosen by such employee from the following three funds:

Washington Hospital Center Regional Skin Bank
2

(IRS-ID#53-0239275)

American Cancer Society
(IRS-ID#52-0591532)

American Heart Association
(IRS-ID#53-0213318)

If such employee who holds conscientious objections pursuant to this provision requests the Union to use the grievance-arbitration procedure on his or her behalf, the Union has the right, in accordance with Section 19 of the National Labor Relations Act, as amended, to charge the employee for the reasonable cost, which shall be determined by the Union, for using such procedures.

(c) No provision of subparagraph (a) shall apply in any state to the extent that it is prohibited by state law.

Section 3.02. The Union will, on such terms and conditions as are generally applicable to other members accept into membership all employees in the bargaining unit.

Section 3.03. All present, new and rehired employees who are in bargaining unit positions, upon completion of the above stated time period shall, as a condition of employment, tender the initiation fees and standard dues uniformly required as a condition of acquiring and retaining membership in the Union, except as provided for in Section 3.01(b) above. It is agreed that the Union shall notify the Company by certified mail when any bargaining unit employee has become delinquent in tendering either the standard dues or initiation fees uniformly required as provided for in Section 3.01(a) above or the equivalent sums as provided for in Section 3.01(b) above, and the Company shall thereupon notify the employee that, unless he/she tenders to the Union the delinquent dues or initiation fees or their equivalent within 30 days, his/her employment by the Company shall be terminated. The Union agrees that it will not require the Company to discharge any such employee for any reason other than failure of the employee to tender such fees and/or dues uniformly required as a condition of acquiring or retaining membership in

the Union, or as required under Section 3.01(b) above.

Section 3.04. The Company agrees to deduct all such dues and fees, or their equivalent from the pay of each employee from whom it receives a lawful written authorization and will continue to make such deductions while the authorization remains in effect. Such deductions shall be made from the payroll for the month following the month in which written authorization is received by the Company. The sums so collected shall be paid by the Company to the Financial Secretary of the Union. The Union shall notify the Company in writing of any changes in said fees and/or dues,

or their equivalent, but in no case shall the Company collect and/or pay over to the Union any sums in excess of those authorized.

Section 3.05. Notwithstanding anything to the contrary contained herein or in any such written authorization, the Company may, in its discretion, cease to deduct and pay over in accordance with any such written authorization from and after the date on which the grantor of such authorization ceases to occupy a position included in the bargaining unit.

Section 3.06. All such written authorizations, and all withdrawals, cancellations and modifications thereof, shall be valid and effective, notwithstanding anything to the contrary contained therein or herein, only if transmitted to the Company through the Financial Secretary of the Union.

Section 3.07. The Union shall indemnify and save the Company harmless against any and all claims, demands, lawsuits, or other forms of liability that may arise out of or by reason of action taken by the Company in making payroll deductions of Union membership dues, and/or fees, or their equivalent, as herein above defined or as a result of discharge of an employee for failure to pay such dues and/or fees, or their equivalent.

Section 3.08. In order to facilitate voluntary contributions to the IBEW Committee on Political Education (COPE), the Company agrees to deduct a specified dollar amount from the pay of each employee for whom it receives a lawful written authorization, provided the salary, wages or sickness benefit payments due the employee for a payroll period are sufficient to permit such deduction. The Company will continue to make such deductions while the authorization remains in effect or until the employee ceases to occupy a position included in the bargaining unit.

(a) The sums so collected shall be paid by the Company to the Financial Secretary of the Union. The Union shall notify the Company in writing of any changes of the deduction amounts authorized, but in no case shall the Company collect and/or pay over to the Union any sums in excess of those authorized.

(b) All written authorizations, and all withdrawals, cancellations and modifications thereof, shall be valid and effective, notwithstanding anything to the contrary contained therein or herein, only if transmitted to the Company through the Financial Secretary of the Union.

(c) As required by law, the Union shall reimburse the Company for the full cost of implementation and continued administration of the payroll deduction system for IBEW COPE.

(d) The Union shall indemnify and save the Company harmless against any and all claims, demands, lawsuits, or other forms of liability that may arise out of or by reason of action taken by the Company in making payroll deductions of IBEW COPE contributions.

ARTICLE 4

UNION BUSINESS

Section 4.01. Upon proper request as hereinafter set forth, Union Officers, Chief Stewards, and Stewards shall be excused from duty in order to attend to Union business.

(a) Request for time off for Union business shall be made to the Department Head or Supervisor as early as possible in advance and permission obtained before leaving. The Supervisor will grant permission except in cases of emergency when any one of the above named cannot be spared.

(b) Excused persons (named above) shall report back to their supervisors immediately upon return to duty.

(c) Time off for the purpose of attending to Union business shall be limited to short periods of time. Protracted absences must be taken up specially in accordance with Article 14, Section 14.10.

(d) Any other member of the Union whose services are required in

connection with Union business shall be excused from duty for up to one day upon request of the President of the Union (or his/her designated representative) to the member's Supervisor or Department Head under the same conditions as listed above.

Section 4.02. In order to investigate alleged grievances, a Union Officer, Chief Steward or Steward shall be permitted to visit employees at work or observe working conditions. On such occasions, the person shall first see the Department Head, who will make such arrangements as may be necessary, provided there is no undue interference with work in progress. Upon being granted permission to enter the property, the Union Officer, Chief Steward or Steward will conform to all Company regulations.

Section 4.03. Union Officers, Chief Stewards or Stewards or any other Union representatives shall not engage in Union activities on Company time or property except as provided in Section 4.01 of this Article or in Articles 16, 17 or 18.

Section 4.04. The Company's compensation procedure with respect to time off for employees relative to Union business shall be as follows:

(a) Under Step 1 of Article 17 of this Agreement, the Company will compensate the grievant and the Steward for hours spent in discussion meetings with Company representatives. If such meetings take place outside the grievant's regular working hours or extend beyond the grievant's regular working hours, then such time shall be compensated at the straight time rate.

(b) For Step 2 meetings under Article 17, the Company agrees to compensate the grievant, the Steward and/or the Chief Steward on the same basis as Section 4.04(a) above.

(c) The Company will not compensate any Union members for time spent in arbitration hearings or labor contract negotiating meetings.

(d) No person who is a full-time employee of the Union shall receive any compensation from the Company for any meetings held in connection with this Agreement.

(e) For meetings scheduled under the terms of Article 16 of this Agreement, the Company will compensate the Steward for time in such meetings within the guidelines of Section 4.04(a) above.

(f) Union members who are requested by the Company or OSHA or who are required under State or Federal regulations to attend, assist or accompany OSHA tours or OSHA meetings will be compensated for hours spent during their regularly scheduled working hours. Time spent where Union members have requested voluntary involvement shall not be compensated by the Company.

(g) The Union will make a reasonable effort to minimize the need for Stewards to handle grievances outside their Department or regular work location.

ARTICLE 5

PAY PROGRESSION, WORK ASSIGNMENTS, AND JOB CLASSIFICATIONS

Section 5.01. Wages and salaries shall be paid in accordance with the Standard Wage Classification (identified as Annex A of this Agreement).

Section 5.02. Progression periods for advancement from the minimum rate to the maximum rate indicated for the various

positions included in the bargaining unit shall be on a time and merit basis. Employees receiving less than the maximum rate shall be considered for advancement to the next step rate at the time intervals prescribed in the Standard Wage Classification until they reach the maximum rate of the Pay Grade to which their classification is assigned. Dates for consideration for advancement shall be known as consideration dates. When the employee's ability and general performance record have been satisfactory since his/her last consideration date, he/she shall be advanced to the next step rate. Employees who are to be denied advancement to the next step rate shall be notified in writing of that fact, and the reasons therefor, at least one week prior to their consideration dates, unless absence from work precludes such notice. In such case, the employee shall be given written notice upon return to work.

Section 5.03. Employees not at work for a period of time in excess of 31 consecutive calendar days shall have their consideration dates postponed until they have worked the full period required by the Standard Wage Classification. This shall not apply to employees absent due to an injury incurred in line of duty or because of jury duty or vacation; or to employees absent because they are reservists or National Guard called to active duty for annual military training or temporary active duty by the declaration of an emergency by a state governor or the Mayor of the District of Columbia.

Section 5.04. Changes in pay rates shall become effective on the first day of the payroll period nearest the consideration date.

(a) An employee whose classification is changed to one in a higher Pay Grade shall receive an increase in pay that is more than the largest increase between the step rates of his/her former Pay Grade.

(b) Except as provided in Subsection (c) below, an employee whose classification is changed to one in a lower Pay Grade shall enter the new Pay Grade at the first step; if, during the first consideration period, the employee demonstrates that he/she is qualified to be in a higher step in the Pay Grade than the step for which he/she is being considered at his/her consideration date, he/she shall be moved to the highest step for which he/she is deemed qualified.

(c) An employee whose classification is changed to one in a lower Pay Grade within the same Occupational Group or another Occupational Group whose work is like or similar to the work of the Occupational Group from which the employee came shall enter the new Pay Grade at the highest step which is not greater than his/her former rate of pay. During his/her first consideration period (or within six (6) months, if at the top step), the employee must demonstrate satisfactorily through his/her general work performance that he/she is qualified for that rate. If the employee's performance does not demonstrate such qualification, he/she shall be notified, in writing, of the fact, the reasons therefor, and the step rate in which he/she is to be placed,

at least one (1) week before the consideration date unless absence from work precludes such notice, in which case the employee shall be given written notice upon return to work.

(d) In order to determine which is the higher Pay Grade in the case of a change between weekly and hourly Pay Grades, the weekly equivalent of the top step of the hourly rate shall be compared to the top step of the weekly rate.

(e) An employee whose classification is changed to a classification which is 2 or more Pay Grades below his/her present Pay Grade, the provisions of Section (c) above shall apply.

Section 5.05. The Company agrees that all regular employees will receive a full day's employment each basic scheduled workday of their basic scheduled workweek provided they report for work in accordance with their assigned basic work schedules and the terms and conditions of this Agreement and are in condition to perform their work.

Section 5.06. It is understood and agreed that a full day's employment is defined as the basic schedule only and includes no hours of overtime. It is further agreed that this basic schedule will not be considered as changed by the addition of overtime hours immediately preceding and/or immediately following the basic schedule.

Section 5.07. This is not to preclude furloughs with proper notice as provided in Article 9. This is not to affect the Company's right to suspend employees from duty for disciplinary reasons.

Section 5.08. It is agreed that in the day-by-day assignment of duties in the normal work of any particular Occupational Group, the Company may assign to employees in the Occupational Group any duties required for the execution of that work.

Section 5.09. It is further agreed that the Company may, when necessary, assign employees to duties outside of the normal work of their Occupational Group under the following conditions:

(a) To keep employees productively and usefully engaged in filling in the guaranteed full employment workweek, or

(b) When normal work (of an employee) is slack, or

(c) To avoid furloughs, or

(d) Where there is insufficient work to provide full-time work

for any employee of a particular classification, or

(e) While training employees for advancement to higher rated jobs.

Section 5.10. It is further agreed that the Company may, when necessary, in order to meet service requirements, or fulfill the Company's overall work requirements, or substitute for sickness, vacation or other absence, temporarily assign employees to duties outside the normal work of their Occupational Group, provided that, prior to any such assignment, the Company shall first fully utilize the employees in the other Occupational Group to execute the work.

Section 5.11. Any such assignment under Sections 5.09 and 5.10 shall be (1) a temporary assignment; (2) made only for the above enumerated purposes; (3) terminated as soon as possible consistent with the above purposes; (4) made by the Company without discrimination for Union or personal reasons; and (5) the employee so assigned shall be paid in accordance with Section 5.12 while temporarily assigned.

Section 5.12.

(a) When an employee is temporarily assigned to a job in a higher classification and performs the normal duties and responsibilities of the job, such employee shall be paid the rate of the job for which the employee has previously qualified, or a rate shown in the Annex A Schedules for that job which is at least thirty-five (35) cents an hour ($14.00 a week in weekly rated jobs) over his/her basic regular rate, whichever is higher. The rate of pay is applicable only to time worked and is not to be considered as the employee's regular rate.

(b) While upgraded to Supervisor, an employee shall not be assigned to perform bargaining unit work on an overtime basis within 24 hours after starting the upgrade except (1) in emergencies or (2) when no other employee eligible to work such overtime is available to work the overtime on a voluntary basis.

Section 5.13. It is agreed that to be entitled to the higher rate of pay, the employee must be capable of performing the normal duties and responsibilities of the higher classification as needed that day; however, such capability is not to be considered as a determination as to qualification for permanent promotion to the higher rated classification.

Section 5.14. When an employee is promoted or temporarily upgraded to a job classification in a higher Pay Grade, credit

shall be given in establishing the applicable rate of pay and next consideration date for all periods of prior temporary upgrading for which payment was made in that higher Pay Grade.

Section 5.15. When an employee is assigned to fill a permanent job vacancy in a higher Pay Grade and is deemed qualified to perform the duties of the job, he/she shall be promoted at the time of assignment. If the employee assigned must be given training in order to be able to assume the duties of the job, a training period of 3 months shall be allowed for him/her to establish his/her fitness. During this training period he/she shall receive his/her old rate of pay.

Section 5.16. It is agreed that in the interest of obtaining improved service, better operations or lower costs, the Company has the right to make changes in equipment, operations, and the organization of work, including the determination of job content, requirements and qualifications; and combine jobs, eliminate jobs, and create new jobs, and it is understood that this is a proper function of management.

Section 5.17.

(a) Employees in classifications which are affected by technological change will be given assistance, training and appropriate opportunity to qualify to perform duties arising as a result of such change. If, after being given such assistance, training and opportunity, an employee is deemed not to be qualified to perform the duties of his/her classification, the Company may invoke the provisions of this Section by giving written notice to the employee, copy to the Union. Such notice shall include the following information:

(1) The employee's name, social security number, job title and number, and classified and continuous service seniority dates.

(2) A description of the new or changed duties resulting from technological change that the employee has been unable to perform.

(3) A description of the Company's efforts to provide the employee with assistance, training and appropriate opportunity to qualify to perform the new or changed duties.

(4) A statement that the employee may bid out on any available bargaining unit job he/she is qualified to perform.

(5) A statement that after six (6) months if the employee has failed to make a reasonable attempt to bid into another bargaining unit job which he/she is qualified to perform, the Company will endeavor to place him/her in any available bargaining unit work that he/she is qualified to perform.

(6) A statement that if the employee makes a reasonable attempt to bid into another bargaining unit job but after twelve (12) months has been unsuccessful, the

Company shall prepare a list of all bargaining unit jobs within the employee's Organizational Group for which the employee is deemed qualified that are available at that time or that are anticipated will be available within six (6) months. (Determination as to qualifications shall be based on the criteria set forth in Article 8, Section 8.09). Within fourteen (14) calendar days, the employee must irrevocably choose, in writing, a job from the list or must irrevocably elect to choose a job from a Company-wide list as explained below. If there are no available jobs within the Organizational Group for which the employee is deemed qualified or if the employee elected to choose from the Company-wide list, the Company shall prepare a list of all jobs that are available at that time within the bargaining unit for which the employee is deemed qualified. Within fourteen (14) calendar days, the employee must irrevocably choose, in writing, a job from the list.

(7) An appropriate statement explaining how the employee's pay shall be protected. Protection shall apply as follows:

a) If the employee has twelve and one-half (12-1/2) years of continuous service at the time he/she is sent such notice, he/she will not be reduced in pay.

b) If the employee does not have twelve and one-half

(12-1/2) years of continuous service at the time he/she is sent the notice, the employee shall not be reduced in pay for a period of one (1) full year from the date the notice was sent plus three (3) weeks for every full year of continuous service the employee had at the time the notice was sent. After expiration of this period of pay rate protection, the employee shall be paid the rate of the job into which he/she has bid or been assigned.

(b) The Company will meet with the Union and discuss the seniority placement of such employee; however, in fulfilling its obligation under this Section, the Company may place the employee, either as a result of a bid under Subsection (a)(4) above or through placement under Subsection (a)(5) or (6) above, without regard to the requirements of Article 8 of this Agreement.

(c) In the event a reduction in force is required due in full or in part to technological change, the procedures contained in Article 9 shall apply as they would in any other reduction in force; nothing in Section 5.17 requires otherwise.

Section 5.18. The Standard Wage Classification Schedule (identified and attached hereto as Annex A) will be implemented in accordance with the terms of this Agreement and will remain in

effect throughout the term of this Agreement. Should any dispute related to Annex A arise during the term of this Agreement, it shall not be subject to the grievance procedure outlined in Article 17 or to the arbitration procedure outlined in Article 18 of this Agreement. The rate of pay for any "new job" or "combined job" will be established by the Company subject to negotiation with the Union. For the purpose of this Section a "new job" will be defined as one in which substantially all of the assigned tasks in the job classification have not previously been performed by employees within that classification. For the purpose of this Section a "combined job" will be defined as a job classification created by the combining of two or more existing jobs (jobs currently listed in Annex A) which results in the abolition of either of the existing jobs. The terms "new job" and "combined job" do not apply to the mere addition of duties to, or removal of duties from, a job. If the parties are not able to agree on the proper rate of pay for a new job or combined job, the matter shall be presented to an arbitrator for resolution. The decision of the arbitrator shall be binding on

all parties to this Agreement but in no event will affect the classification or rate of pay of any other jobs in Annex A.

Section 5.19.

(a) The Company and the Union agree that either party may prepare a "Change of Duty" form for the purpose of compiling and documenting what it believes to be changes in the duties and/or responsibilities of the job classifications set forth in Annex A. These Change of Duty forms shall be available from the Company or the Union. When the Union or any employee feels that duties and/or responsibilities of a job have been changed, a Change of Duty form may be filed at any time during the term of this Agreement. The Change of Duty form shall list the changed duties and/or responsibilities, the approximate date(s) of implementation or performance and information necessary to the identification of the job classification in question and the person(s) completing the form. Upon receipt of a Change of Duty form, the appropriate Department Head shall sign and date the form. Copies of the form will be distributed as follows: one copy to the Union President, one copy to Industrial Relations, and one copy to the employee. The Department Head's signature shall only acknowledge receipt of the form and shall not represent agreement with its contents.

(b) The Company and the Union shall include any jobs which either party believes has undergone a substantial change in duties and/or responsibilities since June 1, 1982, or the last date on which the Pay Grade for the job was adjusted, in the negotiations referred to in Section 24.02 of this Agreement. Any settlement reached to change the wage rate of a classification shall be retroactive to the date on which added duties and/or responsibilities of the job warranted an increase or June 1, 1994 whichever is later, except that if a Change of Duty form regarding such change

was not filed within thirty (30) days after the date of the change, the retroactive period shall terminate with the filing date of the Change of Duty form. Disputes over the period for which retroactive pay under this Subsection is to apply shall be resolved only through negotiation and shall not be subject to the grievance or arbitration procedures outlined in Article 17 or 18 of this Agreement or the successor agreement.

ARTICLE 6

SPECIAL PREMIUMS

Section 6.01.

(a) Standard A&C Shifts

Employees whose regular schedule requires them to work a shift where half or more hours are within 4 p.m. to 8 a.m. shall be paid a premium equal to $1.40 multiplied by the number of hours in the employee's regular schedule for that day.

(b) Non-Standard Shifts

Employees whose regular schedule requires them to work a shift that begins more than two (2) hours before or after 12 midnight ("A" shift), 8 a.m. ("B" shift) or 4 p.m. ("C" shift) shall be paid a premium equal to $1.65 as follows, multiplied by the number of hours in the employee's regular schedule for that day.

(c) Premiums paid for non-standard shifts are in lieu of, not in addition to, premiums for standard shifts.

(d) The payments under this Section are not to be paid to employees working shifts as overtime or receiving premium payments because of change of schedule, but are applicable only to those hours worked on the shift when worked as a regular schedule.

Section 6.02. Employees whose regular schedule requires them to work a shift where half or more hours occur on Sunday, shall be paid a premium of 25% of the employee's basic rate per hour multiplied by the number of hours in the employee's regular schedule for that shift. The payments are not to be paid to employees working shifts as overtime or receiving premium payments because of change of schedule, but are applicable only to those hours worked on the shift when worked as a regular schedule.

Section 6.03. Whenever the basic working schedule of an employee is changed by the Company and he/she does not receive 96 hours' notice before the change takes place, he/she shall be paid at the rate of double time for the first day worked on the new schedule. When notice of 96 hours is given before the change takes place,

no premium rate will be paid. If an employee is given a change of schedule without 96 hours' notice but on the day the employee receives the change of schedule, he/she receives notice of its cancellation before being released from work--the employee will receive no change of schedule premium.

Section 6.04. Any change in schedule, whether the 96 hours' notice is given or not, will be given to the employee in writing. If the employee is not at work, such change will be given to the employee in writing immediately upon his/her return to work.

Section 6.05. Where a change in working schedule without the required notice causes an employee to be off duty instead of working, he/she shall be paid double time for his/her next straight time working day.

Section 6.06. Changes in working hours whereby schedules are shifted by one (1) hour or less will not be considered a change of schedule within the meaning of Sections 6.03-6.10 inclusive providing notice is given to the employee during his/her last preceding work shift or at least 12 hours prior to the change.

