

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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POTOMAC ELECTRIC POWER CO

CIK: **79732** | IRS No.: **530127880** | State of Incorporation: **VA** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-01072** | Film No.: **95556772**
SIC: **4911** Electric services

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934

For Quarter Ended June 30, 1995

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 (I.R.S. Employer
incorporation or organization) Identification No.)

1900 Pennsylvania Avenue, N.W., Washington, D.C. 20068

(Address of principal executive office) (Zip Code)

(202) 872-2456

(Registrant's telephone number, including area code)

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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at June 30, 1995
Common Stock, \$1 par value	118,485,727

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Part I FINANCIAL INFORMATION

Item 1 CONSOLIDATED FINANCIAL STATEMENTS

POTOMAC ELECTRIC POWER COMPANY
Consolidated Statements of Earnings and Retained Income
(Unaudited)

<CAPTION>

	Three Months Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	1995	1994	1995	1994	1995	1994
			(Thousands of Dollars)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenue						
Sales of electricity	\$ 438,842	\$ 456,933	\$ 800,013	\$ 829,528	\$1,753,550	\$1,781,177
Other electric revenue	1,613	1,498	3,875	3,813	7,597	7,218
Total Operating Revenue	440,455	458,431	803,888	833,341	1,761,147	1,788,395
Interchange deliveries	4,904	9,020	6,380	27,154	11,700	38,157
Total Revenue	445,359	467,451	810,268	860,495	1,772,847	1,826,552
Operating Expenses						
Fuel	69,630	103,859	153,171	216,991	328,910	400,673
Purchased energy	45,390	32,567	88,029	71,899	189,514	171,448
Capacity purchase payments	32,085	31,839	64,546	64,398	127,970	112,491
Other operation	53,198	46,765	111,434	99,044	218,495	208,660
Maintenance	21,046	21,318	43,873	45,538	90,949	95,881
Total Operation and Maintenance	221,349	236,348	461,053	497,870	955,838	989,153
Depreciation and amortization	48,433	42,793	96,093	85,490	190,590	169,710
Income taxes	34,815	40,224	34,394	44,197	110,056	126,937
Other taxes	49,523	51,074	96,671	98,590	204,162	205,260
Total Operating Expenses	354,120	370,439	688,211	726,147	1,460,646	1,491,060
Operating Income	91,239	97,012	122,057	134,348	312,201	335,492
Other Income						
Nonutility Subsidiary						
Income	32,666	34,042	66,551	67,051	146,506	148,230
Loss on assets held for disposal	(170,078)	-	(170,078)	-	(170,078)	-
Expenses, including interest and income taxes	21,913	(33,905)	(16,346)	(64,709)	(79,554)	(142,267)
Net (loss) earnings from nonutility subsidiary	(115,499)	137	(119,873)	2,342	(103,126)	5,963
Allowance for other funds used during construction	362	2,786	717	6,006	3,834	11,938
Other, net	2,545	(4,346)	5,435	(1,518)	10,998	4,827
Total Other (Loss) Income	(112,592)	(1,423)	(113,721)	6,830	(88,294)	22,728

(Loss) Income Before Utility Interest Charges	(21,353)	95,589	8,336	141,178	223,907	358,220
Utility Interest Charges						
Long-term debt	32,353	31,352	64,659	62,838	129,222	129,503
Other	5,146	3,395	8,445	5,663	14,591	8,912
Allowance for borrowed funds used during construction	(2,014)	(3,451)	(3,958)	(6,030)	(7,552)	(10,414)
Net Utility Interest Charges	35,485	31,296	69,146	62,471	136,261	128,001
Net (Loss) Income	(56,838)	64,293	(60,810)	78,707	87,646	230,219
Dividends on Preferred Stock	4,234	4,069	8,475	8,215	16,697	16,307
(Loss) Earnings for Common Stock	(61,072)	60,224	(69,285)	70,492	70,949	213,912
Retained Income at Beginning of Period	785,792	797,728	830,524	839,433	800,385	791,862
Dividends on Common Stock	(49,118)	(48,907)	(98,164)	(97,802)	(196,116)	(193,649)
Subsidiary Marketable Securities Net Unrealized Gain (Loss), Net of Tax	13,873	(8,660)	26,400	(11,738)	14,257	(11,740)
Retained Income at End of Period	\$ 689,475	\$ 800,385	\$ 689,475	\$ 800,385	\$ 689,475	\$ 800,385
Average Common Shares						
Outstanding (000's)	118,415	117,946	118,333	117,911	118,215	117,249
(Loss) Earnings Per Common Share	(\$0.52)	\$0.51	(\$0.59)	\$0.60	\$0.60	\$1.82
Cash Dividends Per Common Share	\$0.415	\$0.415	\$0.83	\$0.83	\$1.66	\$1.65
Book Value Per Share					\$15.35	\$16.28
Dividend Payout Ratio					276.7%	90.7%
Effective Federal Income Tax Rate					16.6%	27.7%

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POTOMAC ELECTRIC POWER COMPANY
Consolidated Balance Sheets
(Unaudited at June 30, 1995 and 1994)

<CAPTION>

ASSETS	June 30, 1995	December 31, 1994	June 30, 1994
	(Thousands of Dollars)		
<S>	<C>	<C>	<C>
Property and Plant - at original cost			
Electric plant in service	\$ 5,885,859	\$ 5,765,210	\$ 5,498,340
Construction work in progress	118,233	147,224	293,888
Electric plant held for future use	4,041	18,041	20,468
Nonoperating property	22,629	7,556	7,542
	6,030,762	5,938,031	5,820,238
Accumulated depreciation	(1,687,219)	(1,639,771)	(1,589,965)
Net Property and Plant	4,343,543	4,298,260	4,230,273
Current Assets			
Cash and cash equivalents	20,182	7,198	11,066
Customer accounts receivable, less allowance for uncollectible accounts of \$1,950, \$2,432 and \$2,740	138,591	107,351	150,168
Other accounts receivable, less allowance for uncollectible accounts of \$300	29,705	57,128	28,024
Accrued unbilled revenue	112,459	67,543	125,413
Prepaid taxes	2,833	34,352	1,388
Other prepaid expenses	9,783	5,448	12,415
Material and supplies - at average cost			
Fuel	67,207	73,671	63,381
Construction and maintenance	73,904	72,447	71,073
Total Current Assets	454,664	425,138	462,928
Deferred Charges			
Income taxes recoverable through future rates, net	241,376	251,357	248,918
Conservation costs, net	211,246	161,204	116,343
Unamortized debt reacquisition costs	55,430	56,725	58,056
Other	120,109	98,783	95,603