Section 6.07. A shift or off-day exchange within the same workweek by mutual agreement between employees in the same job classification will be permitted if approved by the Supervisor, when it does not require the payment of overtime or change in rate of pay and in the opinion of the Supervisor will not hinder the work or unduly inconvenience fellow employees.

Section 6.08. When an employee has been given notice to change his/her schedule in accordance with Sections 6.03-6.10 inclusive, the changed schedule shall be considered his/her regular schedule for that period. A period shall consist of the regularly scheduled workweek, including off days, or any remaining part thereof. Any further change from this schedule shall be considered another change of schedule and the pertinent Sections of this Article shall apply.

By way of elaboration, the following shall apply:

(a) When an employee is given a change of schedule without 96 hours' notice which identifies that the employee will be changed from one shift to another for one (1) day and will revert to his/her regular schedule the following day, the employee will be paid at the rate of double time for the one (1) day only and shall not be paid double time when he/she reverts to his/her regular shift for that period;

(b) When an employee is given a change of schedule without 96 hours' notice which identifies that the employee will be

changed to another shift for an indefinite or unspecified period of time and where the employee actually works on the new shift for more than one (1) day before reverting to his/her regular schedule, the employee shall be paid at the

rate of double time on the first day worked on the new shift and on the first day he/she reverts to his/her regular schedule;

(c) When an employee is given a change of schedule without 96 hours' notice which identifies that the shift is changed for more than one (1) day but the employee has an off day before reverting to his/her regular schedule, the employee shall not be paid double time when reverting to his/her regular schedule. If, however, the employee's off day is changed without the required notice, he/she shall be paid double time on his/her next straight time day as described in Section 6.05;

(d) When an employee's off day and his/her schedule are both changed without the required notice, the employee shall be paid at the rate of double time on the first day and second day worked on the new schedule;

(e) When an employee is given a change of schedule, regardless of notice, which identifies that he/she will be changed from his/her original shift to another shift and then to another (third) shift within the same period, the employee will be paid at the rate of double time for the original change and at double time for the change to the third shift within that period.

Section 6.09. The requirements of Sections 6.03-6.10 inclusive shall not apply to employees who are permitted to return to work on a limited or light duty basis as the result of agreement between the Medical Department and the management of their Departments. This exclusion shall apply also at the time such employees are returned to a regular schedule after release for regular duty. When the return to regular duty and regular schedule is to take place, the Company will, whenever possible, schedule an off day for the employee between the days of change when such return would allow only one shift of rest.

Section 6.10. Changes in working hours whereby schedules are extended by the addition of overtime hours immediately preceding and/or immediately following the basic schedule will not be

considered change of schedule within the meaning of Sections 6.03-6.09 inclusive when all of the hours of the normal schedule are included in the extended workday.

Section 6.11. Meal allowances of $8.75 per meal shall be paid to employees under the following conditions (except when the Company furnishes an adequate meal):

(a) An employee whose hours of work are ten consecutive hours (exclusive of meal times) or more shall be entitled to the following number of meal allowances:

Hours of Work	Allowances
10 hours, but less than 15	1
15 hours, but less than 20	2
20 hours, but less than 25	3

(b) An employee reporting to work with less than two hours' notice will be entitled to a meal allowance for each full 5-hour period of work without limitation.

(c) When it is apparent that meal allowances will be due under this Section, supervisors may release employees for meals at any convenient period around normal meal times.

(d) If an employee is allowed time off for a meal, no deduction from his/her time will be made if it does not exceed one-half hour. Time taken in excess of one-half hour will be deducted from his/her time.

Section 6.12. Employees shall report for work at their regular reporting location or any other location when so instructed. An employee's workday will start when he/she reports for work at the assigned location and will end at the close of his/her scheduled working time or when he/she is released, whichever is later. Travel to any reporting location at the beginning of the workday or from a work location at the end of a workday will be personal time and mileage.

Section 6.13. Employees who report at the beginning of their workday to, or who leave at the end of their workday from, a location other than their regular reporting location, shall be paid a travel allowance computed as follows:

(a) The Company shall establish reporting locations consistent

with regular, established business requirements and will notify the Union of such locations.

(b) Using the reporting location as a center point, circles will be drawn with radii of 7, 13, 19 and 25 miles (and additional increments of 6 miles as needed) to establish zones.

(c) The zone within 7 miles of the employee's regular reporting location shall be considered as his/her base zone.

(d) Employees who, as instructed, report at the beginning of the workday to a location other than one in their base zone shall be paid an allowance based upon the zone in which the location is set.

(e) Employees who, as instructed, leave a location at the end of the workday from a location other than one in their base

zone shall be paid an allowance based upon the zone in which the location is set.

(f) A $1.70 allowance shall be paid for reporting to or leaving from the first zone outside the base zone.

A $1.60 additional allowance will be paid for each additional zone that the employee reports to or leaves from at the beginning or end of his/her workday.

(g) No allowances will be paid when transportation is supplied or made available by the Company.

Section 6.14. Employees who may be required to move from one location to another, after reporting to work at the beginning of the workday, shall do so on Company time and expense. When an employee uses his/her own vehicle in such moves, a rate of 31 cents per mile shall be paid to the employee as full reimbursement. In the event the Internal Revenue Service changes its prevailing mileage rate during the term of this Agreement, an adjustment to that rate shall be made within two (2) payroll periods from the publication of the announcement and applied prospectively. Travel mileage shall be limited to reasonably direct routes and time expended should relate to normal expectations.

Section 6.15. The allowances provided for in Sections 6.12-6.14

inclusive shall be paid to employees called out for overtime in addition to travel time provided for in Article 7, Sections 7.09-7.15 inclusive.

Section 6.16. Nothing contained in Sections 6.12-6.16 inclusive shall be construed as to prevent the Company from changing an employee's location either on a regular or temporary basis. Travel allowances under Section 6.13 above will not be applicable, however, under any of the following conditions:

(a) A permanent change in reporting location where the new location is within the employee's base zone. Permanent reassignment is to denote an expectation of continuing without change in the foreseeable future.

(b) In lieu of any travel allowance, a single relocation allowance shall be paid to an employee permanently reassigned to a location outside his/her base zone. Such relocation allowance shall be equal to the straight-line distance, in whole miles, between the new and old locations multiplied by $8.50. The relocation allowance shall not be payable where the reassignment was at the request of the employee or if the distance between the employee's home and new location is less than the distance between his/her home and the old location.

(c) A temporary change in reporting location where such assignments result from the Department Head and the Chief Steward concluding an arrangement satisfactory to them is stated in writing, with a copy to the Union.

ARTICLE 7

OVERTIME

Section 7.01. Except for weekly rated employees, the normal workday shall consist of 8 consecutive hours of work, exclusive of meal times, and the normal workweek shall consist of 5 normal workdays. Hours scheduled in excess of 8 hours are not considered as part of the normal day.

Section 7.02. For payroll purposes the workday begins at 12:01 a.m. in the morning and ends at 12 midnight that night, and the workweek begins at 12:01 Sunday morning and ends at 12 midnight the following Saturday night.

Section 7.03. When a normal workday begins before 12:01 a.m. and continues past 12:01 a.m., time shall be charged on the day in which the majority of the hours is worked. When the normal workday is divided evenly before and after midnight, time shall be charged on the days on which work was started.

Section 7.04. Overtime is defined as time worked in excess of 8 hours of work in a normal workday or 40 hours of work in a normal workweek. All overtime shall be paid for at the rate of one and one-half times basic rates except where higher rates are provided for elsewhere in this Agreement.

Section 7.05. When an employee worked a full workweek of 5 normal workdays and also worked a minimum of 4 consecutive hours on his/her first scheduled off day in the same workweek, any work on the second scheduled off day in the same workweek shall be paid at twice his/her basic rate of pay. Compensation paid to an employee for hours not worked on regularly-scheduled workdays shall not be considered as time worked unless specifically provided for in this Agreement.

Section 7.06.

(a) After 16 consecutive hours of work, employees shall be paid double time for all consecutive hours worked thereafter.

(b) An employee who has worked 13 or more consecutive hours shall, upon his/her release, be entitled to an 8-hour rest period before he/she returns to work. If, however, the employee is required by the Company to return to work after the rest period and before a 10-hour period has elapsed, the employee shall be entitled to a payment equal to two (2)

hours of straight time base pay in addition to any hours worked.

(c) Notwithstanding the provisions of Section 7.43, an employee will only be entitled to a rest period based on consecutive hours on the job; no unproductive hours, paid or unpaid (except for Union business), will count towards determining whether an employee is entitled to a rest period or application of Section 7.08.

(d) If this rest period extends into his/her regularly-scheduled working hours for four (4) hours or more, he/she shall be excused from his/her regular tour of duty and paid

his/her straight time base rate for those hours. If the rest period extends into his/her regularly-scheduled hours for less than four (4) hours, he/she shall be excused from that portion of his/her regular tour of duty and be paid for the excused hours at his/her straight time base rate.

Section 7.07. If an employee whose rest period extends into his/her regularly scheduled working hours for four (4) hours or more is instructed to report back to work at the end of his/her 8-hour rest period, his/her rate of compensation for these regularly scheduled working hours shall be time and one-half.

Section 7.08. An employee who has been released after 13 consecutive hours of work may be recalled or instructed to report back to work before the end of his/her 8-hour rest period if needed. If the elapsed time between time of release and time of reporting back to duty is less than 8 hours, his/her rate of compensation for consecutive hours of work after his/her return shall be at double time.

Section 7.09. An employee is considered to be "called out" for overtime work when he/she is given notice while off duty to report for work within 7 hours, and the hours worked are not continuous with other hours worked.

Section 7.10. When an employee is "called out" for overtime work, or is instructed to report for overtime work and the hours worked are not continuous with other hours worked, he/she shall receive a minimum of 4 hours pay exclusive of travel time.

Section 7.11. Except as prohibited in Section 7.15 below, when an employee is "called out" for overtime work, he/she shall be paid travel time of one hour at time and one-half rate in addition to time worked, regardless of whether the work continues on to be continuous with other hours worked.

Section 7.12. When an employee is "called out" for overtime work and reports for work within 6 hours of the beginning of his/her upcoming regular shift and works at least 4 hours, he/she shall be retained on duty and paid on overtime until the beginning of his/her upcoming regular shift.

Section 7.13. If an employee is "called out" for overtime work within 14 hours of the beginning of his/her upcoming regular shift and works to within 4 hours of his/her upcoming regular shift, he/she may remain on duty and be paid at the straight time

rate ONLY, until the beginning of his/her upcoming regular shift. The time paid at the straight time rate SHALL break the employee's consecutive hours of work, but such employee after 16 consecutive hours of work shall be paid at twice his/her regular rate for any hours worked thereafter.

Section 7.14. Employees shall have the option to remain on duty as described in Section 7.13 above or be released from duty when their work is completed prior to their upcoming regular shift. If during that rest period the employee is required to return to work, his/her time shall be considered as unbroken but the rest period shall be paid at the straight time rate as described in Section 7.13.

Section 7.15. When an employee is "called out" for overtime work and reports for work within 2 hours of his/her previous release from duty, he/she shall be paid as if he/she worked continuously. In these cases travel time will not be allowed.

Section 7.16. When the Company determines that overtime work is required, such work shall be distributed as equitably as possible among employees in the job classification in the Occupational Group in which such overtime work is to be performed.

Section 7.17.

(a) The employee in the appropriate job classification with the lowest amount of charged overtime hours shall normally be first considered for overtime work to be done taking into account the nature of the work, ability to perform such work within reasonable time limits and availability of the employee. If such employee refuses the assignment, then the employee with the next lowest amount of charged overtime hours will be considered and so forth through the overtime list. If no employee on the overtime list agrees to accept the overtime work, then the Company may assign the overtime work to the available qualified employee with the lowest amount of overtime hours worked. No more than one (1) reasonable attempt to reach an employee will be required. In emergency situations the Company may call any employee it deems necessary under the circumstances.

(b) In cases when overtime is planned or foreseen, Management shall make a reasonable effort to inform the potentially affected employees as early as reasonably possible.

Section 7.18. In Departments that have rotating 3-shift operations, after the Company has called all employees on the overtime list once per shift, it may request the employee with

the lowest amount of overtime hours worked in each job classification to remain on duty for overtime work.

Section 7.19. If through the fault of the Company the appropriate employee on the overtime list is not assigned to a particular case of overtime work, he/she will be compensated at the appropriate overtime rate for the number of hours he/she would have worked unless the Company gives him/her an opportunity to make up such hours within 30 days after the mistake occurred. Any such overtime hours shall not be charged to the employee on the overtime list in the hours charged column.

Section 7.20. No grievance may be filed on the distribution of overtime work in any particular case unless the difference in charged overtime hours between the employee assigned to the work and the complaining employee exceeds 20% of the charged overtime of the assigned employee. Any absence of the employee due to vacation or sickness will be added to the 30-day period.

Section 7.21. An employee will be charged as being unavailable for overtime work for the number of hours he/she could have worked without need for any attempt to contact him/her in the following situations:

(a) When he/she does not have a telephone or a current telephone number listed with the Company.

(b) When he/she is restricted to limited duty or light duty, or absent other than for vacation on his/her last previous regularly scheduled shift, or, since his/her last previous regularly scheduled shift, has reported to the effect that he/she is not able to work.

Section 7.22. Overtime work offered to an employee but waived with the consent of the Company and overtime work which would be offered to an employee if he/she were available shall be charged to him/her as overtime hours.

Section 7.23. Overtime work offered to an employee but declined and overtime work which would be offered to an employee if he/she were available, shall be charged to him/her as overtime hours at a rate of 1-1/2 times the number of hours the employee would have worked had he/she not declined or been unavailable.

Section 7.24. For every 60 hours of overtime an employee works, he/she will receive 2 hours time off with pay at straight time not to exceed 24 hours of time off within any calendar year.

Such time off shall be scheduled by the employee and his/her Supervisor based on operating conditions.

Section 7.25. When a job started on straight time cannot be completed without overtime work, the Company shall have the

option of continuing on overtime work the employees who started the job or replacing them with other employees who have a lower number of charged overtime hours. This Section may be modified in any Department to meet local conditions if the Union and Company desire to do so and conclude an arrangement satisfactory to them which is stated in writing with copies to the Union and Industrial Relations.

Section 7.26. Temporary employees may be called for overtime in emergencies but shall not be scheduled for prearranged overtime work until they have completed 2 months continuous service.

Section 7.27. The Company will post lists of employees for overtime assignment consideration on appropriate departmental bulletin boards by job classification and Occupational Group. Further subdivisions according to geographical assignment areas may be agreed to by the Chief Steward and Departmental Management and copies of such agreements are to be sent to the Union and Manager-Industrial Relations.

Section 7.28. At the beginning of the appropriate pay period in each calendar year the lists of employees for overtime selection consideration shall be prepared with the employee having the lowest number of charged overtime hours in the preceding year listed with zero hours and the remaining employees listed with a corresponding reduction in the previous year's charged overtime hours.

Section 7.29. Thereafter, postings shall be made within 4 working days after the close of every other payroll period listing overtime hours worked, hours unavailable, and hours declined with the consent of the Company, for the period since the last posting and cumulative for the calendar year.

Section 7.30. A copy of each posting shall be sent to each appropriate Steward and to each employee working out of a headquarters where lists are not posted who is being charged with being unavailable for overtime during the period covered by the posting.

Section 7.31. The dates of posting of the lists for each

prescribed period in the areas specified and dispatching to the Steward and reasonable delivery dates to individual employees affected shall be the dates for cause for the grievance under Article 17 regulating the time periods for filing grievances.

Section 7.32. An employee who wishes to be excused from overtime work whenever possible may submit a written request to his/her Department Head. An employee shall not submit this written request for a waiver from overtime work and a Department Head shall not approve such a request unless both the employee and Department Head intend a bona fide waiver of consideration for

overtime work. Such waivers are not intended to be a vehicle for avoiding the intent and purpose of Article 7, Sections 7.16-7.38 inclusive.

Section 7.33. After approval, if any, such employee will be excluded from consideration for the equitable distribution of overtime but will not be excused from the requirement to work overtime as may be determined to be needed by the Company. Such employee will be listed on the overtime record with a "W" identification to indicate "Waiver." All overtime hours actually worked by such employee will be shown for him/her on the overtime lists.

Section 7.34. The Company or the employee may revoke the waiver referred to above by notice in writing to be effective at the beginning of the first pay period in the following calendar month. When restored to regular overtime status such employee shall be listed at one (1) hour above the highest number of hours listed for any employee in his/her job classification or one (1) hour above his/her previously charged overtime hours, whichever is higher.

Section 7.35. Waivers and revocations of waivers shall be valid only when prepared on the standard forms agreed upon by the Union and the Company with copies to the Union and the Industrial Relations Department.

Section 7.36. Overtime worked by an employee while in a temporary upgraded status will be charged to the employee in his/her regular job classification.

Section 7.37. Employees changed from one overtime record list to another or added to an existing list in any of the following situations shall be charged with the highest number of overtime

hours charged to any employee on the list to which they are to be placed plus one (1) hour:

(a) New employees, and temporary employees after 2 months' service.

(b) Return from an approved Leave of Absence.

(c) Returning to the bargaining unit within 2 years of promotion to exempt status.

(d) Transfer from non-bargaining unit to bargaining unit.

Section 7.38. Employees changed from one overtime record list to another or added to an existing list in the following situations shall be given an average (mean) of the overtime of all employees on that list:

(a) Promotions and demotions

(b) Transfers from one seniority roster to another, or from one geographical location to another

(c) Returning from an extended illness or injury (an illness or injury of which all compensatory time was exhausted).

Section 7.39. When an employee has been previously instructed to work overtime on his/her off day and the work is canceled by the Company, it will give notice of cancellation to the employee affected 8 hours before reporting time. If 8 hours' notice is not given, the employee may report to the work location as planned and be paid an allowance of 4 hours at the applicable overtime rate.

Section 7.40. If the job is canceled within 8 hours of reporting time and the employee requests permission not to report, he/she may be excused by his/her supervisor, and in such case shall not be entitled to any pay allowance.

Section 7.41. An employee shall not be required to take time off on his/her regular basic work schedule in lieu of overtime worked or to be worked. This shall not affect the Company's right to change the schedule of basic work and off days or hours of duty of employees as set forth in Article 6, Sections 6.03-6.10 inclusive.

Section 7.42. When an employee is temporarily transferred to

perform work normally performed by employees in a different Occupational Group under Section 5.09 or 5.10 of this Agreement, the following rules shall apply:

(a) All overtime hours charged and worked in the temporary assignment shall be accrued on the employee's normal overtime roster.

(b) Employees on temporary assignment shall not be considered for overtime work until all available qualified employees within that Occupational Group have been polled except in situations covered by Section 7.25 of this Agreement.

(c) Employees on temporary assignment shall not be assigned overtime work unless there are no other qualified employees available in the Occupational Group except in situations covered by Section 7.25 of this Agreement.

(d) Employees on temporary assignment may be considered for overtime work in their normal Occupational Group. However, such employees shall not be charged unavailable for overtime work in their normal Occupational Group while on temporary assignment.

Section 7.43. For purposes of this Agreement, all hours of paid compensation such as holidays, vacation, jury duty, funeral leave, sickness disability, etc., will be considered as hours

worked for purposes of Article 7. Also to be included for such purposes would be excused unpaid hours such as union leave, excused without pay and sickness disability.

ARTICLE 8

SENIORITY

Section 8.01. The Company and the Union accept the principles of seniority and agree that the seniority rosters established hereunder shall be the basis of the application of seniority rights as set forth herein.

Section 8.02. For seniority roster purposes Occupational Groups shall be established within each Department and reflected in Annex A (a space between groupings of jobs indicates separate Occupational Groups). An Occupational Group shall be composed of employees of the bargaining unit engaged in substantially the

same type of work where normal lines of progression from job to job exist. Specific Occupational Groups shall be established by agreement between the Company and the Union.

Section 8.03. A seniority roster shall be prepared for each Pay Grade within each Occupational Group listing the employees "Classified Seniority" and "Continuous Service Seniority" with the Company.

(a) "Classified Seniority" shall be the date on which the employee was placed into the classification, and shall be the date used as the seniority date for promotions within that Occupational Group.

(b) "Continuous Service Seniority" shall be the employee's most recent date of hire and shall be used to fill jobs when there is no qualified employee within the Occupational Group.

Section 8.04. Employees employed as temporary employees shall not have seniority position or seniority rights while in such employment status. If changed to regular employment status they shall have seniority position and seniority rights as of the date of change. The seniority rights in this section refer to an employee's competitive standing against other employees for such things as promotions, holiday and vacation choice, application of Article 9 (Reduction in Force) and so forth.

Section 8.05. Employees who move from one roster to another, within the same Occupational Group or to a different Occupational Group, regardless of reason, shall have their Classified Seniority date adjusted accordingly.

Section 8.06. Employees shall be considered as terminated from the service of the Company and shall be removed from the seniority roster, with no provision for reinstatement of past continuous service under the following conditions:

(a) Resignation or discharge from the service of the Company.

(b) Expiration of two years after date of furlough and employee has not been recalled to duty.

(c) Reclassification and transfer to a nonunion position with no termination of service; however, if any such employee

returns to the bargaining unit within two years, there shall be no loss of continuous service credit.

(d) Expiration of two years after commencement of absence due to a nonoccupational illness or injury; however, where an employee has received Long Term Disability benefits during such an absence, removal shall occur two years from the date the employee is no longer determined eligible for such benefits.

Section 8.07. Promotion within an Occupational Group shall be based upon the concepts of seniority, ability and performance. The Company shall select the most senior (as noted on the classified seniority rosters) qualified employee. Qualifications will be based upon general job knowledge, previous job performance, and mental as well as physical ability to perform the job duties. If senior employees are determined not to be qualified and a junior employee is selected for promotion, a written notice of such action, and the reason therefore, will be given to the senior employees two weeks prior to the anticipated effective date of promotion, with a copy to the Union. Such occurrence will not affect future considerations. An employee may decline consideration for promotion by submitting a written waiver of consideration, with a copy to the Union. If there are no employees within the entire Occupational Group who are qualified for promotion, a general notice of that determination shall be posted in the work areas two weeks prior to the anticipated effective date, with a copy to the Union, in lieu of individual notices.

Section 8.08. When vacancies above Pay Grade 6 hourly and Pay Grade 2 weekly cannot be filled by qualified, available employees from within the same Occupational Group, the Company will post the notice of vacancy, including the number of job openings, for a period of two (2) calendar weeks. A copy of these posting notices will be forwarded to the Union. Employees having one (1) year of continuous service are eligible to be considered for such vacancies providing they complete an authorized Job Bid Form which they must forward to the Employment Office within three (3) working days after the expiration of the posted notice. An employee must be a member of the bargaining unit to be eligible to bid on a posted job. (A list of all bidders will be furnished

to the Union.) Future postings will not be required for job vacancies where an insufficient number of qualified applicants have bid until such time as the designated number of vacancies on the bid have been filled or three (3) months have passed since

the date of the original posting, whichever is sooner. Employees selected for any posted job are ineligible to bid on another job for one (1) year.

Section 8.09. Selection of bidders to fill posted vacancies under Section 8.08 above shall be based upon seniority, ability and performance. Ability and performance shall be based upon general job knowledge, previous job performance and mental as well as physical ability to perform the job duties. The Company will select the most senior qualified employee (based on continuous service date) to fill the posted job providing that such employee is presently a permanently assigned employee in the Group where the job vacancy exists. If a senior employee so designated is determined not to be qualified and a junior employee is selected for the posted job, a written notice of such action and the reason therefore will be given to the senior employee with a copy to the Union. If no employee in the Group bids or is qualified, the Company will then consider bidders from other Groups; however, seniority will be considered only when ability and performance are essentially equal. The Company shall provide the Union and each bidder with a notice of the disposition of the posting. In cases where a posted vacancy cannot be filled by bargaining unit applicants, the Company may fill such jobs with persons from any other source either within the Company or from outside. For the purposes of this Section 8.09, a Group shall be designated as one of those listed below:

(a) Comptroller
(b) Computer Services
(c) Corporate Affairs
(d) Customer Services
(e) Electric System Operations & Construction, System Operations, Operations & Construction
(f) Energy Planning & Resources, Energy Policy & Development
(g) Environment, System Engineering
(h) General Administration
(i) Human Resources
(j) Investor Relations
(k) Materials
(l) Market Planning & Policy
(m) Production
(n) Rates & Regulatory Practices
(o) Treasurer

Adjustments to these designated Groups may be made in the future as appropriate and agreed to by the Company and the Union.

Section 8.10. Employees with one (1) year of continuous service will be eligible to bid on Pay Grade 4 and 6 (Hourly) or Pay Grades 1 and 2 (Weekly) jobs in accordance with the following:

(a) An employee desiring to bid on entry level jobs shall

complete an Advance Bid Form and submit the form to the Employment Department, Thomas Edison Building; the Company shall send a copy of the bid form to the Union.

(b) An employee may bid on no more than three (3) entry level jobs during any calendar year. Such bids shall be in effect from the date of filing until December 31 of the same year. As of January 1 of any year, all bids from the previous year shall be void.

(c) Each employee shall show on the Advance Bid Form the specific job titles and job numbers (as taken from Annex A) of the jobs the employee desires to bid on.

(d) The Employment Department shall list employees who bid for specific jobs according to their continuous service dates.

(e) When a vacancy occurs in a specified entry level job, the Employment Department will refer the most senior employee (by continuous service date) to the department where the vacancy exists and that employee will be selected for the vacancy if qualified. Qualifications shall be based on general job knowledge, previous job performance and mental as well as physical ability to perform the job duties.

(f) Entry level jobs are only those positions in Pay Grade 4 and 6 Hourly and Pay Grades 1 and 2 Weekly.

(g) When a vacancy occurs in an entry level job and there are no bids on record or no bidder is qualified, the vacancy may be filled from any other source.

(h) If an employee has a current rate of pay above the maximum rate of the entry level Pay Grade into which he/she successfully bids under this Section, such employee shall be reduced in pay to the maximum rate of such entry level Pay Grade.

(i) When any job for which one or more Advance Bids are in effect is filled, the Company shall provide each bidder and the Union with a written notice of the disposition.

Section 8.11. All postings required under this Article will be on Company bulletin boards as located at various work locations. The Company assumes no responsibility for job postings or other notices once they are placed upon the boards. Employees who remove or destroy this material shall be subject to disciplinary action.

Section 8.12. All incumbent employees in the entire bargaining

unit shall maintain their present classified seniority position on the seniority roster for his/her classification until he/she transfers to another classification or seniority roster. At the time of the transfer the employee shall be placed on the new seniority roster as described in Sections 8.03 and 8.05.

Section 8.13. Employees who transfer from one seniority roster to another in Pay Grades above the starting level shall be given classified seniority (as of the date of transfer) for all lower classifications within that Occupational Group and be given one (1) day more seniority above all employees in the lower classifications in that Occupational Group for the purposes of Article 9 of this Agreement.

Section 8.14. Employees who promote through the different classifications within an Occupational Group, or who transfer from one Occupational Group to another, shall continue to accumulate classified seniority in all classifications previously held for the purpose of Article 9 of this Agreement.

ARTICLE 9

REDUCTION IN WORKING FORCE

Section 9.01. When lack of work requires a reduction in the working force, the Company and the Union subscribe to the principle of last in-first out. The Company and the Union recognize that each circumstance requiring a reduction in force is unique and needs to be evaluated as a unique occurrence. To that end the Company and the Union shall meet and try to reach a mutual agreement on how to carry out the reduction in force. If an agreement cannot be reached, the reductions in working force shall be governed by the procedures set forth in this Article.

Section 9.02. When the reduction does not involve eliminating all jobs within the affected Occupational Group(s), the following shall apply:

(a) Except as provided in Subsection (f) below, employees with the lowest classified seniority on the highest affected Pay Grade roster shall be removed in a number as determined by the reductions. Those employees so removed shall move down to the next Pay Grade roster in their Occupational Group. When these moves result in too many employees on the roster(s), the employees with the lowest classified seniority on those rosters shall be removed in a number as determined by the reductions. Those employees so removed

shall move down to the next Pay Grade roster in their Occupational Group and so forth until the necessary reductions in the rosters have been achieved.

(b) When the final reductions result in too many employees on the roster(s), the employees with the lowest classified seniority shall be removed from the rosters and placed on a

surplus-pool list. The Company shall then prepare a list of vacancies in the affected Organizational Group. By continuous service seniority order, the employees shall irrevocably choose, in writing, any vacancy for which they are deemed qualified. Determination as to qualifications shall be based on the criteria set forth in Article 8, Section 8.09.

(c) Employees not placed under the procedures set forth in (b) above shall irrevocably choose, in writing, from a Company-prepared list of selected vacancies within the bargaining unit for which they are deemed qualified. Determination as to qualifications shall be based on the criteria set forth in Article 8, Section 8.09.

(d) Employees displaced from an Occupational Group(s) or work location(s) under Section 9.02, 9.03 or 9.05 of this Article shall retain the right, as limited herein, to return to their previous Occupational Group or work location should a vacancy(s) become available, for which they are deemed qualified. Determinations as to the qualifications shall be based on the same criteria as outlined in Article 8, Section 8.09. New employees shall not be employed or transferred into the Occupational Group or work location, until such displaced employee(s) have had one (1) opportunity to accept such a vacancy or until the expiration of two (2) years from the date of displacement, whichever occurs first. Vacancy(s) shall be offered to the employees by continuous service seniority.

(e) For the purpose of this Article the Company and the Union agree to waive the advance bid procedures as outlined in Article 8, Section 8.10(b) for employees displaced under this Article for two (2) years from the date of displacement.

(f) After an employee has been transferred to a new Occupational Group pursuant to a reduction in force under this Article, for three (3) years thereafter he/she shall not be removed

from his/her Pay Grade roster under Subsection (a) above before other employees on such roster with less continuous service providing the employee is satisfactorily performing the duties of the classification.

(g) If more than one (1) reduction in force is enacted in one (1) Occupational Group within a three (3) year period and employees from that Occupational Group are transferred pursuant to the reductions in force to the same new Occupational Group, employees who are transferred in the latter reduction(s) in force shall receive the same classified seniority date in the job classification to which they are transferred as if they had been transferred during the earliest reduction in force.

Section 9.03. When the reduction involves eliminating an

Occupational Group, Department, or Organizational Group, the procedures set forth in Section 9.02(b) and, if necessary, Section 9.02(c) or (d) shall apply to the affected employees.

Section 9.04. For the purposes of this Article 9 only, each organization or grouping of organizations listed below shall be deemed to be an "Organizational Group":

(a) Comptroller
(b) Computer Services
(c) Corporate Affairs
(d) Customer Services
(e) Electric System
Operations & Construction,
System Operations, Operations & Construction
(f) Energy Planning & Resources,
Energy Policy & Development
(g) Environment,
System Engineering
(h) General Administration
(i) Human Resources
(j) Investor Relations
(k) Materials
(l) Market Planning & Policy
(m) Production
(n) Rates & Regulatory Practices
(o) Treasurer

Adjustments to these designated Organizational Groups may be made in the future as appropriate and agreed to by the Company and the

Union.

Section 9.05. Employees not placed under the procedures set forth above shall be furloughed; provided, however, that no individual employee shall be furloughed if he/she is qualified and willing to perform work presently being performed by a contractor who has been awarded an annual labor contract (that is, a contractor who makes available to the Company a labor pool from which the Company on a daily basis routinely and regularly draws to perform bargaining unit work). Employees to be furloughed shall receive two (2) weeks notice in writing before the reduction becomes effective. Such notice shall state that for a period of two (2) years thereafter the employee may retain a position on the seniority roster, provided that within ten (10) days after the effective date of furlough the employee shall give notice in writing to the Company and to the Union of his/her intention to retain such position, and shall thereafter, throughout said period of two (2) years keep the Company and the Union advised of his/her mailing address. All employees from the

same Organizational Group (Section 9.04) will be placed on a recall list with the most senior employee, by continuous service date, listed first. In addition, the employee shall maintain a position, by classified seniority date, on the roster from which he/she was furloughed. Furloughed employees on the recall list shall be called back to their Group by certified mail notifications as seniority and qualifications allow. Determination as to qualifications shall be based on the criteria set forth in Article 8, Section 8.09. If an employee so called shall fail to return to work within two (2) calendar weeks from the date of mailing such call, the employee's name shall be removed from the roster and his/her seniority shall terminate. New employees shall not be employed in a Group until all furloughed employees from the Group who are qualified for the particular job opening have been removed or recalled in accordance with this Section.

Section 9.06. Notwithstanding any other provision of this Article, no employee with twelve and one-half (12-1/2) years or more of continuous service will be furloughed nor will they be reduced in pay because of a reduction in the working force.

ARTICLE 10

GENERAL PROVISIONS

Section 10.01. The Company agrees that on basic schedule workdays, it will not require employees to work outdoors in

extremely inclement weather, unless such work is necessary to protect life or property or to maintain service. During such periods of extremely inclement weather, the Company may assign such employees to any work out of the weather. Nothing in this Section shall be interpreted as to deny the right of the Company to require meter readers, testers, installers, drivers and other persons occupying positions of similar type to work outdoors at any time at their normal tasks.

Section 10.02. No supervisor shall act in other than a supervisory capacity except in emergencies. This is not intended to prevent a supervisor from protecting life or property, giving occasional or emergency assistance or performing work for the purpose of instruction. However, the primary function of a supervisor is supervision and he/she is not to perform work which will eliminate an employee or interfere with supervision.

Section 10.03. By special agreement of the parties, it is agreed that employees in the exempt supervisory position presently designated as Senior Power Plant Operator at the Dickerson, Chalk Point, and Morgantown Generating Stations and all such supervisors with similar duties and responsibilities in generating stations constructed in the future are specifically excluded from the provisions of Section 10.02.

Section 10.04. Professional engineers and other employees with special experience, education or training, may be assigned work at different occupations within the bargaining unit in any Department as part of a training period. When employees in the

bargaining unit are so assigned, they shall retain their rights in their regular status under this Agreement and their assignment shall not affect the rights of other employees under this Agreement. When employees not in the bargaining unit are so assigned, they shall neither be affected by provisions of this Agreement nor shall their assignment deprive other qualified employees of work.

Section 10.05. In the operation of Section 10.04, the number of employees included at any one time shall be not more than one percent of the total number of Company employees. No employee shall be kept in any one assignment for longer than one year or for longer than a total period of 5 years in all assignments included herein. The Company will inform the Union of the names of employees and the Departments to which they will be assigned.

Section 10.06. When the Company plans to install new or revised

general work schedules which will affect the majority of the employees in an Occupational Group, it will post the new or revised schedules on the bulletin board for the Occupational Group affected. If the Company fails to post the notice for two (2) weeks before implementation of the new or revised schedules, employees whose schedules have been changed shall receive time and one-half on the first three (3) days of the changed schedule. If unforeseen circumstances make it necessary to extend a revised general work schedule beyond the date which was originally contemplated, the provisions of this Section shall not apply and the extension shall be treated as a change of schedule as provided for elsewhere in this Agreement.

Section 10.07. It is recognized that the Company has the right to have work done by outside contractors. Work normally performed as of the effective date of this Agreement, by employees in the bargaining unit, will not be contracted out if it will result in the furlough or affect recall of employees in the bargaining unit who normally perform such work.

Section 10.08. The Company shall provide Union bulletin boards at the major work locations for the posting of official Union notices. The Company shall determine the number of bulletin boards required and the placement of such boards at the work locations. The Union agrees that it shall not post any notice that is derogatory or inflammatory or anything which is considered inappropriate as to Company-Union relations.

Section 10.09. Any future agreements or memoranda of understanding during the term of this Agreement that are prepared by the Company and the Union, or any subdivisions thereof, shall require the signature or confirming signature of the Union President and the Manager - Industrial Relations or their designated representatives.

ARTICLE 11

HOLIDAYS

Section 11.01. For the term of this Agreement, the following days will be observed as uniform and fixed Company holidays:

Independence Day	December 24, 2001
Labor Day	December 24, 2002
Thanksgiving Day	New Year's Day
Day after Thanksgiving	Martin Luther King's Birthday
Christmas Day	Presidents' Day
December 23, 1999	Memorial Day

Section 11.02. In each contract year, each employee will be eligible to select one (1) floating holiday (in addition to those fixed holidays in Section 11.01 above). Each employee is required to request his/her floating holiday with at least 24 hours advance notice.

Section 11.03. The Company will, as far as practicable consistent with work requirements, permit such floating holidays to be taken at the time desired by employees, but determinations as to the total number of employees or any employees, the number of employees of a particular classification or at a particular location, the number and classification of employees of a particular working group, to be allowed off on a holiday at any time; and the make-up of working groups for holiday purposes, are reserved solely to the Company in order to ensure the orderly operation of the Company. When these determinations have been made by the Company and there is an opportunity of choice between two (2) or more employees, the employee with the highest classified seniority roster position shall have first choice of holiday time off.

Section 11.04. Employees normally scheduled to work on a designated holiday, or who are off duty as part of their regular schedule on a designated holiday, shall be paid a holiday allowance of a normal workday at their basic rate of pay and double time for all hours actually worked on the holiday. When January 1 (New Year's Day), July 4 (Independence Day), or December 25 (Christmas Day) are designated to be observed on a Monday or Friday through the operation of Section 11.07, employees who work on either the designated holiday or the actual holiday shall receive a holiday premium of double time for all hours actually worked on either day providing, however, that any employee who works both days will only be entitled to the holiday premium for the hours worked on the actual holiday.

Section 11.05. When Company requirements make it necessary for some but not all employees in any department to work on a holiday, the Company will indicate the number and classifications of employees needed. Employees, beginning with the most senior

employee (by classified seniority), will choose whether or not to work the holiday. Such choices will continue until the Company requirements are met. In the event that after all department employees have been polled it becomes necessary to assign

employees to work the holiday, such assignment will be by inverse classified seniority order. This process must be completed no less than forty-eight (48) hours prior to the holiday.

Section 11.06. An employee will be eligible for holiday allowance providing (1) he/she performs work or is on vacation in the pay period in which the holiday is observed, and (2) works as scheduled or assigned both on his/her last scheduled workday prior to and his/her first scheduled workday following the day on which the holiday is observed unless he/she has failed to so work because of sickness or because of death in the immediate family or because of similar good cause. Irrespective of the above, an employee on a Sickness Disability Case will not be paid holiday allowance unless the Company's Medical Department determines that the employee was able to return to work on or before the holiday and would have been released to return at that time but for the holiday. An employee who is scheduled to work on a holiday, either on regular shift or overtime, but who fails to report to work, will not be paid holiday allowance.

Section 11.07. When any of the holidays referenced in Section 11.01 of this Article fall on a Sunday, the following Monday shall be observed as the holiday. Should any of the holidays fall on a Saturday, the preceding Friday shall be observed as the holiday.

Section 11.08. Holidays to be selected under Section 11.02 of this Article shall not be carried over from one contract year to the next. The Company may deny any employee his/her holiday observance when in its discretion the employee cannot be spared. If the employee has a holiday schedule approved, but later denied by the Company, the employee shall have a choice of selecting another holiday or being paid for the holiday under the provisions of Section 11.04 of this Article.

ARTICLE 12

VACATIONS

Section 12.01. Regular employees shall be entitled to vacation eligibility according to the maximum allowances set forth in the following table. An employee's initial vacation allowance for any calendar year will be determined by length of continuous service as of December 31 of the previous year. Eligibility may increase during the calendar year by application of the employee's anniversary date to the following table; however, in no case will any employee with less than five (5) years of continuous service receive a mid-year increase in vacation allowance by application of the employee's anniversary date. Increases in eligibility during a calendar year shall take effect

for the remainder of that year, provided that if the increase cannot be accommodated in the remainder of the year the Company may grant advance leave in the amount of the prospective increase.

Maximum allowances are as follows:

Continuous Service	Maximum Vacation Allowance
Less than 6 months	1 day for each full calendar month of continuous service but not to exceed 1 week
6 months	2 weeks
5 years	3 weeks
10 years	4 weeks
20 years	5 weeks
30 years	6 weeks

Section 12.02. No employee may have a Maximum Vacation Allowance in excess of the allowance provided for his/her period of continuous service.

Section 12.03. The amount of vacation pay will be based upon the employee's normal workweek at the regular basic straight time rate exclusive of any premiums, overtime or other remuneration.

Section 12.04. Maximum allowances will be payable to employees who have worked 1,000 hours or more during the preceding calendar year. Employees with less than 1,000 hours of work in such year will not be eligible for any vacation allowance. Compensation paid to an employee for hours not worked on a regularly-scheduled workday shall not be considered toward the 1,000 hours of work unless specifically provided for in this Agreement.

Section 12.05. Employees with less than six (6) months of continuous service shall be eligible for their maximum allowances if they have worked a minimum of one hundred forty (140) hours multiplied by the number of full calendar months of continuous service. All hours, including overtime hours of paid compensation will be counted towards establishing vacation eligibility.

Section 12.06. An employee who is off work due to an on-job injury and thereby cannot meet the 1,000 hour requirement for an earned vacation shall be entitled to a vacation based on his/her continuous Company service in the calendar year when the employee

is released by the Medical Department to return to work on a full-time basis.

Section 12.07. Any employee who leaves the Company's employment for any reason shall be paid for any unused vacation eligibility in effect at the time of leaving employment. Upon

the death of an employee such eligibility shall be paid to his or her estate.

Section 12.08. An employee who is laid off after 1 year of service, retires, or dies will be paid a vacation allowance proportionate to the number of full months worked in the calendar year in which the layoff, retirement or death occurs. An employee whose employment terminates for any other reason will not be paid a proportionate vacation allowance for any time worked in that calendar year.

Section 12.09. The Company will, as far as practicable consistent with work requirements, permit vacations to be taken at the time desired by employees, but determinations as to the total number of employees or any employees, the number of employees of a particular classification or at a particular location, the number and classification of employees of a particular working group, to be allowed on vacation at any time; the time within which vacations may be taken; and the make-up of working groups for vacation purposes, are reserved solely to the Company in order to ensure the orderly operation of the Company. When these determinations have been made by the Company and there is an opportunity of choice between two (2) or more employees, the employee with the highest seniority roster position shall have first choice of vacation time made available.