Total Deferred Charges	628,161	568,069	518,920
Nonutility Subsidiary Assets			
Cash and cash equivalents	14,107	-	1,417
Marketable securities	514,159	473,608	499,360
Investment in finance leases	394,948	410,327	355,027
Operating lease equipment, net of accumulated depreciation of \$60,643, \$116,832 and \$101,187	241,481	544,064	551,534
Assets held for disposal	104,370	-	-
Receivables, less allowance for uncollectible accounts of \$5,000, \$5,000 and \$0	75,698	76,426	71,991
Other investments	131,723	147,313	159,716
Other assets	17,354	22,551	19,115
Total Nonutility Subsidiary Assets	1,493,840	1,674,289	1,658,160
Total Assets	\$ 6,920,208	\$ 6,965,756	\$ 6,870,281

CAPITALIZATION AND LIABILITIES

Capitalization			
Common stock	\$ 118,486	\$ 118,248	\$ 118,046
Other common equity	1,700,068	1,837,050	1,803,605
Serial preferred stock	125,401	125,409	125,427
Redeemable serial preferred stock	143,485	143,563	145,153
Long-term debt	1,703,370	1,723,399	1,767,754
Total Capitalization	3,790,810	3,947,669	3,959,985
Other Non-Current Liabilities			
Capital lease obligation	135,854	136,723	-
Total Other Non-Current Liabilities	135,854	136,723	-
Current Liabilities			
Long-term debt due within one year	65,000	45,445	17,000
Short-term debt	354,000	189,600	292,825
Accounts payable and accrued expenses	162,229	175,258	179,383
Capital lease obligation due within one year	15,233	15,233	-
Other	108,935	107,405	114,546
Total Current Liabilities	705,397	532,941	603,754
Deferred Credits			
Income taxes	863,302	848,456	816,154
Investment tax credits	66,432	68,256	70,081
Other	31,430	31,766	33,029
Total Deferred Credits	961,164	948,478	919,264
Nonutility Subsidiary Liabilities			
Long-term debt	1,038,053	1,140,505	1,152,600
Short-term notes payable	136,000	48,400	27,850
Deferred taxes and other	152,930	211,040	206,828
Total Nonutility Subsidiary Liabilities	1,326,983	1,399,945	1,387,278
Total Capitalization and Liabilities	\$ 6,920,208	\$ 6,965,756	\$ 6,870,281

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<TABLE>

POTOMAC ELECTRIC POWER COMPANY
Consolidated Statements of Cash Flows
(Unaudited)

<CAPTION>

	Six Months Ended June 30,		Twelve Months Ended June 30,	
	1995	1994	1995	1994
	(Thousands of Dollars)			
<S>	<C>	<C>	<C>	<C>
Operating Activities				
Income from utility operations	\$ 59,063	\$ 76,365	\$ 190,772	\$ 224,256
Adjustments to reconcile income to net cash from operating activities:				
Depreciation and amortization	96,093	85,490	190,590	169,710

Deferred income taxes and investment tax credits	19,758	20,704	43,695	38,085
Allowance for funds used during construction	(4,675)	(12,036)	(11,386)	(22,352)
Changes in materials and supplies	5,007	(2,219)	(6,657)	24,554
Changes in accounts receivable and accrued unbilled revenue	(48,733)	(77,681)	22,850	(33,205)
Changes in accounts payable	(18,919)	(4,924)	(5,738)	(2,074)
Changes in other current assets and liabilities	37,265	40,106	(9,601)	2,281
Changes in deferred conservation costs	(62,095)	(35,952)	(118,647)	(76,066)
Net other operating activities	(16,710)	(3,357)	(12,995)	5,921
Nonutility subsidiary:				
Net (loss) earnings	(119,873)	2,342	(103,126)	5,963
Deferred income taxes	(70,702)	(15,547)	(48,769)	(291)
Loss on assets held for disposal	170,078	-	170,078	-
Changes in other assets and net other operating activities	50,824	47,300	51,517	59,601
Net Cash From Operating Activities	96,381	120,591	352,583	396,383
Investing Activities				
Total investment in property and plant	(119,887)	(170,294)	(266,483)	(340,002)
Allowance for funds used during construction	4,675	12,036	11,386	22,352
Net investment in property and plant	(115,212)	(158,258)	(255,097)	(317,650)
Nonutility subsidiary:				
Purchase of marketable securities	(11,321)	(112,829)	(25,827)	(267,413)
Proceeds from sale or redemption of marketable securities	15,450	61,103	36,791	191,281
Investment in leased equipment	(7,360)	(3,037)	(76,457)	(31,091)
Proceeds from sale or disposition of leased equipment	-	1,150	-	121,679
Purchase of other investments	(2,563)	(5,593)	(4,161)	(43,889)
Proceeds from sale or distribution of other investments	14,899	4,508	28,475	4,508
Investment in promissory notes	-	-	(542)	(458)
Proceeds from promissory notes	3,541	2,177	6,266	3,699
Net Cash Used by Investing Activities	(102,566)	(210,779)	(290,552)	(339,334)
Financing Activities				
Dividends on common stock	(98,164)	(97,802)	(196,116)	(193,649)
Dividends on preferred stock	(8,475)	(8,215)	(16,697)	(16,307)
Issuance of common stock	4,580	5,535	8,330	74,432
Redemption of preferred stock	(78)	(2,457)	(1,668)	(2,457)
Issuance of long-term debt	15,840	302,999	15,840	671,782
Reacquisition and retirement of long-term debt	(17,548)	(127,367)	(34,603)	(642,367)
Proceeds from sale and leaseback of control center system	-	-	152,000	-
Short-term debt, net	164,400	(1,790)	61,175	107,525
Other financing activities	(12,427)	(4,791)	(22,089)	(23,563)
Nonutility subsidiary:				
Issuance of long-term debt	75,000	210,000	151,750	244,000
Repayment of long-term debt	(177,452)	(85,105)	(266,297)	(189,332)
Short-term debt, net	87,600	(98,400)	108,150	(86,730)
Net Cash From (Used By) Financing Activities	33,276	92,607	(40,225)	(56,666)
Net Increase in Cash and Cash Equivalents	27,091	2,419	21,806	383
Cash and Cash Equivalents at Beginning of Period	7,198	10,064	12,483	12,100
Cash and Cash Equivalents at End of Period	\$ 34,289	\$ 12,483	\$ 34,289	\$ 12,483
Cash paid for interest (net of capitalized interest) and income taxes:				
Interest (including nonutility subsidiary				
interest of \$46,672, \$40,372, \$90,024 and \$78,856)	\$ 109,303	\$ 97,761	\$ 215,059	\$ 203,544
Income taxes	\$ 2,665	\$ 4,744	\$ 49,289	\$ 69,420
Nonutility subsidiary noncash transactions:				
Consolidation of majority-owned subsidiaries	\$ -	\$ -	\$ -	\$ 35,320

</TABLE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's utility operations are regulated by the Maryland and District of Columbia public service commissions and, as to its wholesale business, 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. In conformity with generally accepted accounting principles, the accounting policies and practices applied by the regulatory commissions in the determination of rates for utility operations are also employed for financial reporting purposes.

Certain 1994 amounts have been reclassified to conform to the current year presentation.

A description of significant accounting policies follows:

Principles of Consolidation

The consolidated financial statements combine the financial results of the Company and all majority-owned subsidiaries. The Company's principal subsidiary is Potomac Capital Investment Corporation (PCI). 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 to other utilities related to pooling and interconnection agreements. 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

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been made, the differences are accounted for as other deferred charges or other deferred credits pending regulatory determination.

In the District of Columbia, pre-July 1993 conservation costs receive rate base treatment. Conservation expenditures for the period July 1993 to December 1994 are recovered through a surcharge mechanism which initially became effective July 11, 1995, and which will be updated annually on June 1 to recover 1995 and subsequent conservation expenditures, including a capital cost recovery factor. A procedure has been established to consider lost revenue without the need for base rate proceedings. In Maryland, conservation costs are recovered through a surcharge rate which reflects amortization of program costs including costs in the year during which the surcharge commences, a capital cost recovery factor, incentives, applicable taxes and estimated lost revenue. The surcharge is established annually in a collaborative process with the recovery of lost revenue subject to an earnings test performed on a quarterly basis.

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, except that equipment held for disposal is carried at estimated fair value less estimated costs to sell. Depreciation is recorded on a straight line basis over the equipment's estimated useful life.

There will be no future depreciation on equipment held for disposal.

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

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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 1995, 1994 and 1993.

Conservation

In general, the Company accounts for conservation expenditures in connection with its demand side management (DSM) program as a deferred charge, and amortizes the costs over five years in Maryland and ten years in the District of Columbia.

Allowance for Funds Used During Construction

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 Company accrues a capital cost recovery factor on the retail jurisdictional portion of certain pollution control projects related to compliance with the Clean Air Act (CAA). The base for calculating this return is the amount by which the retail jurisdictional CAA expenditure balance exceeds the CAA balance included in rate base in the Company's most recently completed base rate proceeding.

The jurisdictional AFUDC capitalization rates are determined as prescribed by the FERC. The effective capitalization rates were approximately 8% compounded semiannually, for the six months ended June 30, 1995, and approximately 7.6% in 1994 and 8.7% in 1993, compounded semiannually.

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 maturities of three months or less.

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Nonutility Subsidiary Receivables

PCI, the Company's nonutility subsidiary, 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.

Income Taxes

The Company's accounting for income taxes is in accordance with Statement of Financial Accounting Standards (SFAS) No. 109

entitled "Accounting for Income Taxes" which requires the use of an asset and liability approach for financial reporting and accounting for deferred income taxes. Deferred taxes are being recorded for all temporary differences based upon currently enacted tax rates.

<TABLE>
(2) INCOME TAXES

Provision for Income Taxes Charged to Continuing Operations

<CAPTION>

	Three Months Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	1995	1994	1995	1994	1995	1994
	(Thousands of Dollars)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Utility current tax expense						
Federal	\$ 24,347	\$ 26,563	\$ 12,950	\$ 17,578	\$ 58,767	\$ 70,100
State and local	2,881	3,546	1,429	2,334	7,707	10,386
Total utility current tax expense	27,228	30,109	14,379	19,912	66,474	80,486
Utility deferred tax expense						
Federal	6,966	6,460	18,435	19,329	41,176	36,820
State and local	1,564	1,249	3,147	3,200	6,168	5,527
Investment tax credits	(912)	(912)	(1,824)	(1,825)	(3,649)	(3,559)
Total utility deferred tax expense	7,618	6,797	19,758	20,704	43,695	38,788
Total utility income tax expense	34,846	36,906	34,137	40,616	110,169	119,274
Nonutility subsidiary current tax expense						
Federal	(4,705)	3,376	(7,940)	(3,686)	(33,569)	(15,815)
Nonutility subsidiary deferred tax expense						
Federal	(63,607)	(18,971)	(66,661)	(14,679)	(45,224)	506
State and local	-	(581)	-	(869)	731	308
Total nonutility subsidiary deferred tax expense	(63,607)	(19,552)	(66,661)	(15,548)	(44,493)	814

Total nonutility subsidiary income tax expense	(68,312)	(16,176)	(74,601)	(19,234)	(78,062)	(15,001)
Total consolidated income tax expense	(33,466)	20,730	(40,464)	21,382	32,107	104,273
Income taxes included in other income	(68,281)	(19,494)	(74,858)	(22,815)	(77,949)	(22,664)
Income taxes included in utility operating expenses	\$ 34,815	\$ 40,224	\$ 34,394	\$ 44,197	\$110,056	\$126,937