Section 12.10. When employees are requested to state vacation preferences preparatory to the Company's establishing vacation schedules, an employee who divides his/her vacation allowance into more than one period may apply his/her seniority preference as provided above to only one period, and he/she shall not have another selection opportunity until all other employees with whom he/she is concerned for vacation purposes have had the opportunity of selecting a vacation period.

Section 12.11. It is agreed that vacations shall normally be scheduled to be taken in periods of one full week or more. Shorter periods of vacation may be allowed, however, in the discretion of the Company, for special circumstances when approved in advance of the day or days for which vacation

allowance is requested. In no case will vacation be allowed for a period of less than one-half day.

Section 12.12. Employees are considered to be on vacation at the end of their last scheduled workday; or, if they continue on duty for overtime work, at the time they are released from such overtime work. Employees are considered to be returned from vacation when they report to work at the beginning of their first regular scheduled shift after scheduled vacation days.

Section 12.13. Vacations shall not be carried over from one year to the next except as herein permitted.

(a) Employees who will have earned more than three (3) weeks of vacation based on their length of continuous service as of December 31 of a calendar year may elect to:

(1) Carry over full weeks of vacation to a maximum of two (2) weeks which must be used by the end of the calendar year following the calendar year for which the election is made; and/or,

(2) Receive pay in lieu of any full weeks in excess of three (3) weeks;

Provided, however, in exercising either or both of these options, employees must retain at least two (2) weeks of vacation allowance (from allowance determined as of December 31 of the calendar year in which the election is made) for use during the next year.

(b) Employees who wish to exercise options provided for in Subsection (a) above must notify the Company of their decision by December 1 of the current year for elections effective for the next calendar year. Such notice must describe the option(s) selected, the amount of vacation sold back or carried over, and in the case of payment for vacation must indicate the month(s) in the next calendar year in which the payment(s) is/are to be made. Payments may begin in March of each year and will be made concurrently with the first full payroll period of any designated month(s). At the sole discretion of the Company, an employee may be allowed to take any vacation previously designated for carry over in the same calendar year (in full day increments only). Nothing herein shall entitle an employee to vacation in the next calendar year if the

employee does not otherwise meet the requirements of this Article.

(c) An employee may not elect to receive pay in lieu of taking vacation for any vacation carried over under this section.

(d) The Company may deny any employee his/her current vacation allowance or any part of it when in its discretion he/she cannot be spared. In such cases the employee shall have the choice of carrying over to the following year the amount of vacation denied him/her without regard to the limitations of Subsection (a) above or being paid for it at his/her basic straight time rate of pay.

Section 12.14. Legal holidays as set forth in Article 11 which fall on scheduled vacation days shall be considered as holidays and not as days of vacation. The additional day of vacation resulting in these cases may not necessarily be taken as continuation of the same vacation period but will be allowed at the convenience of the Company.

Section 12.15. When an employee is disabled because of sickness disability and qualifies for Sickness Disability Allowances; or is disabled due to an occupational injury; or is called up on a military emergency, and any such event occurs prior to the time for the employee's vacation to begin, the employee may request a postponement of vacation. Any such postponed vacation may be rescheduled by the Company at anytime during the same calendar year. If it is not practicable for the Company to reschedule the vacation during the same calendar year, the Company shall have the option of allowing such vacation in the following calendar year or paying the employee for it at the employee's basic straight time rate of pay. If the Company chooses to pay the employee for the vacation, such payment shall be in addition to any occupational injury, sickness disability case, or military emergency allowances being paid at that time.

Section 12.16. As to vacation eligibility, all hours, including overtime hours, of paid compensation, except sickness disability, will be counted toward establishing vacation eligibility. As to paid vacation eligibility, all hours, including overtime hours, of paid compensation, including sickness disability will be counted toward establishing vacation eligibility for those employees with twenty or more years of continuous service as of December 31 of the previous year.

ARTICLE 13

SICKNESS DISABILITY ALLOWANCES

Section 13.01. Employees shall be eligible for sickness

allowances as provided herein. Sickness shall include injury other than any injury arising out of or in the course of employment by the Company for which compensation will be paid under the provisions of the Workers' Compensation Act.

Section 13.02. Eligible employees absent due to sickness shall be paid at their regular basic rates for absences occurring on their regular workdays, assuming proper report is made and assuming medical certification is timely furnished if required under Section 13.03. Such payments will begin on the first workday of absence except as provided below:

(a) Annual Allowance

Employees shall receive an annual sickness allowance in accordance with the following schedule:

Continuous Service As of December 31 of Previous Year	Annual Allowance (in days)
6 Months	1
1 but less than 3 years	3
3 years or more	5

(b) Options Regarding Unused Annual Allowance

As soon as practicable after the end of a calendar year, an employee who has not exhausted his/her Annual Allowance for that year has the following options:

(1) Carryover Bank

The employee may elect to carryover the unused portion into the next year at the rate of one (1) day for every full unused sick day.

Fractions must be bought back in accordance with buy back provision below, or,

(2) Buy Back Option

The employee may elect to have the Company buy back the unused Annual Allowance, which will be paid for by separate check, at a conversion rate of four (4) hours

per unused day (two (2) hours per fractional). Once a day is placed in the Carryover Bank, it may not be converted under this Section. Except as may be required due to fractional days, an employee may not split his/her election between the Carryover Bank and Buy Back Option.

(c) Use of Annual Allowance and Carryover Bank

(1) An employee's Annual Allowance must be exhausted before his/her Carryover Bank is used.

(2) An employee whose Annual Allowance and Carryover Bank

are exhausted shall not be eligible for additional sickness payment until the fourth consecutive workday of an absence during the remainder of the calendar year. This three (3) day waiting period shall apply when an employee's Annual Allowance and Carryover Bank are exhausted during an absence as well as to all subsequent absences during that calendar year. An absence under this Article shall be a continuous absence of a half a day or more.

(d) When an employee has taken twenty (20) sick days (exclusive of days compensated under Section 13.04) in a calendar year, paid or unpaid, he/she shall not be eligible for sickness payments until the seventh consecutive workday of the absence during which the 20th day is reached or any subsequent absence in that calendar year.

(e) An employee who dies, retires, or is furloughed shall be paid at one hundred percent (100%) of the employee's regular basic rate then in effect, and an employee whose employment with the Company is otherwise terminated shall be paid at fifty percent (50%) of the employee's regular basic rate then in effect, for all unused days in his/her Carryover Bank.

Section 13.03. Absences due to sickness disability of three (3) days or less, whether compensated or not, need not require medical certification as to the employee's inability to report to work; however, upon advance notice medical certificates may be required when the Company feels the employee's attendance record warrants such. Absences of more than three (3) days shall require medical certification. When a medical certificate is required, it should be presented to the Company upon the return

to work, but in no case later than three (3) working days after the employee returns to work. The Company may have an employee or other persons (not a member of the bargaining unit) visit absent employees and may require medical examinations by physicians.

Section 13.04. An employee whose absence extends more than six (6) workdays shall thereafter be paid at his/her regular basic rates provided proper report is made and a medical certificate attesting to his/her sickness is presented to the Company. These periods shall be termed "sickness disability cases" and pay allowances shall be made according to the following schedule:

Continuous Service (in years)		Allowance (in weeks)		
At least:	But less than:	Full Pay	3/4 Pay	1/2 Pay
1	2	2	-	4
2	5	3	-	6
5	10	8	-	18
10	20	10	-	16
20	25	14	8	4
25		16	10	0

Section 13.05. The Company reserves the right to require a medical examination by a physician of its own choosing and to have a nurse or other employee or person (not a member of the bargaining unit) visit an employee who is claiming allowance for sickness disability.

Section 13.06. When an employee is absent on a sickness disability case, whether new or continued, there shall be deducted from his/her allowance under Section 13.04 all Annual Allowance days taken during the previous seventeen (17) weeks.

Section 13.07. Successive sickness disability cases shall be counted as one (1) case in computing the time for which an employee shall be entitled to allowances unless the employee has returned to work and engaged in the performance of his/her normal duties for a continuous period of seventeen (17) weeks between cases. When an employee has worked seventeen (17) weeks, the next sickness disability case shall be considered a new case.

Section 13.08. After a medical examination of any employee, who has been absent on account of sickness disability for any length of time, by a physician selected by the Company, and the

physician's report states that the employee is able to return to work, and such employee fails to do so, no further payments or allowances will be made on account of such sickness disability and said report shall be conclusive and final. However, if the employee informs the Company's physician of the date on which the employee's physician has advised the employee to return to work, and the Company's physician does not agree, then the Company's physician shall make a reasonable effort to consult with the employee's physician before issuing a report.

Section 13.09. No employees shall receive any sickness allowance when the following conditions exist:

(a) For time for which salary or wages might be paid by the Company.

(b) From the time any retirement payments might begin.

(c) When the disability is caused or results from an intentionally self-inflicted injury or other general acts of misconduct.

(d) When the employee is on furlough or suspended from duty.

(e) When the employee is on vacation.

(f) When proper notice of sickness disability is not given to his/her Department. Reasonable rules governing time and place of notice may be promulgated by the various Departments of the Company, depending upon the operating conditions existing in each. When proper notice is not given, allowances shall not begin until such notice is given.

(g) When, upon the occasion of a visit to the employee by a nurse or other employee or person (not a member of the bargaining unit) he/she is found not to be home and cannot furnish a satisfactory explanation of his/her whereabouts.

(h) When the injury is the result of the employee's working for an employer other than the Company or self-employment for gain.

Section 13.10. When an employee has received the maximum allowance indicated in the schedule in Section 13.04, he/she shall not be eligible for further allowances until he/she shall

have performed his/her normal duties for a continuous period of seventeen (17) weeks.

Section 13.11. No assignment of any sickness allowance will be permitted or recognized. Attempts at assignment will be regarded as sufficient cause for revocation of any allowances heretofore made, and in case of any attempted attachment or other legal proceedings, the Company may cancel or revoke any allowances, and in its discretion, or if it so elects, pay such allowances to the family of such sick or disabled employee.

Section 13.12. Where the sickness of an employee is such as to amount to permanent disability, or to indicate a more or less permanent absence from the service of the Company, the Company reserves the right to arrange to have the employee, if eligible, placed on Long Term Disability, in which event all payments herein provided shall be exhausted before such action is taken. Any allowance herein provided for shall in no way affect the right of the Company to sever the connection of an employee from the service of the Company for just cause.

Section 13.13. In the event an employee is paid Sickness Disability Allowance due to an injury caused by some person other

than the Company or such injured employee, the Company may after a reasonable time pursue the subrogated rights of such employee against said other person up to the extent of the amount it has paid to the employee as Sickness Disability Allowances, if the injured employee does not pursue his/her remedy for damages. In addition, in the event the employee pursues his/her remedy against such third person and receives a judgment or decree or settlement from such third person, the Company shall under its rights of subrogation be notified and will be entitled to participate in such judgment or decree or settlement up to the extent of the amount it has paid to the employee as Sickness Disability Allowances. If the Company receives a settlement, to the extent of the amount it has been paid, the employee shall have his/her Sickness Disability Allowance restored to the extent used.

Section 13.14. The Company will provide a Workers' Compensation Supplement to eligible employees who sustain an on-the-job injury and who meet the eligibility provisions and other conditions set forth in this Article 13. Such supplement shall represent the approximate difference between the value of compensation an employee receives under the applicable Workers' Compensation law

and the net pay an employee would receive under the provisions of this article for his/her pay grade and step.

Section 13.15. Female employees (regular status) who leave work due to pregnancy shall be eligible for benefits in accordance with this Article 13 in the same manner as any other disability, provided that the following procedures are adhered to:

(a) The employee shall present a written statement from her attending physician certifying (1) that a pregnancy exists, and (2) the last date on which the employee can safely work. Such written statement shall be submitted to the Medical Department within a reasonable time after the pregnancy is known but not later than the end of the sixth month of pregnancy. It is expected that the employee will work to the date certified above and no employee will be allowed to work beyond the date certified by her physician as the last date on which the employee can safely work.

(b) Following childbirth, the employee shall submit to the Medical Department a written statement from her physician certifying the earliest date that the employee can return to work. Benefits under this Article 13 shall cease on the return to work date certified by the employee's physician. If the employee elects not to return to work on this date the employee may request a leave of absence in accordance with Article 14, Sections 14.06, 14.08 and 14.09.

Section 13.16. It is understood that none of the provisions of this Article 13 shall in any way limit the Company's right to discipline employees for excessive absenteeism or misrepresentation of injuries, ailments, or physical condition.

ARTICLE 14

LEAVE OF ABSENCE

Section 14.01. Employees will be excused with pay for absence on scheduled workdays upon the occasion of a death as follows:

(a) Between, and including, the day of death and the day of the funeral of a father, mother, foster father or mother, husband, wife, brother, sister, son or daughter, mother-in-law, or father-in-law, with a maximum of four (4) working days. One (1) of the four (4) days total allotment may be taken on the day immediately after the funeral.

(b) For one day on the day of the funeral to attend the services for a son-in-law, daughter-in-law, grandfather, grandmother, grandson, granddaughter, stepfather, stepmother, stepbrother, stepsister, stepchild, half brother or half sister.

(c) In the event relatives listed in Section 14.01(b) were living in the household of the employee at the time of death, the allowance of Section 14.01(a) shall apply.

(d) The allowances of this Section shall apply only to employees regularly at work and shall not apply to employees absent because of vacation, sick leave, leave of absence for any reason, layoff, furlough, disciplinary action, or any permitted absence.

Section 14.02. When regular employees are selected to serve as jurors in the jurisdiction of their residence and are required to be absent from work on regular scheduled workdays because of jury duty, pay at their basic rate shall be continued during such absences and they may retain any fees paid to them for jury duty. The work schedules of shift workers will be revised when necessary so that they will not be assigned to night work on normal jury duty days. Employees shall notify their supervisors promptly after receiving notice of jury duty summons and shall obtain such certifications regarding hours and days of jury duty as may be required by the Company. Employees shall report for work whenever they are not actually serving as jurors during their regular scheduled workdays unless otherwise instructed by their supervisors. Continuation of pay as provided herein shall not be allowed more than once in two consecutive calendar years unless the individual is unable to be excused from serving on jury duty.

Section 14.03. Any employee subpoenaed as an innocently involved witness in a federal, state or local government judicial proceeding shall lose no pay thereby.

Section 14.04. Employees who are called to active duty or enlist in the U.S. Armed Forces shall be granted leaves of absence for their initial tour of duty or initial enlistment period. If such employees return to work within 90 days of their separation or discharge from military service, their continuous service with the Company shall not be broken. All employee benefits shall be suspended during the period such employees are on active duty.

Section 14.05. Employees who are called to temporary, short term active duty in the National Guard or Reserve due to a declared emergency or regular encampment shall be granted a leave of absence on request. The Company will compensate employees during such leaves for the difference between the employee's military pay and the employee's base pay rate in the Company, providing employees promptly submit official military documentation as to military pay received for the period of the emergency or regular encampment.

Section 14.06. An employee who has worked for PEPCO for at least one (1) year may make a request for a leave of absence under local and/or federal family and medical leave laws provided the employee has worked the requisite number of hours in the preceeding twelve (12) months. A request for leave must be made in writing specifying the reason for such leave (including any requested supporting documentation), the date the leave is expected to commence and the date the employee expects to return to work.

Section 14.07. An employee may request a personal leave of absence without pay for a period up to four (4) months providing such request is made in writing stating the reason for such leave, the date the leave is to commence, and the date the employee will return to work. Such leave requests shall be submitted to the employee's department head and shall require the approval of the employee's General Manager and the General Manager - Human Resources. Depending on Company operating requirements and reasons for requested leaves of absence, the Company shall be the sole determiner as to whether a leave of absence is granted. If the employee does not return to work on the approved return date, his/her employment with the Company shall be terminated. Personal leaves of absence shall not be renewed or extended beyond the approved return date except in cases of demonstrated hardship and only on the approval of the employee's General Manager and the General Manager - Human Resources. No leave will be granted to accept employment with another organization or to be self-employed. No more than one (1) leave of absence (four (4) months maximum) will be granted within any continuous eighteen (18) month period. Before beginning such a leave of absence, an employee must take all vacation to which he/she is then entitled.

Section 14.08. Any employee who is duly elected to a federal, state, or local government position which requires such employee to be absent from the Company on a full-time basis, may request a

leave of absence without pay for a period not to exceed the first term of office.

Section 14.09. Employees granted leaves of absence under section 14.06 shall maintain the applicable group medical and group dental plan coverage as if they had continued working. In the event the employee is a member of a medical plan requiring an employee contribution, the employee must timely forward the appropriate contribution to employee benefits each month to continue coverage. Group life insurance may be continued under the terms described in Section 14.10.

Section 14.10. Employees granted leaves of absence under Sections 14.07 and 14.08 shall have the coverage of the following benefit plans continued to the end of the month in which the leave commences:

Group Life Insurance Program
Group Medical Insurance Program
Group Dental Assistance Plan

If the employee desires to obtain continued coverage under these programs after the period specified above, such employees shall pay the full monthly cost of the benefit plan premiums or contributions up to and including the month in which the employee returns to work from his/her leave of absence. Full monthly cost shall include both employee and employer premiums or contributions. Such payments shall commence and be submitted to the Employee Benefits Department by the first day of the month following the periods specified above and by the first day of any succeeding months of the leave of absence. Failure to make timely payments as prescribed shall cause the immediate cancellation of the program coverage. Regarding the General Retirement Plan, if an employee does not desire to make contributions to the Plan during a leave, contributions to the Plan will be suspended during the leave of absence and be resumed when the employee returns to work.

Section 14.11. Employees who return from a personal leave of absence prior to or on the approved return date will be reinstated in their former position at their former rate of pay and will retain their position on the seniority roster.

Section 14.12. A regular employee who is elected or appointed to a full-time official position in Local Union #1900 shall be granted a leave of absence without pay by the Company for the term of such elected or appointed office. In conjunction with such leave, the following will apply:

(a) The President of Local Union #1900 shall give written notice

to the Manager - Industrial Relations stating the name of the employee to be granted leave, the date such leave will commence, and the name and term of office involved.

(b) The Company shall make no wage payments to the employee during the term of leave of absence; however, the Company will continue the employee's coverage under certain benefit plans listed below, provided that Local Union #1900 reimburses the Company for the full cost of premiums or contributions (employee-employer) currently in effect for such plans. Such reimbursements shall be forwarded monthly to the Manager-Employee Benefits, Thomas Edison Building. The benefit plans subject to such continuation are as follows:

Group Medical Insurance Program
Group Life Insurance Program
General Retirement Plan
Long Term Disability Plan
Group Dental Assistance Plan

Local Union #1900 shall be responsible for providing Workers' Compensation coverage for any employee who is on leave of absence under this Section 14.12.

(c) An employee on leave shall continue to accrue all seniority rights during the term of office with Local Union #1900 and shall, upon expiration of such leave, be reinstated in his/her former job classification at the former work location if he/she is physically qualified to perform the work. It is understood that an employee on leave for Union business forfeits any promotional opportunities in the Company which occur during such leave of absence.

ARTICLE 15

LIMITED SERVICE

Section 15.01. When (a) an employee with ten (10) or more years of continuous service is unable to perform the regular work of his/her classification because of a disability resulting from a non-occupational illness or injury, or when (b) an employee, regardless of length of service, is unable to perform the regular work of his/her classification because of a disability resulting from an accident on the job, the Company may invoke the provisions of this Article by giving written notice to the

employee, copy to the Union. Such notice shall state that the employee may bid into any available job he/she can do within the limits of his/her disability and shall have his/her pay protected to the extent set forth in the applicable provision of this Article. If the employee does not successfully bid into another job within 12 months of such notice, the Company will endeavor to place him/her in any available work where, in the Company's opinion, the employee can be productive taking into account his/her previous experience, education and the limits of his/her disability. At its election, the Company can permanently place an employee prior to the expiration of this 12-month period and the employee's salary shall be grandfathered for the balance of that 12-month period. In the event the employee bids into

another position prior to the expiration of the original 12-month period, that employee's pay shall be grandfathered for the balance of that 12-month period governed by the provisions of Sections 15.02 & 15.03. In fulfilling its obligation under this Article, the Company may place employees without regard to the posting, seniority or other selection requirements of Article 8; however, such placement shall be discussed in advance with the Union.

Section 15.02. If the disability referred to in Section 15.01 results from a non-occupational illness or injury, the employee's rate of pay shall be determined as follows:

(a) If the employee has completed twenty (20) years of continuous service, his/her rate of pay will be grandfathered (as defined below in Section 15.03).

(b) If the employee has completed fifteen (15) years of continuous service, his/her rate of pay will be reduced by 50% of the difference between his/her existing rate and the rate established for the work he/she is to perform.

(c) If the employee has completed ten (10) years of continuous service, his/her rate of pay will be the rate established for the work he/she is to perform.

Section 15.03. When the disability referred to in Section 15.01 results from an accident on the job which was promptly reported and was not the result of a willful or deliberate act by the employee, the employee's rate of pay shall be grandfathered, that is, he/she shall continue to be paid at the same step and pay grade that the employee was receiving at the time he/she was

informed in writing of the Company's intention to invoke the provisions of this Article and shall be eligible for future general wage increases.

Section 15.04. Employees in limited service status who become subject to a reduction under the terms of Article 9 shall first have their status reviewed under the terms of this Article including classification and seniority.

Section 15.05. When an employee is to be changed to, or from, limited service, the case will be discussed with the Union and his/her seniority status decided by mutual agreement.

Section 15.06. Future status of an employee's ability to return to his/her former job or a job of higher classification shall be subject to review at anytime the employee's condition improves to allow such consideration. If the employee is found to be capable of performing the duties of his/her former job as determined by the Company's Medical Director, he/she shall be returned to the job in question. Concerning a job in a higher classification or a job in another Occupational Group, if the employee is found to be capable of performing the duties of such job as determined by the Medical Director, the employee shall be given consideration

on the next job vacancy.

ARTICLE 16

SUSPENSION AND DISCHARGE

Section 16.01. The maintenance of discipline is the responsibility of the Company and to that end the Company may discipline employees for cause. A copy of all disciplinary actions issued to Bargaining Unit employees will be forwarded to the Union. This includes all Oral Reminders, Written Reminders, Decision Making Leaves (DML), and notices of meetings regarding continuation of employment (and resulting determinations from such meetings).

Section 16.02. In the event the Company believes that a Bargaining Unit employee's problems regarding work performance, conduct & safety, or attendance appears to warrant discharge, a meeting will be scheduled for that employee before his/her General Manager (or designated representative); other Company representatives may also be present.

(a) The employee and the Union will be notified, in writing, at least two (2) days prior to the meeting. The notification will include the date and time of the meeting, a statement describing the employee's performance problem(s), and a statement to the employee advising of his/her right to Union representation (also included will be the Union's telephone number).

(b) The Company will endeavor to assure that a Union Steward is available when an employee is notified of the meeting. In the event a Steward is not available, the Union office will be notified as soon as reasonably possible.

(c) The purpose of the meeting is to assure that an appropriate decision is made regarding the Bargaining Unit employee's continued employment with the Company. A representative of the Union may attend that meeting. If desired, the employee may allow that Union official to represent him/her at that meeting. During this meeting, all parties will make all relevant facts available. Further, the Company may allow witnesses with relevant information to testify at the meeting.

(d) After the meeting, and after the Company has completed any additional investigation that it deems appropriate, the employee will be advised, in writing, of the Company's final determination. A copy of that determination will be forwarded to the Union. It is understood that employees will remain at work pending the Company's final determination, unless that employee has been placed on Crisis Suspension or

Excused With Pay.

Section 16.03. In the event a Bargaining Unit employee is placed on Crisis Suspension or Decision-Making Leave, the Company will endeavor to assure that a Steward is present when the employee is notified. In the event a Steward is not available, or it is impractical to have a Steward present, the management representative who places the employee on Crisis Suspension or Decision-Making Leave is responsible for ensuring that the Union office is notified as soon as possible. Additionally, the employee will be provided with the Union's telephone number.

(a) It is understood and agreed that a Crisis Suspension

does not necessitate a meeting before the employee's General Manager (or designated Representative) unless that suspension is expected to be converted to discharge. However, in the event a Crisis Suspension extends past five (5) days, the Union shall have the right to request a hearing. In the event of such request, the parties shall, within two (2) days, arrange to meet and discuss the employee's employment status.

Section 16.04. In the event the Union disagrees with a Company decision to discharge a Bargaining Unit employee, the Union may, within five (5) working days after the determination, appeal the discharge directly to Arbitration in accordance with Article 18. However, prior to Arbitration, the Union may request that a Step 2 meeting be held to discuss the matter.

Section 16.05. Crisis suspensions may be appealed directly to Step 2 of the Grievance Procedure, Article 17.

ARTICLE 17

GRIEVANCE PROCEDURE

Section 17.01. It is considered by the parties that all grievances should be presented promptly, discussed without delay and answered within a reasonable time. A grievance is defined as a violation of a specific term(s) or provision(s) of this Agreement or of an established precedent in terms and/or conditions of employment. It is also considered that grievances should be settled whenever possible at the levels where the greatest familiarity with the subject matter exists. Any individual employee or group of employees shall have the right to present grievances and to have them considered for adjustment, provided any adjustments are not inconsistent with the terms of this Agreement and a Union representative has been given an opportunity to attend as provided in this procedure. Therefore, it is agreed that all grievances shall be subject to the following grievance procedure.

Section 17.02. Any employee who believes that he/she has a grievance shall, within one (1) week after the cause of the grievance is alleged or known to have taken place, discuss it with his/her immediate supervisor. The employee may, if he/she desires, have his/her Steward present during the discussion. The supervisor shall within three (3) workdays after the discussion,

notify the employee or Steward (if present at the discussion) of his/her disposition of the matter.

Section 17.03. Step 1--If the appropriate supervisor's response does not resolve the grievance, then within two (2) weeks after the cause for the grievance is alleged or known to have taken place, the grievance shall be stated in writing on forms available from the Company or the Union, listing facts, reasons, Agreement provisions in question, and/or established precedent in terms and conditions of employment. The grievance must be numbered (by the Local Union Office), dated and signed and one (1) copy shall be delivered to the Department Head and one (1) copy shall be delivered to Industrial Relations. If a grievance is not delivered to the Department Head within two (2) weeks after occurrence of cause for the grievance, it will no longer exist.

Section 17.04. Within one (1) week of delivery of the aforesaid grievance to the Department Head, the appropriate supervisor(s), the grievant, Steward, and/or Chief Steward shall meet to resolve the grievance. Within one (1) week after the meeting, the appropriate supervisor(s) shall give written notice to the Steward, with a copy to the Local Union President, of the determination of the grievance. If the grievance is not resolved, it may be taken to Step 2.

Section 17.05. Step 2--If the grievance is not resolved in Step 1, the President of the Local Union (or his/her designated representative) may, within two (2) weeks after receipt of the written determination in Step 1, submit in writing to the Manager - Industrial Relations (or his/her designated representative) a request for a meeting to resolve the grievance. Within one (1) week after receipt of such request from the Local Union President (or his/her designated representative), the Manager - Industrial Relations (or his/her designated representative) shall arrange to meet with the Union's Grievance Committee (grievant, Steward, Chief Steward, and/or Local Union President or his/her designated representative) to resolve the grievance. Such meeting will be held within four (4) weeks of the receipt of the request unless mutually agreed otherwise. The Union and the Company may have present and eligible to participate in the discussion any persons they so desire. Within two (2) weeks after the meeting, the Manager - Industrial Relations (or his/her designated representative) shall give written notice to the Local Union President (or his/her designated representative) of the determination of the grievance. If the grievance is not resolved in Step 2, it may be taken to arbitration as provided in Article 18.

Section 17.06. Discussions regarding grievances shall be conducted as far as practicable during the employee's working

hours. Payment for discussions regarding grievances shall be

compensated as outlined in Article 4 of this Agreement. All employees shall first obtain permission from their supervisor to be absent for such meetings and must report to him/her upon returning.

Section 17.07. Grievances relating to matters which extend beyond a single Department, Division, or Group may originate in the Step of the grievance procedure where management authority to settle the matter exists, but no grievance may be taken to arbitration until it has been presented in Step 2, except where time limits as described in Section 17.05 have been exceeded and then only if the party seeking to move the matter to arbitration has not caused or contributed to the time limits being exceeded or except as otherwise provided for in Section 16.05 regarding discharges.

Section 17.08. Whenever a grievance involves a group of employees, a committee of not more than three persons, which shall include the appropriate Steward and at least one of the employees affected, may be substituted for an employee wherever the word "employee" is used in the grievance procedure.

Section 17.09. It is agreed that the grievance procedure or time limits may be varied at anytime by agreement of the parties when such action appears to be necessary or desirable.

Section 17.10. The Union and the Company shall inform each other of persons authorized to represent them in grievance matters.

Section 17.11. Grievances of the Company or Union shall originate in the lowest step where authority to take appropriate action exists.

Section 17.12. The grievance procedure is applicable to all employees in the bargaining unit except as otherwise restricted elsewhere in this Agreement, provided, however, that terminations of regular employees during their first year of continuous service and terminations of temporary employees at anytime may not be the subject of a grievance.

Section 17.13. Failure to comply with the time limit provisions by employees or Union representatives shall invalidate the grievance. Failure to comply with the time limit provisions by Management representatives shall permit the grievance to be

advanced to the next Step of the grievance procedure.

ARTICLE 18

ARBITRATION

Section 18.01. Any grievance not resolved in Step 2 of the

grievance procedure may be submitted to impartial arbitration.

Section 18.02. The Company or the Union shall notify the other party of its desire to proceed to arbitration within two (2) weeks of receipt of the Step 2 answer. Such notice shall be in writing and shall specify the grievance to be arbitrated and state the issue(s) involved.

Section 18.03. An impartial Arbitrator shall be selected by mutual consent of the Company and the Union as soon as practicable after receipt of the request for arbitration. If the parties do not agree on the selection of an Arbitrator within two (2) weeks after receipt of the request for arbitration, the American Arbitration Association shall select from a standing panel (agreed to by the parties in the Memorandum of Understanding by which this Agreement was established) the five Arbitrators least recently selected under this Article and shall provide a list thereof to each party. Within one (1) week following receipt of the list of Arbitrators, the parties shall meet and alternate in striking names from the list with the loser of a coin toss striking first. The remaining name, after each party has struck twice, shall be the impartial Arbitrator.

Section 18.04. The arbitration hearing shall be held as quickly as possible. The award of the Arbitrator shall be final and binding upon both parties and upon the employee(s) involved. The fees and expenses of the Arbitrator, and any other expenses agreed to by the parties prior to the arbitration hearing, shall be shared equally by the Company and the Union. The Arbitrator shall have power and authority to arbitrate only those matters expressly made subject to arbitration by the terms of this Agreement and shall rule only on the issues submitted to him/her. The Arbitrator shall have power only to interpret this Agreement and shall not have the power to alter or amend it.

Section 18.05. At the request of either party, a grievance involving the discharge or discipline of an employee shall be

submitted to Expedited Arbitration (as defined below). The Arbitrator for such Expedited Arbitrations shall be appointed from a standing panel of at least ten (10) Arbitrators agreed to by the parties in the Memorandum of Understanding by which this Agreement was established. As soon as practicable after receipt of the arbitration request referred to in Section 18.02 above, the parties shall try to agree on a date(s) to arbitrate the case. If agreement is reached, the parties shall notify the American Arbitration Association (hereinafter "AAA") of the desired date(s). The AAA will then appoint an Arbitrator from the parties' standing panel who is available on the requested date(s). Prior to the parties' selection of a mutually acceptable date(s), neither party shall be informed of the availability of a named Arbitrator on a particular date. If the parties are unable to agree on a date within two (2) weeks after receipt of the request for arbitration, either party may so notify the AAA, requesting that the AAA appoint an Arbitrator who will set the time and date(s) after considering the parties'

positions on when the case should be heard. In appointing Arbitrators under this Section, the AAA shall make every effort to evenly distribute the cases among the standing panel of Arbitrators. The Expedited Arbitration will be conducted according to the Expedited Arbitration rules in effect July 1, 1983, except to the extent inconsistent with this Section.

ARTICLE 19

APPLICABLE LAWS AND REGULATIONS

Section 19.01. It is understood and agreed that the provisions of this Agreement are in all respects subject to all applicable laws and governmental regulations now or hereafter in effect and to the lawful rulings and orders of all regulatory commissions now or hereafter having jurisdiction. Should any provision of this Agreement be found to be in conflict with any applicable laws or lawful rulings or regulations, the parties shall at once meet for the purpose of discussing and/or modifying that portion of the Agreement only.

Section 19.02. The Company will endeavor to comply with all state and local laws and regulations relating to the safety and health of employees and will take such additional steps as may be necessary to make adequate provision therefore, including the establishment and maintenance of appropriate first aid stations

and other facilities. The Company will also formulate and publish safety rules to which the employees shall be required to conform.

ARTICLE 20

SAFETY AND HEALTH

Section 20.01. The Company and the Union recognize the need for an effective Safety and Health Program for the benefit of all employees and the Company. The Union will cooperate in assisting and maintaining the Company's rules regarding safety and health. The Company recognizes the interest of the Union in the safety and health of its members, and will give careful consideration to any recommendations made by it. The Company agrees to investigate, upon request of the Union, any conditions which might affect the safety and health of employees, and will meet with a Union safety committee as designated below.

Section 20.02. The Company and the Union agree to establish a Joint Safety and Health Advisory Committee for the purpose of reviewing or recommending new or revised safety and health rules, discussing current safety and health conditions or problems, and

discussing laws and regulations concerning Occupational Safety and Health Act (OSHA) and/or other federal and state regulatory agencies having local jurisdiction. This Committee shall consist of not more than three (3) members for the Company and three (3) members for the Union. Two of the three members of the Union committee will be permanent members of the Joint Safety and Health Advisory Committee and the third may be a rotating member as designated by the Union.

Section 20.03. This Committee shall generally meet on a monthly basis and take actions it deems appropriate in presenting and recommending new or revised safety and health rules affecting the employees of the Company. However, it should be understood that the establishment and enforcement of safety and health rules and regulations is a proper function of management and to this end the final determination as to adoption and implementation of safety and health rules shall be the sole responsibility of the Company.

Section 20.04. It is understood that any dispute arising out of the enforcement of Company established safety and health rules

shall be proper subject for a grievance under Article 17 of this Agreement.

Section 20.05. The Company will compensate members (Company employees) for time spent in meetings of the Joint Safety and Health Advisory Committee.

Section 20.06. When the Company is required to notify OSHA or a corresponding state agency of an accident involving Company employee(s), it will also notify the Union of such accident. The Union may thereafter investigate the accident by having a Union official contact the Manager-Corporate Safety or a member of his/her staff who will arrange for such investigation.

ARTICLE 21

UNAUTHORIZED WORK STOPPAGES, SLOWDOWNS, OR LOCKOUTS

Section 21.01. It is understood and agreed that the services performed by the employees of the Company in their employment are essential to the continuing operations of the Company as a public utility and to the welfare of the public.

Section 21.02. During the term of this Agreement and any mutually agreed-upon extensions thereof, the Union will not call, authorize, encourage, ratify, or engage in any strike, sitdown, slowdown, or other interference with or stoppage of the work of the Company, and the Company will not engage in any lockout of employees.

Section 21.03. In the event that any employees in the bargaining unit individually or collectively engage in any strike, sitdown,

slowdown, or other interference with or stoppage of work, the Company shall notify the Union of such incident and the Union shall take the following actions:

(a) Notify the Company in writing within 24 hours of such incident that such strike, sitdown, slowdown, or other interference with or stoppage of work is not authorized by the Union.

(b) Immediately instruct such employees that they are in violation of the Agreement and order them to immediately cease such action.

(c) Grant such employees no assistance in such action.

Section 21.04. If the Union complies with Section 21.03 there shall be no responsibility on the part of the Union, its officers or representatives.

Section 21.05. If such employees (Section 21.03) do not cease such action immediately upon instructions of the Union, they shall be subject to discipline by the Company, including discharge.

Section 21.06. If there is any question about any individual employee as to his/her participation in a strike, sitdown, slowdown, or other interference with or stoppage of work, and/or the discipline imposed, the matter may be subject to Article 17, Grievance Procedure.

ARTICLE 22

BENEFIT PLANS

Section 22.01. General Retirement Plan (GRP) - The level and type of benefits provided under the existing General Retirement Plan will be continued during the term of this Agreement.

Section 22.02. Long Term Disability Plan (LTD)

(a) The level and type of benefits provided under the existing Long Term Disability Plan for bargaining unit employees, as amended by the 1993 Memorandum of Understanding (Benefits), will be continued during the term of this Agreement. All employees awarded long term disability benefits under the plan must make timely application for Social Security Disability Benefits and if benefits are denied, must continue to appeal, in a timely manner, the denial of such benefits unless and until the Company or its agent determines further appeals are no longer necessary. Failure

to file timely application or timely appeal(s) for Social Security Disability Benefits or to cooperate with the Company or its agents in such appeal(s) will result in suspension of benefits under the plan. The existing Disability Retirement Plan shall continue in effect only for purposes of coverage for employees who became disabled prior to June 1, 1982.

(b) When an employee with ten (10) or more years of continuous service is unable to perform the regular work of his/her classification because of a physical disability resulting from a non-occupational illness or injury, and such employee has been determined ineligible for benefits under the Long Term Disability Plan for bargaining unit employees, when the Company is notified of such ineligibility, the Company shall endeavor to place the employee in any available work where, in the Company's opinion, the employee can be productive taking into account his/her previous experience, education and the limits of his/her physical disability; however, such placement shall be discussed in advance with the Union. In fulfilling its obligation, the Company may place employees without regard to the posting, seniority or other selection requirements of Article 8. Nothing herein shall preclude the employee from bidding into any available job during this period and the employee shall retain all rights under Article 15 of the Labor Agreement.

Section 22.03. Medical Coverage

(a) The level and type of benefits provided under the existing Medical Plan for bargaining unit employees, as amended by the 1993 Memorandum of Understanding (Benefits), will be continued during the term of this Agreement and shall apply to all bargaining unit employees except those who elect medical coverage under a Health Maintenance Organization plan as described in Section 22.04 below. During the term of this Agreement, all covered employees shall pay the following monthly contribution:

$10.00 Individual coverage
$30.00 Family coverage

(b) In the event a Plan member has been paid benefits from the Plan for injuries caused by some person other than the Company or such injured member, the Company may, after a reasonable time, and with the written authorization of the injured member, pursue the subrogated rights of such member against said other person up to the amount it has incurred or paid to or on behalf of the member from the Plan, if the injured member does not pursue his/her remedy. Such injured member shall not unreasonably withhold his/her consent. In the event the member pursues his/her remedy against such third person and receives a judgment or decree or settlement from such third person, the Company shall, under its rights

of subrogation, be notified by the member and will be entitled to participate in the judgment or decree or settlement up to the amount it has paid on behalf of the member from the Plan. If the Company receives a settlement, to the extent of the amount it has been paid, the employee shall have his/her "lifetime maximum" restored. It is agreed, however, that the Company shall be paid only from the amount remaining after all expenses, legal fees and court costs, etc. have been paid.

Section 22.04. Health Maintenance Organizations (HMO) -

(a) Employees may elect either medical coverage described in Section 22.03, or medical coverage under a Health Maintenance Organization (HMO). Employees may make such an election during an annual "open enrollment period" in the last quarter of each year and such election shall be irrevocable during the next calendar year. Employees who elect an HMO plan shall pay the difference in the added monthly premium cost, if any, between the elected coverage in the HMO plan and the applicable monthly premium cost less the applicable employee contribution to PEPCO's Medical Plan in effect on January 1 of each year for medical coverage described in Section 22.03, above.

(b) The Company shall offer the services of a representative group of at least three HMOs. The determination as to which HMO shall be offered under this Section shall be made by the Company taking into account 1) the objective of providing representative HMO options to as many employees as reasonably possible; 2) the requirements of federal law and regulations relating to HMOs; and 3) the need to protect employees and the Company from problems associated with medically or financially deficient HMO administration. If the Company determines to offer an HMO to employees, it shall not be deemed to be an endorsement of the HMO or an assurance from the Company that the employee will receive proper care from the HMO.

(c) An employee who elects HMO medical coverage shall have such medical coverage as his/her exclusive medical coverage and the Company shall have no obligation with regard to the provision of medical benefits or payment thereof, other than payment as described in Section 22.04(a) above.

(d) If any employee is enrolled in an HMO which is no longer made generally available to employees, any employee who is enrolled in such HMO shall be permitted to continue participation in such HMO for one (1) year subject to payment of any applicable contribution.

Section 22.05. Life Insurance - The level and type of benefits provided under the existing Group Life Insurance Plan for bargaining unit employees shall continue during the term of this

Agreement.

Section 22.06. Travel-Accident Insurance - The existing Travel-Accident Insurance coverage (Company paid) for bargaining unit employees will be continued during the term of this Agreement.

Section 22.07. Dental Assistance Plan - The level and type of benefits provided under the existing Dental Assistance Plan for bargaining unit employees, as amended by the 1993 Memorandum of Understanding (Benefits), shall continue during the term of this Agreement.

Section 22.08. Savings Plan - Provided Section 401(k) of the Internal Revenue Code as in effect on the date of this Agreement remains available, the level and type of benefits provided under the existing Savings Plan for bargaining unit employees, as amended by the 1993 Memorandum of Understanding (Benefits), shall continue during the term of this Agreement. The Company will provide a match of 40 Cents for each dollar of participant's contributions to the Plan, up to 6% of base pay.

Section 22.09. Pre-Tax Spending Account - Provided Sections 125 and 129 of the Internal Revenue Code as in effect on the date of this Agreement remains available, the level and type of benefits provided under the existing Pre-Tax Spending Account for bargaining unit employees shall continue during the term of this Agreement.