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<TABLE>

Reconciliation of Consolidated Income Tax Expense

<CAPTION>

	Three Months Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	1995	1994	1995	1994	1995	1994
<S>	<C>	<C>	(Thousands of Dollars)		<C>	<C>
(Loss) income before income taxes	\$ (90,304)	\$ 85,023	\$ (101,274)	\$100,089	\$119,753	\$334,492
Utility income tax at federal statutory rate	\$ 32,727	35,372	\$ 32,620	\$ 40,943	\$105,329	\$121,207
Increases (decreases) resulting from						
Depreciation	2,249	1,909	4,497	3,749	8,770	6,143
Removal costs	(1,668)	(1,222)	(2,899)	(2,330)	(4,655)	(4,940)
Allowance for funds used during construction	162	(792)	327	(1,738)	(346)	(3,469)
Other	(602)	(567)	(1,640)	(1,822)	(3,991)	(3,777)
State income taxes, net of federal effect	2,890	3,118	3,056	3,639	9,100	10,341
Tax credits	(912)	(912)	(1,824)	(1,825)	(4,038)	(3,964)
Cumulative effect of tax rate change	-	-	-	-	-	(2,267)
Total utility income tax expense	34,846	36,906	34,137	40,616	110,169	119,274
Nonutility subsidiary income tax at federal statutory rate	(64,334)	(5,614)	(68,066)	(5,912)	(63,416)	(3,441)
Increases (decreases) resulting from						
Dividends received deduction	(2,112)	(2,106)	(4,313)	(4,149)	(8,651)	(7,881)
Reversal of previously accrued deferred taxes	-	(6,547)	-	(6,547)	(1,659)	(7,593)
Other	(1,866)	(1,328)	(2,222)	(1,757)	(5,067)	(1,990)
State income taxes, net of federal effect	-	(581)	-	(869)	731	(690)
Cumulative effect of tax rate change	-	-	-	-	-	6,594
Total nonutility subsidiary income tax expense	(68,312)	(16,176)	(74,601)	(19,234)	(78,062)	(15,001)
Total consolidated income tax expense	(33,466)	20,730	(40,464)	21,382	32,107	104,273
Income taxes included in other income	(68,281)	(19,494)	(74,858)	(22,815)	(77,949)	(22,664)
Income taxes included in utility operating expenses	\$ 34,815	\$ 40,224	\$ 34,394	\$ 44,197	\$110,056	\$126,937

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</TABLE>

<TABLE>

Components of Consolidated Deferred Tax Liabilities (Assets)

<CAPTION>

June 30, Dec. 31, June 30,
1995 1994 1994

	(Thousands of Dollars)		
<S>	<C>	<C>	<C>
Utility deferred tax liabilities (assets)			
Depreciation and other book to tax basis differences	\$745,417	\$723,248	\$ 705,541
Rapid amortization of certified pollution control facilities	28,252	29,018	29,600
Deferred taxes on amounts to be collected through future rates	91,409	95,465	94,539
Property taxes	11,407	11,212	10,229
Deferred fuel	(4,338)	177	4,346
Prepayment premium on debt retirement	20,970	21,537	11,276
Deferred investment tax credit	(25,155)	(25,922)	(26,615)
Contributions in aid of construction	(25,272)	(24,954)	(23,866)
Other	24,146	25,454	21,984
Total utility deferred tax liabilities (net)	866,836	855,235	827,034
Current portion of utility deferred tax liabilities (included in Other Current Liabilities)	3,534	6,779	10,880
Total utility deferred tax liabilities (net) - noncurrent	\$863,302	\$848,456	\$ 816,154
Nonutility subsidiary deferred tax liabilities (assets)			
Finance leases	\$133,326	134,925	\$ 129,176
Operating leases	22,256	117,782	123,638
Reversal of previously accrued taxes related to partnerships	(16,152)	(16,385)	(16,962)
Alternative minimum tax	(81,730)	(77,167)	(85,783)
Other	21,940	(24,477)	(30,088)
Total nonutility subsidiary deferred tax liabilities (net), (included in Deferred taxes and other)	\$ 79,640	\$134,678	\$ 119,981

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</TABLE>

Certain provisions of SFAS No. 109, allow regulated enterprises to recognize regulatory assets and liabilities for income taxes to be recovered from or returned to customers in future rates. No valuation allowance for deferred tax assets was required or recorded at June 30, 1995.

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 its subsidiaries file a consolidated federal income tax return. The Company's federal income tax liabilities for all years through 1991 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.

(3) CAPITALIZATION

Common Equity

At June 30, 1995, 118,485,727 shares of the Company's \$1 par value Common Stock were outstanding. A total of 200 million shares is authorized. As of June 30, 1995, 2,324,721 shares were reserved for issuance under the Shareholder Dividend Reinvestment Plan; 1,221,624 shares of Common Stock were reserved for issuance under the Employee Savings Plans; and shares reserved for conversion of debentures were 2,771,633 and 3,392,500 for the 7% and 5% Convertible Debentures, respectively.

Serial Preferred, Redeemable Serial Preferred and Preference

 Stock and Long-Term Debt

At June 30, 1995, the Company had outstanding 5,377,727 shares of its \$50 par value Serial Preferred Stock, including the Redeemable Serial Preferred Stock. A total of 11,159,434 shares is authorized. At June 30, 1995, the aggregate annual dividend requirements on the Serial Preferred Stock and the Redeemable Serial Preferred Stock were approximately \$6.6 million and \$10.2 million, respectively. Also, the Company has a total of 8,800,000 shares of cumulative, \$25 par value, Preference Stock authorized and unissued.

The Company's \$2.44 Convertible Preferred Stock, 1966 Series (8,031 shares outstanding at June 30, 1995) is convertible into Common Stock at \$8.51 per share.

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At June 30, 1995, the Company had outstanding one million shares of its Serial Preferred Stock, Auction Series A. The annual dividend rate is 4.625% (\$2.3125) for the period June 1, 1995 through August 31, 1995. For the period March 1, 1995 through May 31, 1995, the annual dividend rate was 4.9% (\$2.45). The average rate at which dividends were paid during the 12 months ended June 30, 1995 was 4.4% (\$2.20).

At June 30, 1995, the Company had outstanding three series of \$50 par value Redeemable Serial Preferred Stock. There are one million shares of the \$3.89 (7.78%) Series of 1991 on which the sinking fund requirement commences June 1, 2001. There are one million shares of the \$3.40 (6.80%) Series of 1992 on which the sinking fund requirement commences September 1, 2002. There are 869,696 shares of the \$3.37 (6.74%) Series of 1987 on which the sinking fund requires redemption beginning June 1993, at par, of not less than 30,000 nor more than 60,000 shares annually. Sinking fund requirements through 1999 with respect to the three series of Redeemable Serial Preferred Stock are \$1 million in 1997 and \$1.5 million annually thereafter.

The Company's long-term debt at June 30, 1995, is summarized below:

(Thousands of Dollars)	
First Mortgage Bonds	\$1,266,600
Convertible Debentures	181,864
Notes Payable	350,000
Net Unamortized Discount	(30,094)
Current Portion	(65,000)

Net Utility Long-Term Debt	\$1,703,370
	=====
 Nonutility Subsidiary Long-Term Debt	 \$1,038,053
	=====

At June 30, 1995, the aggregate annual interest requirement on the Company's long-term debt, including debt due within one year, was \$123.6 million; and the aggregate amounts of long-term debt maturities are \$40 million in 1995, \$25 million in 1996, \$150 million in 1997, \$50 million in 1998 and \$45 million in 1999. At June 30, 1995, long-term debt due within one year consisted of \$40 million of 5% First Mortgage Bonds and \$25 million of 6 1/4% Medium-Term Notes.