Section 22.10. Child Care Referral Service - The level and type of benefits provided under the existing Child Care Referral Service shall continue during the term of this Agreement.

Section 22.11 The method of funding, the election to self-insure any benefit plan described in this Article or the selection of an insurer for any plan shall be entirely within the discretion of the Company, and in the event there is any change from the current insurer(s), the Company shall maintain programs whose overall level and type of benefits are equal to the present programs, if available. Any dividends or reductions in premium rates during the term of this Agreement will accrue to the benefit of the Company.

Section 22.12 The administration of benefit plans described in this Article shall be the responsibility of the Administrative Board of the Company under the direction of the Board of Directors. Such responsibility shall include the selection of trustees, consultants, actuaries, investment managers, or other parties deemed necessary for the orderly operation of the plans. The Company may enter into or amend contracts or agreements with any parties involved with any of the Plans described in this Article such as trustees, insurance carriers, financial institutions, or investment fund managers, in the administration and operation of trusteed, self-funded self-insured, or insured

benefit plans, and when necessary, to amend plans and plan documents to reflect operational changes or to secure qualification as appropriate from the Internal Revenue Service. It shall be the Company's responsibility and authority to determine the extent to which all or any part of any benefit plan is self-funded, trusteed or insured. The Company will annually submit reports to the Union on defined benefit plans in accordance with the Employee Retirement Income Security Act (ERISA).

ARTICLE 23

IDENTITY OF PARTIES AND COMPLETE AGREEMENT

Section 23.01. The parties to this Agreement agree that it shall be binding upon them and their successors and assigns.

Section 23.02. It is agreed that in the negotiations leading to the execution of this Agreement each party had full opportunity to propose, present, and discuss all matters concerning relationships between the Company, its employees in the agreed classifications and jobs covered by this Agreement, and the Union. Neither party is obligated to bargain collectively, as regards such employees, with respect to any matter not covered by this Agreement, for the life thereof, except as may be specifically permitted by any reopening clause. Neither party shall have the right, without consent of the other party, to insist upon an addition thereto, change therein or deletion therefrom. Amendments to this Agreement may be made, however, and amendments proposed in writing by one party shall be considered by the other and discussed by the parties jointly; but if, as a result of such negotiations, no amendments are agreed to, the disagreement shall not constitute a dispute subject to

Article 17, Grievance Procedure.

ARTICLE 24

DURATION, REOPENING AND RENEWAL

Section 24.01. Except as otherwise specifically provided in this Agreement or accompanying General Memorandum of Understanding and attachments thereto by which this Agreement was established, it shall become effective upon formal signing and shall supersede all prior agreements between the parties; except for the implementation of any change from the previous Agreement which shall occur as may be called for in the Agreement. The Standard Wage Classification shall be implemented as outlined in Sections 24.03, 24.04 and 24.05 of this Article. The term of this Agreement shall be to and including May 31, 2003 and it shall thereafter continue in full force and effect for succeeding periods of 12 calendar months each, unless either party, prior to April 1, 2003, or April 1 of any year thereafter, shall serve written notice upon the other party of its desire to amend and/or to terminate the Agreement as of the following June 1.

(a) In 2002, either party may request to reopen the contract by giving the other party 60 day's notice prior to June 1, 2002. Any such re-opener will be limited to wages and benefits.

Section 24.02. If amendments to the Agreement are so proposed for any such June 1, such notice shall set forth the Articles and Sections of which amendment is desired and the nature of the proposed amendments. If, following negotiations on such amendments, agreement is not reached by June 1, either party may thereafter terminate this Agreement at any time by giving 48 hours' written notice thereof to the other.

Section 24.03. The Wage and Salary Schedule included in the Standard Wage Classification which constitutes Annex A to this Agreement shall become effective as of the date set forth in said Annex A, for all employees in the bargaining unit who are not covered by Section 24.04 below with each such employee's wage or salary rate, as the case may be, thereupon being changed to the applicable rate shown in Annex A for such employee's progression step in his/her Pay Grade.

Section 24.04. Other provisions of this Agreement

notwithstanding, a wage increase of any type shall not become effective prior to the start of a pay period during which the employee records hours of work.

Section 24.05. Only those employees being carried on the Company's payroll as of the date of ratification shall be eligible for any retroactive payment as they may be otherwise entitled.

IN WITNESS THEREOF, the Company and the Union have respectfully caused this Agreement, constituting the entire agreement between the parties with respect to the collective bargaining agreement, to be signed by their proper and duly authorized officials, this 8th day of December 1998.

Washington, D.C.

POTOMAC ELECTRIC POWER COMPANY

Group Vice President - Corporate Services	/S/ Anthony S. Macerollo
Manager - Industrial Relations & Employee Benefits	/S/ William J. Wolverton
Supervisor - Labor Relations	/S/ Michael J. Sullivan, Jr.

LOCAL UNION #1900
INTERNATIONAL BROTHERHOOD
OF ELECTRICAL WORKERS

President/Financial Secretary	/S/ James L. Hunter
	/S/ John A. Coleman
	/S/ John L. Holt
	/S/ Lionel Briscoe

IN WITNESS THEREOF, the Company and the Union have respectfully caused this Agreement, constituting the entire agreement between the parties with respect to the collective bargaining agreement, to be signed by their proper and duly authorized officials, this 8th day of December 1998.

Washington, D.C.

POTOMAC ELECTRIC POWER COMPANY

/s/Anthony S. Macerollo
Group Vice President - Corporate Services — Anthony S. Macerollo

/s/ William J. Wolverton
Manager - Industrial Relations & Employee Benefits — William J. Wolverton

/s/ Michael J. Sullivan, Jr.
Supervisor - Labor Relations — Michael J. Sullivan, Jr.

LOCAL UNION #1900
INTERNATIONAL BROTHERHOOD
OF ELECTRICAL WORKERS

/s/James L. Hunter
President/Financial Secretary — James L. Hunter

/s/John A. Coleman
John A. Coleman

/s/John L. Holt
John L. Holt

/s/Lionel Briscoe
Lionel Briscoe

WAGE SCHEDULE FOR
HOURLY RATE CLASSIFICATIONS

Effective January 1, 1999

PAY GRADE	DOLLARS PER HOUR				
4	8.50	8.76	9.01	9.27	9.53
6	11.11	11.62	11.85	12.04	12.52
7	12.24	12.44	12.63	12.83	12.99
8	12.63	12.83	12.99	13.21	13.41
9	13.67	13.82	14.08	14.30	14.44
10	14.82	15.07	15.29	15.56	15.74
11	15.45	15.68	15.94	16.16	16.37
12	17.06	17.31	17.54	17.77	18.04
13	19.12	19.39	19.55	19.84	20.10
14	20.12	20.41	20.68	20.96	21.19
15	20.97	21.30	21.55	21.81	22.13
15-A					22.62
16	22.13	22.41	22.63	22.96	23.26
17	23.38	23.68	23.94	24.22	24.50
18	24.72	25.04	25.26	25.51	25.87
19	26.13	26.38	26.64	26.93	27.24
20	27.48	27.78	28.02	28.31	28.62

Consideration for time and merit progression through step rates in each Pay Grade at 6-month intervals.

WAGE SCHEDULE FOR
HOURLY RATE CLASSIFICATIONS

effective May 29, 2000

PAY GRADE	DOLLARS PER HOUR				
4	8.76	9.02	9.28	9.55	9.82
6	11.44	11.97	12.21	12.40	12.90
7	12.61	12.81	13.01	13.21	13.38
8	13.01	13.21	13.38	13.61	13.81
9	14.08	14.23	14.50	14.73	14.87
10	15.26	15.52	15.75	16.03	16.21
11	15.91	16.15	16.42	16.64	16.86
12	17.57	17.83	18.07	18.30	18.58
13	19.69	19.97	20.14	20.44	20.70
14	20.72	21.02	21.30	21.59	21.83
15	21.60	21.94	22.20	22.46	22.79
15-A					23.30
16	22.79	23.08	23.31	23.65	23.96
17	24.08	24.39	24.66	24.95	25.24
18	25.46	25.79	26.02	26.28	26.65
19	26.91	27.17	27.44	27.74	28.06
20	28.30	28.61	28.86	29.16	29.48

Consideration for time and merit progression through step rates in each Pay Grade at 6-month intervals.

WAGE SCHEDULE FOR
HOURLY RATE CLASSIFICATIONS

effective May 29, 2001

PAY GRADE	DOLLARS PER HOUR				
4	9.02	9.29	9.56	9.84	10.11
6	11.78	12.33	12.58	12.77	13.29
7	12.99	13.19	13.40	13.61	13.78
8	13.40	13.61	13.78	14.02	14.22
9	14.50	14.66	14.94	15.17	15.32
10	15.72	15.99	16.22	16.51	16.70
11	16.39	16.63	16.91	17.14	17.37
12	18.10	18.36	18.61	18.85	19.14
13	20.28	20.57	20.74	21.05	21.32
14	21.34	21.65	21.94	22.24	22.48
15	22.25	22.60	22.87	23.13	23.47
15-A					24.00
16	23.47	23.77	24.01	24.36	24.68
17	24.80	25.12	25.40	25.70	26.00
18	26.22	26.56	26.80	27.07	27.45
19	27.72	27.99	28.26	28.57	28.90
20	29.15	29.47	29.73	30.03	30.36

Consideration for time and merit progression through step rates in each Pay Grade at 6-month intervals.

WAGE SCHEDULE FOR
HOURLY RATE CLASSIFICATIONS

effective May 29, 2002*

PAY GRADE	DOLLARS PER HOUR				
4	9.29	9.57	9.85	10.14	10.41
6	12.13	12.70	12.96	13.15	13.69
7	13.38	13.59	13.80	14.02	14.19
8	13.80	14.02	14.19	14.44	14.65
9	14.94	15.10	15.39	15.63	15.78
10	16.19	16.47	16.71	17.01	17.20
11	16.88	17.13	17.42	17.65	17.89
12	18.64	18.91	19.17	19.42	19.71
13	20.89	21.19	21.36	21.68	21.96
14	21.98	22.30	22.60	22.91	23.15
15	22.92	23.28	23.56	23.82	24.17
15-A					24.72
16	24.17	24.48	24.73	25.09	25.42
17	25.54	25.87	26.16	26.47	26.78
18	27.01	27.36	27.60	27.88	28.27
19	28.55	28.83	29.11	29.43	29.77
20	30.02	30.35	30.62	30.93	31.27

Consideration for time and merit progression through step rates in each Pay Grade at 6-month intervals.

*Rates effective unless wage re-opener requested.

WAGE SCHEDULE FOR
WEEKLY RATE CLASSIFICATIONS

effective January 1, 1999

PAY GRADE	DOLLARS PER WEEK				
1	427.50	452.50	460.50	472.75	489.75
2	463.75	488.50	499.00	508.50	528.00
3	553.25	564.25	569.75	576.00	586.50
4	600.50	612.50	622.50	637.25	645.50
5	667.25	681.50	695.25	705.50	716.25
6	764.50	778.25	789.75	801.50	812.50
7	831.75	845.75	856.75	869.50	880.75
8	879.50	896.75	910.75	928.75	940.25
9	955.50	973.50	992.00	1017.25	1034.75
9-A	1055.50	1073.75	1094.00	1117.25	1136.25

Consideration for time and merit progression through step rates in each Pay Grade at 6-month intervals.

WAGE SCHEDULE FOR
WEEKLY RATE CLASSIFICATIONS

effective May 31, 2000

PAY GRADE	DOLLARS PER WEEK				
1	440.25	466.00	474.25	487.00	504.50
2	477.75	503.25	514.00	523.75	543.75
3	569.75	581.25	586.75	593.25	604.00
4	618.50	631.00	641.25	656.25	664.75
5	687.25	702.00	716.00	726.75	737.75
6	787.50	801.50	813.50	825.50	837.00
7	856.75	871.00	882.50	895.50	907.25
8	906.00	923.75	938.00	956.50	968.50
9	984.25	1002.75	1021.75	1047.75	1065.75
9-A	1087.25	1106.00	1126.75	1150.75	1170.25

Consideration for time and merit progression through step rates in each Pay Grade at 6-month intervals.

WAGE SCHEDULE FOR
WEEKLY RATE CLASSIFICATIONS

effective May 31, 2001

PAY GRADE	DOLLARS PER WEEK				
1	453.50	480.00	488.50	501.50	519.75
2	492.00	518.25	529.50	539.50	560.00
3	586.75	598.75	604.25	611.00	622.00
4	637.00	650.00	660.50	676.00	684.75
5	707.75	723.00	737.50	748.50	760.00

6	811.25	825.50	838.00	850.25	862.00
7	882.50	897.25	909.00	922.25	934.50
8	933.25	951.50	966.25	985.25	997.50
9	1013.75	1032.75	1052.50	1079.25	1097.75
9-A	1119.75	1139.25	1160.50	1185.25	1205.25

Consideration for time and merit progression through step rates in each Pay Grade at 6-month intervals.

WAGE SCHEDULE FOR
WEEKLY RATE CLASSIFICATIONS

effective May 31, 2002*

PAY GRADE	DOLLARS PER WEEK				
1	467.00	494.50	503.25	516.50	535.25
2	506.75	533.75	545.50	555.75	576.75
3	604.25	616.75	622.50	629.25	640.75
4	656.00	669.50	680.25	696.25	705.25
5	729.00	744.75	759.75	771.00	782.75
6	835.50	850.25	863.25	875.75	887.75
7	909.00	924.25	936.25	950.00	962.50
8	961.25	980.00	995.25	1014.75	1027.50
9	1044.25	1063.75	1084.00	1111.75	1130.75
9-A	1153.25	1173.50	1195.25	1220.75	1241.50

Consideration for time and merit progression through step rates in each Pay Grade at 6-month intervals.

*Rates effective unless wage re-opener requested.

HOURLY RATED CLASSIFICATION

JOB NUMBER	CLASSIFICATION	PAY GRADE
	CUSTOMER SERVICES AND POWER DELIVERY BUSINESS UNIT	
	CUSTOMER SERVICES GROUP	
	METERS SERVICES DIVISION	
	Meter Installation & Test	
013040	Meter Electronic Technician A	18
013726	Meter Electronic Technician B	16
013066	Meter Electronic Technician C	12
013017	Meter Laboratory Technician	17
013039	High Tension Field Meter Tester	17
013041	Field Meter Tester A	15
013044	Laboratory Meter Tester A	15
013042	Field Meter Tester B	13
013045	Laboratory Meter Tester B	11
013090	Meter Installation Technician	16
013047	Meter Installer A	15
013048	Meter Installer B	12
013043	Field Meter Tester/Installer C	10
013046	Laboratory Meter Tester/Installer C	8
013062	Helper	6
013010	Meter Repairer A	15
013050	Equipment Service Technician A **	15
	Meter Reading	
015001	Special Meter Reader	13
015002	Meter Reader	12
	CUSTOMER SERVICES OPERATIONS & ACCOUNTING DIVISION	
	Customer Credit	

024002 Collection Specialist 15
024001 Collector 14
024013 Collection Order Dispatcher 14

**Restricted Roster

HOURLY RATED CLASSIFICATION

JOB NUMBER	CLASSIFICATION	PAY GRADE

POWER DISTRIBUTION GROUP

Distribution Field Support

141064 Gardener A 12
141065 Gardener B 9

Customer Reliability & Test

027010 Lead Transmission & Distribution Tester 19

027001 Lead Distribution Tester 18
027011 Distribution Tester A 16
027020 Lead Transformer Tester 18
027021 Transformer Tester A 16
027030 Transmission & Distribution Tester B 14
027031 Transmission & Distribution Tester C 11
027032 Transmission & Distribution Tester D 9
027033 Helper 6

027050 Utility Mechanic A** 11
027051 Utility Mechanic B** 6

FORESTVILLE SERVICE CENTER DIVISION

Forestville Service Center

413020 Lead Line Mechanic 18
413027 Qualified Line Mechanic 16
413004 Line Mechanic A 14
413005 Line Mechanic B 13
413006 Line Mechanic C 9
413017 Helper 6

413014 Trouble Assistant/Street Light Replacer A 12

413012 Trouble Assistant/Street Light Replacer B 9

413007 Service Line Mechanic 14

413021 Overhead Equipment Operator 14

413082 Service Inspector 13

413035 Truck Driver-Ground Helper-Boat Operator 13
413010 Truck Driver-Ground Helper A 12
413013 Truck Driver-Ground Helper B 6

**Restricted Roster

HOURLY RATED CLASSIFICATION

JOB NUMBER	CLASSIFICATION	PAY GRADE

Forestville Service Center (Cont')

413063 Truck Driver B 8

413040 Utility Mechanic A** 11
413041 Utility Mechanic B** 6

ROCKVILLE SERVICE CENTER DIVISION

Rockville Service Center

412220 Lead Line Mechanic - Rockville 18
412227 Qualified Line Mechanic - Rockville 16
412204 Line Mechanic A - Rockville 15
412205 Line Mechanic B - Rockville 14
412206 Line Mechanic C - Rockville 9
412017 Helper - Rockville 6

412210 Truck Driver-Ground Helper A - Rockville 12
412213 Truck Driver-Ground Helper B - Rockville 6

BENNING SERVICE CENTER DIVISION

Benning Service Center

411002 Lead Construction Mechanic 18
411001 Construction Mechanic 17

411010 Conduit Crew Leader 15

411005 Conduit Equipment Operator 14
411003 Compressor Operator 9

411004 Conduit Installer A 13
411006 Conduit Installer B 9
411061 Conduit Installer C 6

411064 Truck Driver Conduit 9
411063 Truck Driver B 8

411075 Conduit Line Locator** 13

411040 Utility Mechanic A** 11
411041 Utility Mechanic B** 6

411019 Lead Cable Splicer/Mechanic Pressurized Systems .. 18
411022 Lead Cable Splicer/Mechanic 18

**Restricted Roster

HOURLY RATED CLASSIFICATION

JOB NUMBER	CLASSIFICATION	PAY GRADE
	Benning Service Center (Cont'd)	
411001	Cable Splicer/Mechanic A	16
411002	Cable Splicer/Mechanic B	14
411006	Cable Splicer/Mechanic C	13
411020	Cable Splicer/Mechanic D	9
411062	Helper	6
411082	Service Inspector	13
411012	Materials Handler/Crane Operator	13
411004	Underground Lines Training Assistant**	17

TRANSMISSION BUSINESS UNIT

TRANSMISSION OPERATIONS & MAINTENANCE GROUP

SUBSTATION OPERATIONS & MAINTENANCE DIVISION

Substation Operations & Maintenance

051001 Lead Substation Technician - Maintenance 19
051002 Sr. Substation Technician - Maintenance 17
051003 Substation Technician - Maintenance 15
051004 Substation Technician Trainee III - Maintenance .. 12

051007 Lead Substation Technician - Operations 19
051008 Sr. Substation Technician - Operations 17
051009 Substation Technician - Operations 15
051010 Substation Technician Trainee III - Operations ... 12

051017 Lead Substation Technician - Test 19
051018 Sr. Substation Technician - Test 17
051019 Substation Technician - Test 15
051020 Substation Technician Trainee III - Test 12

051005 Substation Technician Trainee II 8
051006 Substation Technician Trainee I 4

SYSTEM PROTECTION & CONTROL DIVISION

Substation Test

052007 Test Specialist 20
052001 Relay Tester A 17
052008 Relay Tester B 14
052003 Relay Tester C 9
052021 Helper 6

**Restricted Roster

HOURLY RATED CLASSIFICATION

JOB NUMBER	CLASSIFICATION	PAY GRADE

SPC Planning & Analysis

145055 Laboratory Technician A 15
145054 Laboratory Technician B 13
145053 Laboratory Technician C 8

TELECOMMUNICATIONS DIVISION

Microwave & Fibre Optics

199022 Radio Frequency Interference Investigator 18
199044 Instrument and Equipment Technician A 17

199010 Lead Electronic Technician 20
199005 Electronic Technician A 17
199006 Electronic Technician B 14
199009 Electronic Technician C 9
199018 Helper 6

TRANSMISSION SYSTEMS OPERATIONS & SERVICES GROUP

CONTROL CENTER SYSTEMS DIVISION

Control Systems Support

065020 System Service Specialist 20
065021 System Service Technician A 17
065022 System Service Technician B 14

065010 Lead System Service Mechanic 17
065011 System Service Mechanic A 15
065012 System Service Mechanic B 13
065013 System Service Mechanic C 9
065014 Helper 6

065001 Lead Building Attendant 9
065002 Building Attendant A 6

TRANSMISSION ENGINEERING & CONSTRUCTION GROUP

TRANSMISSION CONSTRUCTION & PROJECT MANAGEMENT DIVISION

Transmission Construction & Project Management

179040 Construction Crew Leader 19
179041 Sr. Construction Electrical Mechanic 17
179042 Construction Electrical Mechanic 15
179043 Construction Elec. Mechanic Trainee III 12
179044 Construction Elec. Mechanic Trainee II 8
179045 Construction Elec. Mechanic Trainee I 4

JOB NUMBER	CLASSIFICATION	PAY GRADE

GENERATION BUSINESS UNIT

GENERATION OPERATIONS WEST GROUP

Benning Generating Station

021022	System Technician	20
021021	Control Technician	19
021108	Senior Plant Technician	17
021106	Plant Technician	15
021041	Plant Technician Trainee III	12
021042	Plant Technician Trainee II	8
021043	Plant Technician Trainee I	4
021044	Control Room Operator	17
021015	Parts Specialist	15
021097	Plant Toolkeeper A	12
021086	Plant Toolkeeper B	11
021140	Operating Technician A (Buzzard Pt)	17
021141	Operating Technician B (Buzzard Pt)	15
021142	Operating Technician C (Buzzard Pt)	13
021143	Operating Technician D (Buzzard Pt)	9
021144	Helper (Buzzard Pt)	6

Potomac River Generating Station

095022	System Technician	20
095021	Control Technician	19
095108	Senior Plant Technician	17
095106	Plant Technician	15
095041	Plant Technician Trainee III	12
095042	Plant Technician Trainee II	8
095043	Plant Technician Trainee I	4
095051	Senior Fuel & Ash Technician	16
095052	Fuel & Ash Technician	14
095053	Fuel & Ash Technician Trainee III	12
095057	Fuel & Ash Technician Trainee II	8
059059	Fuel & Ash Technician Trainee I	4
095101	Senior Maintenance Technician	17
095102	Maintenance Technician	15

095105 Maintenance Technician - Trainee III 12
095103 Maintenance Technician - Trainee II 8
095048 Maintenance Technician - Trainee I 4

095044 Control Room Operator 17

HOURLY RATED CLASSIFICATION

JOB NUMBER	CLASSIFICATION	PAY GRADE
	Potomac River Generating Station (Cont'd)	
095015	Parts Specialist	15
095097	Plant Toolkeeper A	12
095086	Plant Toolkeeper B	11
095009	Lead Laboratory Technician**	16
095004	Laboratory Technician A	15
095006	Laboratory Technician B	13
095007	Laboratory Technician C	8
095008	Helper	6
	Dickerson Generating Station	
096022	System Technician	20
096021	Control Technician	19
096108	Senior Plant Technician	17
096106	Plant Technician	15
096041	Plant Technician Trainee III	12
096042	Plant Technician Trainee II	8
096043	Plant Technician Trainee I	4
096051	Senior Fuel & Ash Technician	16
096052	Fuel & Ash Technician	14
096053	Fuel & Ash Technician Trainee III	12
096057	Fuel & Ash Technician Trainee II	8
096059	Fuel & Ash Technician Trainee I	4
096101	Senior Maintenance Technician	17
096102	Maintenance Technician	15
096105	Maintenance Technician - Trainee III	12
096103	Maintenance Technician - Trainee II	8
096048	Maintenance Technician - Trainee I	4

096044 Control Room Operator 17

096015 Parts Specialist 15

096097 Plant Toolkeeper A 12
096086 Plant Toolkeeper B 11

096009 Lead Laboratory Technician** 16
096004 Laboratory Technician A 15
096006 Laboratory Technician B 13
096007 Laboratory Technician C 8
096008 Helper 6

**Restricted Roster

HOURLY RATED CLASSIFICATION

JOB NUMBER	CLASSIFICATION	PAY GRADE

GENERATION OPERATIONS EAST GROUP

Chalk Point Generating Station

089022 System Technician 20
089021 Control Technician 19

089108 Senior Plant Technician 17
089106 Plant Technician 15
089041 Plant Technician Trainee III 12
089042 Plant Technician Trainee II 8
089043 Plant Technician Trainee I 4

089051 Senior Fuel & Ash Technician 16
089052 Fuel & Ash Technician 14
089053 Fuel & Ash Technician Trainee III 12
089057 Fuel & Ash Technician Trainee II 8
089059 Fuel & Ash Technician Trainee I 4

089044 Control Room Operator 17

089015 Parts Specialist 15

089097 Plant Toolkeeper A 12
089086 Plant Toolkeeper B 11

089009 Lead Laboratory Technician** 16
089004 Laboratory Technician A 15
089006 Laboratory Technician B 13
089007 Laboratory Technician C 8
089008 Helper 6

Morgantown Generating Station

093022 System Technician 20
093021 Control Technician 19

093108 Senior Plant Technician 17
093106 Plant Technician 15
093041 Plant Technician Trainee III 12
093042 Plant Technician Trainee II 8
093043 Plant Technician Trainee I 4

093051 Senior Fuel & Ash Technician 16
093052 Fuel & Ash Technician 14
093053 Fuel & Ash Technician Trainee III 12
093057 Fuel & Ash Technician Trainee II 8
093059 Fuel & Ash Technician Trainee I 4

**Restricted Roster

HOURLY RATED CLASSIFICATION

JOB NUMBER	CLASSIFICATION	PAY GRADE

Morgantown Generating Station (Cont'd)

093044 Control Room Operator 17

093015 Parts Specialist 15

093097 Plant Toolkeeper A 12
093086 Plant Toolkeeper B 11

093009 Lead Laboratory Technician** 16
093004 Laboratory Technician A 15

093006 Laboratory Technician B 13
093007 Laboratory Technician C 8
093008 Helper 6

GENERATING ENGINEERING & MAINTENANCE SERVICES GROUP

Production Services

155101 Senior Maintenance Technician 17
155102 Maintenance Technician 15
155105 Maintenance Technician - Trainee III 12
155103 Maintenance Technician - Trainee II 8
155048 Maintenance Technician - Trainee I 4

155007 Parts Specialist 15

155097 Plant Toolkeeper A 12
155086 Plant Toolkeeper B 11

Performance & Technical Services

171052 Condition Monitoring Technician A 19
171051 Condition Monitoring Technician B 17

Metallurgy

172060 Metallurgical Laboratory Technician 16

CORPORATE SERVICES BUSINESS UNIT

GENERAL SERVICES/MATERIALS GROUP

General Services/Materials Support

340340 Lead Messenger 9
340025 Mobile Messenger 8
340341 Messenger 6

**Restricted Roster

HOURLY RATED CLASSIFICATION

JOB NUMBER	CLASSIFICATION	PAY GRADE

Fleet Services

017004 Lead Automotive Mechanic 17
017001 Automotive Mechanic A 16
017002 Automotive Mechanic B 13
017003 Automotive Mechanic C 8
017062 Helper 6

017011 Service Specialist A 9
017012 Service Specialist B 8
017009 Garage Attendant A 7
017007 Garage Attendant B 6

017040 Utility Mechanic A** 11
017041 Utility Mechanic B** 6

FACILITY & SECURITY SERVICES DIVISION

General Shops

005004 Lead Shop Mechanic 17
005001 Shop Mechanic A 15
005002 Shop Mechanic B 13
005003 Shop Mechanic C 9
005062 Helper 6

005006 Sign Painter 15A

005007 Painter A 15
005008 Painter B 13
005009 Painter C 9
005010 Helper 6

005040 Utility Mechanic A** 11
005041 Utility Mechanic B** .....

Facility & Security Services

043015 Lead Building Engineer 15
043002 Building Engineer A 14
043006 Building Engineer B 13
043007 Building Engineer C 9
043020 Helper 6

043016 Lead Building Electrician 17
043017 Building Electrician A 14
043018 Building Electrician B 13
043011 Building Electrician C 9
043019 Helper 6

043001 Lead Building Attendant 9

043004 Building Attendant 6

**Restricted Roster

HOURLY RATED CLASSIFICATION

JOB NUMBER	CLASSIFICATION	PAY GRADE
	MATERIALS SERVICES DIVISION	
	Stores	
016021	Lead Handler/Disposal Specialist /1	16
016022	Specialized Carrier /2	16
016030	Material Handler/Driver /3	15
016002	Stock Handler A	14
016003	Stock Handler B	11
016004	Stock Handler C	8
016062	Stock Handler-Helper	6
016006	Equipment Operator A	14
016008	Equipment Operator B	11
016063	Material Handler	8
016061	Helper	6
016040	Utility Worker A**	11
016041	Utility Worker B**	6
	Waste Management	
229021	Lead Handler/Disposal Specialist	16
229002	Stock Handler A	14
229003	Stock Handler B	11
229004	Stock Handler C	8
229062	Stock Handler - Helper	6
229022	Specialized Carrier	16
	COMPUTER SERVICES GROUP	
	CLIENT SERVICES DIVISION	
	Network Services	

336070 Telecommunications Technician 17
337071 Associate Telecommunications Technician 13

(1) Promotion to this position will be from job #016030 or 016002.
(2) Promotion to this position will be from job #016030 or 016016.
(3) Promotion to this position will be from job #016002 or 016006.

**Restricted Roster

WEEKLY RATED CLASSIFICATION

JOB NUMBER	CLASSIFICATION	PAY GRADE
	CUSTOMER SERVICES AND POWER DELIVERY BUSINESS UNIT	
	CUSTOMER SERVICES AND POWER DISTRIBUTION GROUP	
	DISTRIBUTION SYSTEM OPERATIONS DIVISION	
	Distribution Control Room Operations	
417008	Complaint Dispatcher A.....	8
417009	Complaint Dispatcher B.....	6
	Distribution Operations Support	
418002	System Operations Aide A	8
418003	System Operations Aide B	7
418010	System Operations Aide C	6
	CUSTOMER SERVICES GROUP	
	METER SERVICES DIVISION	
	Meters Installation & Test	
013020	Lead Meters Aide	8

013725	Meters Aide A	6
013022	Meters Aide B	4
013023	Meters Clerk	2
013031	Computer Applications Assistant	5
013011	Data Input Clerk A - Special	4
013012	Data Input Clerk B - Special	3

Meter Reading

015005	Regional Accounts Clerk/Machine Operator	5
015006	Regional Accounts Clerk	3
015007	Route Clerk	3
015064	Clerk-Typist A	2
015065	Clerk-Typist B	1

WEEKLY RATED CLASSIFICATION

JOB NUMBER	CLASSIFICATION	PAY GRADE

CUSTOMER SERVICES ADMINISTRATIVE & DEVELOPMENT DIVISION

Customer Services Development

037002	Schedule Analyst	7
037013	System Development Representative A	7
037014	System Development Representative B	5
037080	General Clerk	1

Customer Services Administration & Training

049021	Lead Representative (Special Investigations)	8
049020	Special Investigations Representative	7

CUSTOMER SERVICES OPERATIONS & ACCOUNTING DIVISION

Customer Credit

024015	Senior Credit Analyst	7
024016	Credit Analyst A	6

024017	Credit Analyst B	4
024018	Senior Delinquent Accounts Clerk	3
024027	Delinquent Accounts Clerk	1
024047	Data Input Clerk	3
024064	Clerk-Typist A	2

Revenue Accounting

028081	Lead CIS Processing Analyst	7
028082	CIS Processing Analyst A	6
028083	CIS Processing Analyst B	5
028084	CIS Processing Analyst C	4
028085	CIS Processing Analyst D	3
028020	Meters Aide A	6
028021	Meters Aide B	4
028047	Data Input Clerk B	3
028064	Clerk-Typist A	2
028010	Computer Applications Specialist	9
028011	Computer Applications Assistant	5

WEEKLY RATED CLASSIFICATION

JOB NUMBER	CLASSIFICATION	PAY GRADE

Customer Operations

083022	Data Input Clerk A	4
083023	Data Input Clerk B	3
083001	Lead Service Representative	7
083033	Service Representative A	6
083034	Service Representative B	4
083024	Receptionist	3
083041	Telephone Operator A	3
083042	Telephone Operator B	2

Billing Services & Investigations

306004	Lead Representative (Account Investigation)	8

306021	Account Investigation Representative A	7
306020	Account Investigation Representative B	5
306010	Account Investigation Representative C	4
306011	Account Investigations Assistant**	5
306001	Lead Representative (Billing Maintenance)	6
306002	Billing Maintenance Analyst	5
306006	Billing Maintenance Representative A	4
306005	Billing Maintenance Representative B	3
306047	Data Input Clerk B	3
306064	Clerk-Typist A	2
306065	Clerk-Typist B	1

CUSTOMER DESIGN DC DIVISION

Customer Design DC

054044	Field Technician A	9
054041	Field Technician B	8
054042	Field Technician C	7
054043	Field Technician D	5
054018	Field Assistant	2
054085	Technical Assistant A	9
054084	Technical Assistant B	8
054083	Technical Assistant C	6
054082	Technical Assistant D	4
054081	Technical Clerk	2
054075	Service Security Assistant**	7

**Restricted Roster

JOB NUMBER	CLASSIFICATION	PAY GRADE

Customer Design DC (Cont'd)

054003	Customer Engineering Representative	9
054010	Builder Service Representative	7

054011	Customer Engineering Assistant	5
054007	Processing & Liaison Clerk	7
054017	Customer Engineering Clerk A	6
054004	Customer Engineering Clerk B	5
054005	Customer Engineering Clerk C	4
054033	Data Input Clerk B	3
054064	Clerk-Typist A	2
054065	Clerk-Typist B	1
054080	General Clerk	1

CUSTOMER DESIGN MD DIVISION

Customer Design MD

039044	Field Technician A	9
039041	Field Technician B	8
039042	Field Technician C	7
039043	Field Technician D	5
039018	Field Assistant	2
039085	Technical Assistant A	9
039084	Technical Assistant B	8
039083	Technical Assistant C	6
039082	Technical Assistant D	4
039081	Technical Clerk	2
039039	Right-of-Way Representative	8
039003	Customer Engineering Representative	9
039010	Builder Service Representative	7
039011	Customer Engineering Assistant	5
039007	Processing & Liaison Clerk	7
039017	Customer Engineering Clerk A	6
039004	Customer Engineering Clerk B	5
039005	Customer Engineering Clerk C	4
039033	Data Input Clerk B	3
039064	Clerk-Typist A	2
039065	Clerk-Typist B	1

JOB NUMBER	CLASSIFICATION	PAY GRADE

POWER DISTRIBUTION GROUP

Distribution Administrative Support

004034	Technical Aide A	8
004035	Technical Aide B	7
004036	Technical Aide C	6
004082	Technical Aide D	4
004015	Lead ESO&C Aide	8
004017	ESO&C Aide A	6
004019	ESO&C Aide B	4
004081	ESO&C Aide C	2
004025	Lead Administration Assistant	6
004026	Administration Assistant A	5
004027	Administration Assistant B	4
004005	Administration Assistant C	3
004030	Lead Data/Program Coder	7
004031	Data/Program Coder A	6
004004	Lead Data Processing Aide	7
004033	Data Processing Aide A	5
004007	Data Processing Aide B	4
004010	Data Processing Aide C	3
004721	Data Input Clerk A	4
004029	Data Input Clerk B	3
004064	Clerk-Typist A	2
004065	Clerk-Typist B	1

Customer Reliability & Test

027040	Transmission & Distribution Test Aide A	8
027041	Transmission & Distribution Test Aide B	7
027042	Transmission & Distribution Test Aide C	6

DISTRIBUTION ENGINEERING & CONSTRUCTION DIVISION

Distribution Engineering & Construction

006011	Prior Rights Aide A	8
006012	Prior Rights Aide B	6

006085	Technical Assistant A	9
006084	Technical Assistant B	8
006083	Technical Assistant C	6
006082	Technical Assistant D	4
006081	Technical Clerk	2

WEEKLY RATED CLASSIFICATION

JOB NUMBER	CLASSIFICATION	PAY GRADE
	Distribution Engineering & Construction (Cont'd)	
006038	Computer Applications Assistant A	7
006040	Computer Applications Assistant B	5
006044	Field Technician A	9
006041	Field Technician B	8
006042	Field Technician C	7
006043	Field Technician D	5
006045	Field Technician E	4
006018	Field Assistant	2
006019	Specialist Surveyor	9
006020	Surveyor A	8
006021	Surveyor B	7
006022	Surveyor C	4
006039	Right-of-Way Representative A	8
006029	Right-of-Way Representative B	6
006062	Clerk-Stenographer C	3
006063	Clerk-Stenographer D	2
	TRANSMISSION BUSINESS UNIT	
	RESOURCE PLANNING GROUP	
	Electric System Planning	
014085	Technical Assistant A	9

014084	Technical Assistant B	8
014083	Technical Assistant C	6
014082	Technical Assistant D	4
014081	Technical Clerk	2
014062	Clerk Stenographer C	3
014063	Clerk Stenographer D	2

Office of VP

170085	Technical Assistant A	9
170084	Technical Assistant B	8
170083	Technical Assistant C	6
170082	Technical Assistant D	4

WEEKLY RATED CLASSIFICATION

JOB NUMBER	CLASSIFICATION	PAY GRADE

ENERGY PLANNING DIVISION

Energy Systems Planning

311085	Technical Assistant A	8
311084	Technical Assistant B	7
311083	Technical Assistant C	6
311082	Technical Assistant D	4
311081	Technical Clerk	2

Transmission System Operations & Services Group

TRANSMISSION SERVICES DIVISION

Transmission Planning

309086	Technical Assistant A**	9

TRANSMISSION SYSTEM OPERATIONS DIVISION

Transmission Control Room Operations

020008	Complaint Dispatcher A	8
020009	Complaint Dispatcher B	6
020020	Complaint Dispatcher C	4
020002	System Operations Aide A	8
020003	System Operations Aide B	7
020010	System Operations Aide C	6
020011	System Operations Aide D	4
020085	Technical Assistant A	9
020084	Technical Assistant B	7
020083	Technical Assistant C	6
020082	Technical Assistant D	4

Transmission System Operations Engineering

322002	System Operations Aide A	8
322003	System Operations Aide B	7
322004	System Operations Aide C	6
322005	System Operations Aide D	4

**Restricted Roster

WEEKLY RATED CLASSIFICATION

JOB NUMBER	CLASSIFICATION	PAY GRADE

CONTROL ROOM SYSTEMS DIVISION

Control Systems Support

065006	System Operations Aide A	8
065003	System Operations Aide B	7
065004	System Operations Aide C	6
065005	System Operations Aide D	4

TRANSMISSION ENGINEERING & CONSTRUCTION GROUP

TRANSMISSION ENGINEERING & DESIGN DIVISION

Design Services

008010	Lead Design Technician, Electrical	9A
008001	Design Technician A, Electrical	9
008002	Design Technician B, Electrical	8
008003	Design Technician C, Electrical	6
008004	Drafting Technician, Electrical	4
008005	Tracer, Electrical	2
008041	Design Technician A, Mechanical	9
008042	Design Technician B, Mechanical	8
008043	Drafting Technician A, Mechanical	6
008044	Drafting Technician B, Mechanical	5
008016	Graphic Technician A	8
008017	Graphic Technician B	6
008018	Graphic Technician C	4
008019	Graphic Technician D	2
008007	Lead Print Reproduction Operator	6
008015	Print Reproduction Operator A	4
008014	Print Reproduction Operator B	2
008024	Records Preservation Clerk A	5
008025	Records Preservation Clerk B	3
008026	Records Preservation Clerk C	2
008039	Drafting File Clerk A	3
008038	Drafting File Clerk B	1
008032	Data Input Clerk A	4
008033	Data Input Clerk B	3
008064	Clerk-Typist A	2
008065	Clerk-Typist B	1
008011	Technical File Clerk	5
008081	Technical Clerk	2

WEEKLY RATED CLASSIFICATION

JOB NUMBER	CLASSIFICATION	PAY GRADE
	Transmission Engineering & Design	
128085	Technical Assistant A	9

128084	Technical Assistant B	8
128083	Technical Assistant C	6
128082	Technical Assistant D	4
128062	Clerk Stenographer C	3
128063	Clerk Stenographer D	2

TRANSMISSION CONSTRUCTION & PROJECT MANAGEMENT DIVISION

Substation & Transmission Project Management

140024	Job Processor Clerk A	8
140047	Job Processor Clerk B	7
140026	Job Processor Clerk C	6
140031	Pricing Clerk A	5
140027	Pricing Clerk B	4
140001	Work Record Clerk	3
140034	Technical Assistant A	9
140035	Technical Assistant B	8
140036	Technical Assistant C	6
140082	Technical Assistant D	4
140013	System Analyst A	8
140014	System Analyst B	6

TRANSMISSION OPERATIONS & MAINTENANCE GROUP

SYSTEM PROTECTION & CONTROL DIVISION

Substation Test

052029	Technical Aide A	8
052034	Technical Aide B	7
052035	Technical Aide C	6
052036	Technical Aide D	4

System Protection & Control

125085	Technical Assistant A	9
125084	Technical Assistant B	8
125083	Technical Assistant C	6
125082	Technical Assistant D	4

JOB NUMBER	CLASSIFICATION	PAY GRADE
	TELECOMMUNICATIONS DIVISION	
	Mobile Radio & Paging	
198085	Technical Assistant A	9
198084	Technical Assistant B	8
198083	Technical Assistant C	6
198082	Technical Assistant D	4
	Microwave & Fibre Optics	
199085	Technical Assistant A	9
199084	Technical Assistant B	8
199083	Technical Assistant C	6
199082	Technical Assistant D	4
	RATES AND REGULATORY PRACTICES GROUP	
	RATE ECONOMICS DIVISION	
	Rate Economics	
105064	Clerk-Typist A	2
105065	Clerk-Typist B	1
	Revenue Analysis	
307001	Rate Research Aide A	8
307002	Rate Research Aide B	6
	Rate Design	
022001	Research Aide A	8
022003	Statistical Analyst D	6
022004	Statistical Analyst C	3
	RATE ACCOUNTING DIVISION	
	Cost Allocation	
038001	Research Aide A	8
038002	Research Aide B	6