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 Nonutility Subsidiary Long-Term Debt

Long-term debt at June 30, 1995 consisted primarily of unsecured borrowings from institutional lenders maturing at various dates between 1995 and 2003. The interest rates of such borrowings ranged from 5% to 10.1%. The weighted average effective interest rate was 7.71% at June 30, 1995, 7.47% at December 31, 1994 and 7.21% at June 30, 1994. Annual aggregate

principal repayments on these borrowings are \$94.3 million in 1995, \$180.5 million in 1996, \$135.5 million in 1997, \$242.3 million in 1998, \$126.5 million in 1999 and \$189.5 million thereafter. Also included in long-term debt is \$69.5 million of non-recourse debt which is due in monthly installments with final maturities in 2001, 2002 and 2011.

Long-Term Debt Ratings

On July 10, 1995, Moody's confirmed its A1 rating on the outstanding senior secured debt of the Company, as well as its other ratings of senior securities and commercial paper of both the utility and PCI, removing those securities from the Negative Watch List. During the second quarter, Standard and Poor's and Duff and Phelps affirmed their ratings on the Company's senior secured debt of A and AA-, respectively.

<TABLE>
(4) Fair Value of Financial Instruments

The estimated fair values of the Company's financial instruments at June 30, 1995, December 31, 1994 and June 30, 1994 are shown below.

<CAPTION>

	June 30, 1995		December 31, 1994		June 30, 1994	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Thousands of Dollars)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Utility						
Capitalization and Liabilities						
Serial preferred stock	\$ 125,401	111,297	125,409	102,102	125,427	104,273
Redeemable serial preferred stock	\$ 143,485	139,796	143,563	134,008	145,153	145,227
Long-term debt						
First Mortgage Bonds	\$1,212,289	1,203,599	1,208,076	1,093,208	1,251,722	1,169,468
Medium-Term Notes	\$ 322,860	326,886	347,712	324,223	347,565	336,399
Convertible Debentures	\$ 168,221	164,667	167,611	146,098	168,467	161,472
Total long-term debt	\$1,703,370	1,695,152	1,723,399	1,563,529	1,767,754	1,667,339
Nonutility Subsidiary						
Assets						
Marketable securities	\$ 514,159	514,159	473,608	473,608	499,360	499,360
Notes receivable	\$ 61,188	59,380	61,278	58,616	58,461	62,000

Liabilities						
Long-term debt	\$1,038,053	1,041,401	1,140,505	1,122,638	1,152,600	1,160,000
	=====	=====	=====	=====	=====	=====

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</TABLE>

The methods and assumptions below were used to estimate, at June 30, 1995, December 31, 1994 and June 30, 1994, 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 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 the Company's Serial Preferred Stock, including Redeemable Serial Preferred Stock, was based on quoted market prices or discounted cash flows using current rates of preferred stock with similar terms.

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.

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(5) MARKETABLE SECURITIES

SFAS No. 115 entitled, "Accounting for Certain Investments in Debt and Equity Securities," was adopted by PCI in January

1994. PCI's marketable securities, all of which are classified as available-for-sale as defined in SFAS No. 115, consist primarily of investment grade preferred stocks with mandatory redemption features. Pursuant to SFAS No. 115, net unrealized gains and losses on such securities are reflected, net of tax, in stockholders equity. The net unrealized gains (losses) are shown below:

As of June 30, 1995			
	Cost	Market Value	Net Unrealized Gains/(Losses)
(Thousands of Dollars)			
Mandatory redeemable preferred stock	\$ 510,280	\$ 514,159	\$ 3,879
Equity securities	3	-	(3)
Total	\$ 510,283	\$ 514,159	\$ 3,876

As of December 31, 1994			
	Cost	Market Value	Net Unrealized Losses
(Thousands of Dollars)			
Mandatory redeemable preferred stock	\$ 511,791	\$ 473,608	\$ (38,183)
Equity securities	3	-	(3)
Total	\$ 511,794	\$ 473,608	\$ (38,186)

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As of June 30, 1994			
	Cost	Market Value	Net Unrealized Losses
(Thousands of Dollars)			
Mandatory redeemable preferred stock	\$ 518,166	\$ 499,360	\$ (18,806)
Equity securities	3	-	(3)
Total	\$ 518,169	\$ 499,360	\$ (18,809)

Included in net unrealized gains and losses are gross unrealized losses of \$9 million and gross unrealized gains of \$12.9 million at June 30, 1995; gross unrealized losses of \$40 million and gross unrealized gains of \$1.8 million at December 31, 1994; and gross unrealized losses of \$24.1 million and gross unrealized gains of \$5.3 million at June 30, 1994.

At June 30, 1995, the final contractual maturities (in thousands of dollars) for mandatory redeemable preferred stock were as follows:

Within one year	\$ 10,232
One to five years	75,645
Five to ten years	168,525
Over ten years	255,878
	510,280
Plus net unrealized gains	3,879

In determining gross realized gains and losses on sales or maturities of securities, specific identification is used. A summary of realized gains and losses is shown below.

	Three Months Ended June 30, 1995	Six Months Ended June 30, 1995
	(Thousands of Dollars)	
Gross realized gains	\$ 213	\$ 361
Gross realized losses	(196)	(207)
	-----	-----
Net gain	\$ 17	\$ 154
	=====	=====

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(6) COMMITMENTS AND CONTINGENCIES

Environmental Contingencies

As discussed in the 1994 Form 10-K, the Company was served in August 1993, 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 Cases". 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 four hundred and forty-eight (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 filings, a number of individual suits have been disposed of without any payment by 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. While the aggregate amount specified in the remaining suits would exceed \$1 billion, 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 fiscal year in which a decision is rendered.

As also discussed in the 1994 Form 10-K, a Remedial Investigation/Feasibility Study (RI/FS) report was submitted to the EPA in October 1994, with respect to a site in Philadelphia, Pennsylvania. Pursuant to an agreement among the participating potentially responsible parties, the Company is responsible for

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12% of the costs of the RI/FS. Total costs of the RI/FS and associated activities prior to the issuance of a Record of Decision (ROD) by EPA, including legal fees, are currently estimated to be \$6.5 million. The Company has paid \$.8 million as of June 30, 1995. The report included a number of possible remedies, the estimated costs of which range from \$2 million to \$90 million. On July 20, 1995, EPA announced its proposed remedial action plan for the site and indicated it will accept comments on the plan from any interested parties. EPA's estimate of the costs associated with implementation of the plan is

approximately \$17 million. The Company lacks sufficient information to comment on the accuracy of EPA's cost estimate and cannot predict whether EPA will include the plan in its ROD as proposed or make changes as a result of comments received. In addition, the Company cannot estimate the total extent of the EPA's administrative and oversight costs. To date, the Company has accrued \$1.7 million for its share of this contingency.

On July 3, 1995, the United States Attorney for the District of Maryland filed a Complaint and Consent Decree resolving violations of the Clean Water Act by the Company which occurred at its Faulkner Fly Ash Storage Facility located in Charles County, Maryland. Pursuant to the terms of the Consent Decree the Company agreed to pay a civil penalty of \$975,000, which has been accrued at June 30, 1995. If approved by the court, the settlement will bring to an end an environmental investigation, begun at the Company's request in 1993, of unlawful activities by a former Company employee and contractors. The environmental violations were discovered by Company environmental investigators in 1993 and involved wastewater discharges from treatment ponds that occurred over several years at the Company's Faulkner Fly Ash Storage Facility in Charles County, Maryland. Upon discovering the violations, the Company immediately reported them to federal and state authorities and fully cooperated with these officials in a thorough investigation that resulted in the criminal conviction and sentencing of a former employee. The Company also terminated the employee, his supervisor and several contractors.

Litigation

The Company filed a Petition for Review with the District of Columbia Court of Appeals related to the Commission's decisions in Formal Case No. 929 in July 1994. On June 19, 1995, the Court issued its opinion and order by which it (1) affirmed the Commission's decision not to allow the recovery of 100% of test year conservation costs; (2) remanded to the Commission for a fuller and clearer explanation with supporting reasons justifying the disallowance of 25%, as opposed to any other percentage, of test period conservation costs; and (3) affirmed the Commission's disallowance of 100% of projected increases in employee benefit costs.

In remanding to the Commission for further explanation the Commission's decision to disallow 25%, as opposed to any other percentage, of test period conservation costs, the Court noted that there was nothing in the record to support the 25% figure, and that the Commission had failed to explain in any way how it chose the 25% figure. The Court added that on remand, the Commission should explain how application of the prudent management criteria to the facts of this case leads to the conclusion that 25% (or whatever greater or lesser figure the Commission determines is appropriate) cannot lawfully be recovered from the Company's ratepayers. All disallowances and adjustments required by the decisions in D.C. Formal Case No. 929 were reflected in the results for June 1994. See Part II, Item 5, Base Rate Proceedings for additional information.

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.

Other

Subsidiaries of the Company and Columbia Gas System, Inc. have formed a joint venture partnership (the Partnership) to own and operate natural gas storage and terminaling facilities at Cove Point, Maryland, and an 87-mile natural gas pipeline that extends from Cove Point to Loudoun County, Virginia. A Company subsidiary has committed to loan the Partnership \$15 million to recommission certain existing facilities and for new construction. As of June 30, 1995, the remaining \$3.5 million of the loan commitment is yet to be drawn upon by the Partnership.

In May 1995, the Company announced that its subsidiary, PepData, Inc., entered into a joint venture agreement with Metricom, Inc. to own and operate a wireless data network in the

Washington, D.C. metropolitan area. The Company will invest \$7 million and own 20 percent of the joint venture. See Part I, Item 2, Management's Discussion and Analysis of Consolidated Results of Operations and Financial Condition for additional information.

Nonutility Subsidiary
- -----

See discussion of PCI in Part I, Item 2, Management's Discussion and Analysis of Consolidated Results of Operations and Financial Condition.

The information furnished in the accompanying Consolidated Statements of Earnings and Retained Income, Consolidated Balance Sheets and Consolidated Statements of Cash Flows reflects all adjustments (which consist only of normal recurring accruals) which are, in the opinion of management, necessary to a fair presentation of the results of operations for the interim periods. The accompanying consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes included in the Company's 1994 Annual Report to the Securities and Exchange Commission on Form 10-K.

This Quarterly Report on Form 10-Q, including the report of Price Waterhouse LLP (on page 23) will automatically be incorporated by reference in the Prospectuses constituting part of the Company's Registration Statements on Form S-3 (Registration Nos. 33-58810 and 33-50377) and Form S-8 (Registration Nos. 33-36798, 33-53685 and 33-54197) filed under the Securities Act of 1933. Such report of Price Waterhouse LLP, however, is not a "report" or "part of the Registration Statement" within the meaning of Sections 7 and 11 of the Securities Act of 1933 and the liability provisions of Section 11(a) of such Act do not apply.

INDEPENDENT ACCOUNTANTS REPORT

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

We have reviewed the accompanying consolidated balance sheets of Potomac Electric Power Company and consolidated subsidiaries (the Company) at June 30, 1995 and 1994 and the related consolidated statements of earnings and retained income for the three, six and

twelve month periods then ended and the consolidated statements of cash flows for the six and twelve month periods then ended. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial information for it to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet as of December 31, 1994, and the related consolidated statement of earnings and consolidated statement of cash flows for the year then ended (not presented herein); and in our report dated January 26, 1995, we expressed an unqualified opinion, with an explanatory paragraph for a change in accounting principles, on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 1994, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Price Waterhouse LLP
Price Waterhouse LLP
Washington, D.C.
July 28, 1995

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Part I FINANCIAL INFORMATION

Item 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED

RESULTS OF OPERATIONS AND FINANCIAL CONDITION

UTILITY

RESULTS OF OPERATIONS

TOTAL REVENUE

Total revenue decreased for the three, six and twelve months ended June 30, 1995, as compared to the corresponding periods in 1994. The decrease in revenue from sales of electricity for each period were primarily due to decreases in kilowatt-hour sales of 2.7% for the three months ended and 4.3% for the six and twelve months ended June 30, 1995, over the corresponding periods in 1994. The decrease in kilowatt-hour sales for the three months ended June 30, 1995, was primarily attributable to cooler than average spring weather with cooling degree hours 32% below the 20-year average and 53% below the three months ended June 30, 1994. The Company recognized \$8.7 million in revenue in June 1995 compared to \$5.0 million in June 1994 associated with the conservation incentive provision of the Company's Maryland Demand Side Management (DSM) surcharge tariff. The decrease in kilowatt-hour sales for the six months ended June 30, 1995 was the result of milder weather in 1995, as compared to 1994 when record-breaking frigid temperatures in January and warmer than average June weather resulted in extraordinarily high sales. The decline in kilowatt-hour sales was partially offset by a March 1994 base rate increase in the District of Columbia. The decrease in revenue for the twelve months ended June 30, 1995 as compared to the same period ending June 30, 1994 was primarily attributable to a decrease in interchange deliveries to the Pennsylvania-New Jersey-Maryland Interconnection Association (PJM) and a 4.3% decrease in kilowatt-hour sales as a result of milder weather in the period ending June 30, 1995. The decrease in revenue as a result of lower kilowatt-hour sales was partially offset by the effects of the 1993 base rate increase in Maryland, the 1994 base rate increase in the District of Columbia, and an

increase in revenue of approximately \$23.7 million for the twelve months ended June 30, 1995 as compared to the same period in 1994 associated with the Company's DSM surcharge tariff in its Maryland jurisdiction.