WEEKLY RATED CLASSIFICATION

JOB NUMBER	CLASSIFICATION	PAY GRADE
	MARKET PLANNING AND POLICY GROUP	
	DEMAND SIDE RESOURCES DIVISION	
	Load Research	
058001	Load Research Aide A	8
058002	Load Research Aide B	6
	Program Design	
133031	Program Design Aide	8
	FINANCE BUSINESS UNIT	
	FINANCE GROUP	
	Corporate Budget Coordination	
316004	Budget Clerk A	6
316002	Budget Clerk B	4
316032	Data Input Clerk A	4
316033	Data Input Clerk B	3
316064	Clerk-Typist A	2
316065	Clerk-Typist B	1
	COMPTROLLER GROUP	
	Property and Plant Accounting	
026001	Technical Valuation Aide A	9
026002	Technical Valuation Aide B	7
026003	Technical Valuation Aide C	6
026011	Lead Cost Analyst	8
026004	Cost Analyst A	6
026005	Cost Analyst B	4
026021	Cost Analyst C	3

026016	Inventory Cost Clerk A	4
026020	Inventory Cost Clerk B	3
026018	Property Records Clerk A	2
026019	Property Records Clerk B	1
026049	Lead Plant Analyst	7
026050	Plant Analyst A	6
026051	Plant Analyst B	5
026052	Plant Analyst C	3

WEEKLY RATED CLASSIFICATION

JOB NUMBER	CLASSIFICATION	PAY GRADE
	Disbursement Accounting	
025050	Lead Accounts Payable Clerk	7
025051	Accounts Payable Clerk	6
025052	Invoice Clerk A	5
025053	Invoice Clerk B	4
025054	Invoice Clerk C	2
025062	Lead Accounting Clerk	7
025063	Accounting Clerk A	6
025064	Accounting Clerk B	5
025065	Accounting Clerk C	3
025081	Lead Records Preservation Clerk	6
025082	Records Preservation Clerk A	5
025083	Records Preservation Assistant	4
025084	Records Preservation Clerk B	3
025085	Records Preservation Clerk C	2
	General Accounting	
035030	Lead Data Control Specialist	7
035013	Data Control Specialist	5
035012	Data Control Clerk A	5
035032	Data Input Clerk A	4
035075	Typist A	2
035001	Lead Fuel Reporting Clerk	7
035002	Fuel Reporting Control Clerk	6
035003	Fuel Accounting Clerk A	5

035004	Fuel Accounting Clerk B	3
035005	Fuel Accounting Clerk C	2

Payroll & Benefits Accounting

044045	Lead Payroll Control Clerk	7
044046	Payroll Control Clerk A	6
044048	Payroll Control Clerk B	5
044049	Payroll Clerk	3

TREASURER GROUP

Mail and Bank Receipts

023034	Lead Processing Clerk	6
023030	Receipts Processing Clerk A	5
023032	Receipts Processing Clerk B	3
023033	Receipts Processing Clerk C	2

JOB NUMBER	CLASSIFICATION	PAY GRADE

Treasury Management & Analysis

328010	Clerk-Teller	6
328001	Lead Teller	4
328002	Teller A	3
328003	Teller B	2
328081	Teller C	1
328722	Receipts Assistant A	5
328006	Receipts Assistant B	3

INVESTOR RELATIONS DIVISION

Shareholder Services

042006	Lead Shareholder Records Clerk	6
042008	Control Clerk	5

042011	Shareholder Records Clerk	4
042012	Ledger Posting Clerk B	2
042080	General Clerk	1
042062	Clerk-Stenographer C	3
042063	Clerk-Stenographer D	2

GENERATION BUSINESS UNIT

ENVIRONMENT GROUP

GENERATION ENVIRONMENT & SAFETY SERVICES DIVISION

Air Management

046085	Technical Assistant A	8
046084	Technical Assistant B	7
046083	Technical Assistant C	6
046082	Technical Assistant D	4

Natural Resource Management

149085	Technical Assistant A	8
149084	Technical Assistant B	7
149083	Technical Assistant C	6
149082	Technical Assistant D	4

WEEKLY RATED CLASSIFICATION

JOB NUMBER	CLASSIFICATION	PAY GRADE

Environmental Services

070085	Technical Assistant A	8
070084	Technical Assistant B	7
070083	Technical Assistant C	6
070082	Technical Assistant D	4

GENERATION FUELS & BUSINESS PLANNING GROUP

Generation Financial & Budget Analysis

167026	Principal Administrative Aide	6
167027	Senior Administrative Aide	4
167028	Administrative Aide	3

Generation Information Technology

169026	Principal Administrative Aide	6
169027	Senior Administrative Aide	4
169028	Administrative Aide	3

Generation Training & Procedures

168026	Principal Administrative Aide	6
168027	Senior Administrative Aide	4
168028	Administrative Aide	3

GENERATION FUELS DIVISION

Coal Procurement

163026	Principal Administrative Aide	6
163027	Senior Administrative Aide	4
163028	Administrative Aide	3
163081	Buyer B - Petroleum	5

Petroleum & Natural Gas Procurement

165026	Principal Administrative Aide	6
165027	Senior Administrative Aide	4
165028	Administrative Aide	3
165089	Fuels Information Clerk	5

GENERATION OPERATIONS WEST GROUP

Potomac River Generating Station

095050	Laboratory Test Technician	8

BULK POWER MANAGEMENT GROUP

Accounting & Billing

050085	Technical Assistant A	8
050084	Technical Assistant B	7
050083	Technical Assistant C	6
050082	Technical Assistant D	4
050002	System Operations Aide A	8
050003	System Operations Aide B	7
050004	System Operations Aide C	6
050005	System Operations Aide D	4

CORPORATE SERVICES BUSINESS UNIT

GENERAL SERVICES/MATERIALS GROUP

General Services/Materials Support

340010	Financial Control Assistant	6
340015	General Services Clerk	4
340009	Systems Clerk	4
340008	Financial Clerk	3
340064	Clerk-Typist A	2
340065	Clerk-Typist B	1
340039	Lead Mail Machine Operator	7
340040	Mail Machine Operator A	5
340041	Mail Machine Operator B	3
340003	Dispatch Stenographer B	4

Fleet Services

017019	Parts Inventory & Cost Control Specialist	4
017010	Transportation & Warranty Clerk	4

FACILITY AND SECURITY SERVICES DIVISION

Facility & Security Services

043719	Print Shop Operator	9
043005	Print Shop Assistant A	7
043297	Print Shop Assistant B	5
043021	Print Shop Assistant C	3
043023	Data Input Clerk A	4

043003 Data Input Clerk B 3

WEEKLY RATED CLASSIFICATION

JOB NUMBER	CLASSIFICATION	PAY GRADE
	MATERIAL SERVICES DIVISION	
	Purchasing	
107010	Purchasing Aide A	5
107011	Purchasing Aide B	4
107012	Purchasing Aide C	3
107013	Purchasing Aide D	2
	Stores	
016014	Stores Office Clerk A**	7
016015	Stores Office Clerk B**	5
016016	Stores Office Clerk C**	3
016064	Clerk-Typist A	2
016065	Clerk-Typist B	1
016080	General Clerk	1
	Waste Management	
229014	Stores Office Clerk A	7
	COMPUTER SERVICES GROUP	
	TECHNICAL SERVICES & OPERATIONS DIVISION	
	Computer Operations	
057001	Lead Data Control Clerk	7
057012	Data Control Clerk A	5
057020	Auxiliary Machine Operator A	4
057003	Data Control Clerk B	3
	EXTERNAL AFFAIRS BUSINESS UNIT	
	CORPORATE COMMUNICATIONS GROUP	

075010	Typesetting/Graphics Aide	4
075058	Staff Photographer	6
075002	Photographic Assistant A	4
075001	Photographic Assistant B	2

**Restricted Roster

1999 General Memorandum of Understanding

Whereas, the Potomac Electric Power Company (the "Company" or "Pepco") and Local 1900 of the International Brotherhood of Electrical Workers (the "Union") by mutual agreement conducted early negotiations to establish a successor Collective Bargaining Agreement to the 1998 Collective Bargaining Agreement and,

Whereas, the Company and the Union have agreed to a successor Collective Bargaining Agreement (hereinafter referred to as the "Agreement" or "CBA"), whose terms are set forth below;

It is, therefore, further agreed and understood between the Company and Union that:

I. Contract Duration

The 1999 Agreement shall be effective upon ratification except as provided otherwise in this Agreement. The term of this Agreement shall be to and including May 31, 2003 and it shall thereafter continue in full force and effect for succeeding periods of 12 calendar months each, unless either party, prior to April 1, 2003, or April 1 of any year thereafter, shall serve written notice upon the other party of its desire to amend and/or terminate the Agreement as of the following June 1. The Contract shall read as set forth in the 1993 Collective Bargaining Agreement except to the extent modified herein or modified through other written agreements between the parties. The Annex shall be modified consistent with written agreements between the parties since the signing of the 1993 Collective Bargaining Agreement.

II. General Wage Increases

A. The Company shall provide a general wage increases (GWI) of 3% in 1999, 3% in 2000, and 3% in 2001 to eligible employees. In 2002, there will also be a 3% increase unless either party, for any reason, provides 60-days notice prior to June 1, 2002 of its intention to reopen the contact. Any such reopener will be limited to wages and benefits. If no agreement is reached regarding wages and benefits by June 1, 2002, either party may terminate the agreement at any time by giving 48 hours written notice thereof to the other party.

B. The 1999 increase shall be effective as soon as practicable after ratification. If the Agreement is ratified in December 1998, the Company shall endeavor to place the GWI in effect by the payroll period beginning February 14, 1999. The Company further

agrees that if the Agreement is ratified in December 1998, each employee employed in the bargaining unit from January 3, 1999, to the beginning of payroll period in which the 1999 GWI takes effect will receive a lump-sum payment of 3% of the employee's regular rate for a normal workweek (40 hours for hourly employees; 38-3/4 for weekly employees) for the period between January

3, 1999, and the beginning of the payroll period in which the 1999 GWI goes into effect. The 2000 increase shall be effective the payroll period beginning June 4, 2000. The 2001 increase shall be effective the payroll period beginning June 3, 2001. Unless either party requests a reopener, the 2002 increase shall be effective the payroll period beginning June 2, 2002. If a reopener is requested, the time and amount of any increase shall be subject to negotiations in 2002.

III. Divestiture Issues

The industry is in the midst of a major restructuring, with the possibility that it may be either necessary or prudent, in the Company's sole judgment, to sell generation or other corporate assets or operations to a third party or to transfer assets or operations to a subsidiary, pursuant to a joint venture or other business combination(s). In such cases, employees who are offered employment by the new employer shall have their employment at Pepco terminated on the closing or transfer date and shall have no future rights under the collective bargaining agreement (hereinafter "CBA") with respect to Pepco. Nothing in CBA shall require a different result. The Company shall bargain with the Union regarding the effects of any such transaction on bargaining-unit employees and has already conducted effects bargaining with respect to the possible divestiture of generation assets (see IV, immediate below).

IV. The Company and Union have conducted "effects bargaining" regarding the possible divestiture of generation assets and agree as follows:

A. With respect to the divestiture of generation assets, the Company agrees that as a condition of divestiture,

the Company will:

1. Require any Buyer to offer employment from and after the closing to all affected bargaining-unit employees, including employees absent from active service due to illness or leave of absence, whether paid or unpaid (excluding employees on LTD as of the closing date who will remain as Pepco employees). It is anticipated that the all bargaining-unit employees in the Generation Business Unit will be affected as well as some employees in areas that directly support Generation. In the event that some, but not all, employees in an occupational group are affected, the Company will initially solicit volunteers, with the most senior employees getting the first opportunity to elect whether to stay at Pepco or go with a Buyer. If there are insufficient volunteers, the least senior employees will be offered employment with the Buyer.

2. Require any Buyer to recognize the Union as the exclusive bargaining representative of affected bargaining-unit employees ("affected bargaining-unit employees" are employees who are offered employment by any Buyer).

3. Subject to paragraph B. below, require any Buyer to assume the 1999 CBA for those affected bargaining-unit employees who transfer to the Buyer.

4. Require any Buyer to provide employees with full credit for service with Pepco, including retention of seniority under the provisions of the 1999 CBA. For example, if at time of closing employee X has 15 years of service with Pepco, then he/she will be deemed to have 15 years of service with the Buyer under the 1999 CBA.

5. Require any Buyer to agree that, should any other business entity (regardless of relationship to the

Buyer) acquire the generation assets from the Buyer prior to the expiration of the 1999 CBA, the Buyer will require this third party to assume the conditions set forth immediately above in IV.A.1, 2, 3 and 4.

B. Employee Benefits

The Company will further require any Buyer to provide benefits to affected bargaining-unit employees substantially equivalent to those provided under the CBA. In doing so, the Buyer shall have the right to use different providers and to establish its own benefit plans or use its existing plans. There shall be no duplication of benefits. The Company shall require any Buyer to recognize service with Pepco for purposes of eligibility and vesting and benefit calculations in any benefit plan, program, or fringe benefit arrangement.

1. With respect to the General Retirement Plan (GRP), Pepco will coordinate information and efforts with the Buyer to enable the Buyer to provide affected employees no less than the GRP benefit with respect to their service with the Buyer during the term of the CBA as they would have received had they remained at Pepco. More specifically, the Company shall require any Buyer to agree to credit all past service with the Company (subject to Pepco's General Retirement provisions) for eligibility for participation, vesting, early retirement subsidies and benefit accrual service. The Company shall be responsible for affected employees' benefits accrued through the date of closing. After the

date of closing, the Buyer shall be responsible for benefits accrued during the remainder of the 1999 CBA by such affected employees. The Buyer's plan may offset the benefit it pays by the benefit paid by the Company's plan.

2. For purposes of health care coverage, the Company

shall require any Buyer to waive all limitations regarding pre-existing condition exclusions, actively at work exclusions and waiting periods for employees who become employees of the Buyer. Further, during the calendar year in which closing occurs, all health care expenses incurred by affected bargaining-unit employees that were qualified to be taken into account for purposes of satisfying any deductible or out-of-pocket limit under Pepco's health care plans shall be taken into account for purposes of satisfying any deductible or out-of-pocket limit under the Buyer's health care plans for such calendar year.

3. Any Buyer shall be required to give affected bargaining-unit employees full credit for all vacation, sick leave or comp time benefits accrued but not used as of the closing.

4. With respect to the Savings Plan, any Buyer shall be required to establish a 401(k) plan or add affected bargaining-unit employees to its existing plan provided that the employees' deferral options and employer match (except that matching contributions will not be made in Pepco stock) are no less favorable than those provided under Pepco's plan. Any Buyer must accept rollovers from other qualified plans. Any Buyer has the right to offer investment funds different from those offered under Pepco's plan. Employees going to a Buyer will, to the extent possible under applicable law, be considered terminations of employment and under Pepco's plan will have the option of leaving their account balance in the Pepco 401(k) plan, rolling the amount into the Buyer's plan, or an individual retirement account, or cashing in the account balance subject to tax withholding and penalties.

5. Employees offered employment by any Buyer shall not be eligible for severance pay or any other termination benefits from Pepco, except as may be required by law.

C. Transfer of Ownership

Affected bargaining-unit employees will cease to be employees of the Company upon the transfer of ownership and will have no further bidding,

recall or other rights for positions in the Company. The Union acknowledges that upon transfer of ownership, the Company is relieved of obligations and liabilities under the CBA and this Agreement or otherwise to all affected bargaining-unit employees or future employees of the Buyer(s) to the extent that those obligations or liabilities arise on or after the transfer of ownership.

D. Stranded-Cost Proceedings
The Union agrees that it will not oppose Company settlement proposals at regulatory agencies, in the legislature and in the court regarding restructuring and stranded costs. The Union further agrees to support, or at least not oppose, agreements (including settlements) between parties involved in the Company's stranded-cost efforts as reasonable and support the Company's position that the stranded costs it has identified are reasonable in amount and fully recoverable from customers. The Company agrees it will provide the Union as much, and as timely, information as is reasonably practicable about its regulatory and legislative proposals. The agreement set forth in this paragraph is not intended to limit legislative or regulatory actions on matters not reasonably related to the Company's restructuring and stranded-cost proposals.

E. Any claim by the Union that any Buyer has failed to comply with its obligations under the CBA after the closing date shall be a matter strictly between the Union and the Buyer.

V. Successorship
The parties agree that Section 23.01 of the 1998 CBA shall be modified in the 1999 CBA to read as follows: "The parties to this Agreement agree that it shall be binding upon them and their successors and assigns."

VI. Union-Management Relations
The Company and Union recognize that the industry is changing dramatically and that it is critical that the parties work together to ensure that employees are as

productive as possible and that the Company be able to compete effectively in this new era. To that end, the parties agree as follows:

A. The parties will establish an Executive Steering Committee (hereafter ESC) whose purpose shall be to oversee a joint committee process and to resolve disputes or issues as may be necessary. The ESC shall be made up of two senior executives, a representative from Labor Relations, the Union president, and two additional Union representatives. Each party shall designate its representatives.

B. The parties will continue to establish joint committees as mutually agreed.

C. A new committee must identify its purpose and draft a mission statement for submission to the ESC for approval.

D. To improve the quality of committee discussions, the Company offers to provide facilitator training, as may be requested by various committees.

E. In the event the parties mutually agree that we need the assistance of a consultant to further advance the committee process, the Company shall pay the costs of the consultant.

F. The parties agree that no committee disputes are subject to the grievance or arbitration process. This does not preclude the filing of a grievance over the application of the labor agreement to a matter being discussed by a committee.

G. After agreeing to extend the 1995 labor agreement, the parties set up a number of committees, both corporate and area, to consider a variety of issues. The parties made substantial progress in many of the committees; however, much additional work needs to be done as we go forward in a restructured industry. For example, the Benefits Committee began reviewing how to develop a

more modern and portable pension plan. The parties agree to continue to work on coming up with a mutually acceptable way to implement such a plan. The Superior Performance Committee began reviewing "peer review" for the Company. The parties agree to conduct a pilot program on peer review and if successful, to consider further expansion of the concept. Many area committees are working to create multi-skilled jobs to increase productivity and enhance employee skills. The parties agree to continue to negotiate such agreements, which shall be voted upon by employees in affected areas prior to implementation; nothing, however, precludes the Company from exercising its rights under the Agreement to implement new or revised jobs on a unilateral basis. In other matters directly affecting a specific work unit such as the creation of new jobs, special agreements on overtime, work rules or standards, the company and Union agree that only affected employees shall vote on such matters.

VII. Holidays

In addition to the days set forth in Section 11.01 of the 1993 Collective Bargaining Agreement, Thursday, December 23, 1999, Tuesday, December 26, 2000, and Monday, December 24, 2001 shall be observed as uniform and fixed holidays during the 1999 Agreement. Further, the parties agree to observe New

Years Day 2000 on the date celebrated by the federal government, which may be either Friday, December 31, 1999 or Monday, January 3, 2000. In 2001, it is the parties' understanding that Inauguration Day will occur on a Saturday. When Inauguration Day occurs during a normal workday (Monday through Friday), it precludes employees from being able to work at the Thomas Edison Building, which has resulted in the Company's agreeing to provide the day off (as a holiday) for the entire Company. The parties agree that Saturday, January 20, 2001 will not be deemed a holiday that requires any employee to be paid a holiday allowance; however, the parties agree that any employee who actually works on Inauguration Day will receive the holiday premium of double time for each hour worked, though he/she will not receive a holiday allowance.

IN WITNESS WHEREOF, on this 8th day of December 1998, the parties have caused their appropriate and duly authorized representatives to sign this General Memorandum of Understanding, signifying thereby their agreement hereon. This Agreement is subject to ratification by bargaining-unit members.

For the Union

/s/ James L. Hunter

James L. Hunter
President/Financial Secretary/
Business Manager

/s/ Lionel R. Briscoe

Lionel R. Briscoe
Recording Secretary/
Business Representative

/s/ John A. Coleman

John A. Coleman
Vice-President
Business Representative

/s/ John L. Holt

John L. Holt
Business Representative

For the Company

/s/ A. S. Macerollo

Anthony S. Macerollo,
Group Vice-President
Corporate Services

/s/ William J. Wolverton

William J. Wolverton,
Manager, Industrial Relations
& Employee Benefits

/s/ Michael J. Sullivan, Jr

Michael J. Sullivan, Jr,
Supervisor, Labor Relations

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<F2>Includes redeemable preferred securities of subsidiary trust.
<F3>Includes preferred stock redemption premium of $6,600.
<F4>Total annualized interest cost for all utility long-term debt and maditorily redeemable preferred securities of subsidiary trust outstanding at December 31, 1998.
<F5>Basic earnings per share for the twelve months ended December 31, 1998 were $1.76. Diluted earnings per share for the twelve months ended December 31, 1998 were $1.73.
</FN>

</TABLE>