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Recent rate orders received by the Company provided for changes in annual base rate revenue as shown in the table below:

Regulatory Jurisdiction	Rate Increase (\$000)	% Change	Effective Date
District of Columbia	\$27,900	3.8%	July 1995
Federal - Wholesale	2,300	1.8	January 1995
District of Columbia	26,700	3.9	March/June 1994
Federal - Wholesale	2,600	2.3	January 1994
Maryland	27,000	3.0	November 1993

On June 30, 1995, the District of Columbia Public Service Commission authorized a \$27.9 million, or 3.8% increase in base rate revenues, effective July 11, 1995. Also in June 1995, the District of Columbia Court of Appeals issued its Opinion and Order in response to the Company's 1994 Petition Order in connection with the Commission's decisions in Formal Case No. 929. The Company was granted a mechanism in Formal Case No. 917 which allows the Company to recover post June 1993 conservation expenditures through a billing surcharge. The initial rate, which became effective July 11, 1995, will result in \$15 million of additional revenue annually. See Part I, Item 1, Notes to the Consolidated Financial Statements, (6) Commitments and Contingencies, and Part II, Item 5, Base Rate Proceedings, for additional information.

OPERATING EXPENSES

Fuel and purchased energy decreased for the three, six and twelve months ended June 30, 1995, as compared to the corresponding periods ended June 30, 1994. Fuel expense decreased for the three, six and twelve months ended June 30, 1995, primarily as the result of decreases in net generation of 22.2%, 21.9% and 16.9%, respectively, due to decreased customer usage. The decreases in customer usage were caused by milder weather in the various periods as discussed above. The increases in purchased energy for the three, six and twelve months ended June 30, 1995, reflect changes in the levels and prices of energy purchased from PJM and other utilities.

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The unit fuel costs for the comparative periods ended June 30, were as follows:

	Three Months Ended		Six Months Ended		Twelve Months Ended	
	1995	1994	1995	1994	1995	1994
System Average Fuel Cost per MBTU	\$1.66	\$1.91	\$1.74	\$2.03	\$1.80	\$2.00

The decreases in the system average unit fuel cost for the three, six and twelve months ended June 30, 1995 were primarily attributable to decreased net generation due to decreased customer usage of electricity. Decreased use of cycling and peaking units which burn oil and natural gas resulted in an increase in the percent of coal contribution to the fuel mix. The Company's major cycling and certain peaking units can burn

natural gas or oil, adding flexibility in selecting the most cost-effective fuel mix.

For the twelve month periods ended June 30, 1995 and 1994, the Company obtained 85% and 72%, respectively, of its system generation from coal based upon percentage of Btus.

Capacity purchase payments increased slightly for the three and six months ended and increased for the twelve months ended June 30, 1995, as compared to the corresponding periods in 1994. The increase for the twelve months ended June 30, 1995 reflects a January 1, 1994 increase in the cost of capacity under agreements with Ohio Edison and Allegheny Power System (APS) and the 147 megawatts of capacity being purchased from Pennsylvania Power & Light Company for a one year period June 1, 1994 through May 31, 1995. The cost of capacity, under the Ohio Edison and APS agreements, increased from \$12,380 per megawatt, per month, in effect from 1987 to 1993, to \$18,060 per megawatt, per month, plus an allocation of fixed operating and maintenance expenses.

Operating expenses other than fuel, purchased energy and capacity purchase payments increased for the three, six and twelve months ended June 30, 1995 as compared to the corresponding periods ended June 30, 1994. The increases were principally due to increased depreciation and amortization expense due to additional investment in property and plant and the amortization of increased amounts of conservation program costs and a nonrecurring charge of \$7.4 million taken in January 1995 for operating costs associated with the Company's Voluntary Severance Program.

See "Legal Proceedings," under Part II, Item 1, Other Information, for additional information.

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CAPITAL RESOURCES AND LIQUIDITY

The Company's investment in property and plant, at original cost before accumulated depreciation, was \$6 billion at June 30, 1995, an increase of \$92.7 million from the investment at December 31, 1994 and an increase of \$210.5 million from the investment at June 30, 1994. Cash invested in property and plant construction, excluding AFUDC, amounted to \$115.2 million for the six months ended June 30, 1995, and \$255.1 million for the twelve months then ended.

See Part I, Item 1, Notes to Consolidated Financial Statements, (3) Capitalization for information with respect to financing activity.

At June 30, 1995, the Company's capital structure, excluding short-term debt, long-term debt due within one year, and nonutility subsidiary debt, consisted of 44.9% long-term debt, 3.3% serial preferred stock, 3.8% redeemable serial preferred stock and 48.0% common equity. On July 10, 1995, Moody's affirmed its A1 rating on the outstanding senior secured debt of the Company, as well as its other ratings of senior securities and commercial paper, and removed those securities from the Negative Watch List. During the second quarter, Standard and Poor's and Duff and Phelps had affirmed their ratings on the Company's senior secured debt of A and AA-, respectively.

The Company filed for a 5.3% increase in the Maryland fuel rate, in September 1994, which became effective, subject to refund, on November 1, 1994. The initial filing also included an adjustment for a deferred fuel amortization charge to recover over a twelve month period approximately \$28.5 million of previously unrecovered fuel costs incurred through July 31, 1994. During the case, which is still pending, the Company updated the proposed deferred fuel amortization, pursuant to a recommendation of the Staff of the Maryland Public Service Commission, to reflect a reduction in the unrecovered amount at October 31, 1994 to \$21.1 million. Based on results for the period ended November 30, 1994, the Company, in January 1995, filed for a fuel rate reduction in Maryland of 5.3%. Based on results for the period ended February 28, 1995, the Company filed for an additional fuel rate reduction in Maryland of 5.7% during April 1995, which became effective subject to refund on May 1, 1995. At June 30, 1995, essentially all unrecovered fuel costs have been recovered. The final orders in these filings are expected in the third quarter.

Cash (used by) from utility operations, after dividends, was

\$(40.6) million for the six months ended June 30, 1995, and \$70.1 million for the twelve months then ended as compared with \$(19.5) million and \$121.2 million, respectively, for the same periods ended June 30, 1994.

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Outstanding utility short-term debt totaled \$354.0 million at June 30, 1995, an increase of \$164.4 million from the \$189.6 million outstanding at December 31, 1994 and an increase of \$61.2 million from the \$292.8 million outstanding at June 30, 1994.

THE COVE POINT JOINT VENTURE

Subsidiaries of the Company and Columbia Gas System, Inc., have formed a joint venture partnership (the Partnership) to own and operate natural gas storage and terminaling facilities at Cove Point, Maryland, and an 87-mile natural gas pipeline that extends from Cove Point to Loudoun County, Virginia. Construction and recommissioning activities are on schedule and the Partnership anticipates commercial operation in the fall of 1995. At June 30, 1995, the Company's subsidiaries have invested \$21.5 million, in the form of equity and debt, in the Partnership.

JOINT VENTURE FOR WIRELESS DATA COMMUNICATION NETWORK AND

NEW ENERGY SERVICES SUBSIDIARY FORMED

In May 1995, the Company announced that its subsidiary, PepData, Inc., entered into a joint venture agreement with Metricom, Inc. to own and operate a wireless data network providing economical data communication services to four million people in the Washington, D.C. metropolitan area. The agreement calls for the joint venture company, Metricom D.C. LLC., to install radio devices on public and private facilities to create a wireless data communication network. The Company will invest \$7 million and own 20 percent of the joint venture.

Also in May, a subsidiary Pepco Services, Inc., was formed to offer a range of energy-related technical, engineering, management and financing services to businesses and government organizations in the region.

NONUTILITY SUBSIDIARY

RESULTS OF OPERATIONS

PCI incurred net losses of \$115.5 million, \$119.9 million and \$103.1 million for the three, six and twelve months ended June 30, 1995 compared to earnings of \$.1 million, \$2.3 million and \$6 million for the same periods ended June 30, 1994, respectively. Net losses incurred in 1995 are the result of the adoption of a plan by PCI to exit the aircraft equipment leasing business, resulting in a second quarter 1995 \$110 million non-cash, after-tax charge to earnings.

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PCI contributed \$(.98), \$(1.01) and \$(.87) to the Company's earnings per share for the three, six and twelve months ended June 30, 1995 as compared to no contribution to earnings, \$.02 and \$.05 for the same periods ended June 30, 1994. Included in the loss per share for 1995 was \$(.93) per share, for each of the periods, for a charge upon the adoption of a plan to exit the aircraft equipment leasing business and \$(.05), \$(.06) and \$(.06) per share, respectively, for the periods for a valuation adjustment of aircraft equipment under master lease.

On May 18, 1995, PCI adopted a plan to exit the aircraft equipment leasing business. The plan, which was developed following a comprehensive review of the business, is designed to permit a withdrawal from the aircraft leasing business on an orderly basis designed to preserve value. The decision to exit the aircraft leasing business was based on an accumulation of factors which led PCI to conclude that the business was no longer consistent with PCI's goal of providing a stable supplement to consolidated earnings. These factors included the recent inability to secure satisfactory leases for certain aircraft returned by prior lessees, the continuing difficulties and credit risks associated with certain lessees, including Trans World Airlines (TWA) and Continental Airlines (Continental), and PCI's

evaluation of the prospects for its aircraft lease portfolio and the airline industry in general.

Under the plan, PCI will make no new investments to increase the size of the aircraft leasing portfolio. In addition, thirteen aircraft, (seven L-1011 aircraft, two F-28-4000 aircraft, one A-300 aircraft, two B-747-200 aircraft and one B747-200F aircraft) have been designated for sale. These aircraft are subject to short-term, usage-based leases, leases that will expire in the near term, or are not currently under lease. PCI will seek to accomplish these sales over 18 to 24 months. The book value of these aircraft (which, prior to adoption of the plan, was \$295 million) was reduced to an estimated net realizable value of approximately \$105 million. After taking into account the elimination of a previously established reserve of approximately \$22 million for future repair and maintenance expenditures and other minor adjustments, the result was an immediate non-cash charge to after-tax earnings of approximately \$110 million for the second quarter of 1995. There will be no future depreciation of, or accrual for, repair and maintenance expenditures with respect to these aircraft.

In accordance with the plan, PCI will continue to hold and closely monitor the remainder of its aircraft leasing portfolio, with the objective of identifying future opportunities for disposition of these investments on favorable terms. Included in this portion of the portfolio are six wholly owned aircraft (three DC-10-30 aircraft and three B-747-200 aircraft) and two

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DC-10-30 aircraft held by partnerships in which PCI has a 50% interest, all of which are under long-term operating leases to Continental or United Airlines. Depreciation on each of these aircraft has been increased in order to achieve book values at lease expiration that will correspond to their respective anticipated residual values. The net effect of this revised depreciation, coupled with the elimination of further depreciation on the aircraft designated for sale, will result in higher depreciation charges through 1997, and lower depreciation charges thereafter, as compared to the depreciation charges PCI would have incurred absent the plan. No adjustments were made to the remainder of PCI's aircraft leasing portfolio, which consists of twelve full or partial interests in aircraft under leveraged leases or direct finance leases (one DC-10-30 aircraft, three MD-82 aircraft, four B737-300 aircraft, two B747-300 aircraft, one B757-200 aircraft and one MD-11F aircraft).

PCI has two aircraft under a master lease agreement which are not carried on its balance sheet. Separate from the plan, as a result of differences between the guaranteed residual value and the expected market value of these aircraft at the end of the initial term of the master lease agreement, PCI, following generally accepted accounting principles, is recording a monthly after-tax charge against earnings of approximately \$1.7 million during the period March through September 1995.

In January 1995, Continental announced its intention to seek the early termination of all of its A-300 aircraft leases and rental reductions under certain leases of other widebody aircraft. Following negotiations, in April 1995, PCI signed an agreement with Continental regarding this matter. As compensation for the return of the A-300 aircraft in 1995, prior to the end of its lease, PCI is to be paid \$10.3 million, as adjusted for rents received from Continental for the period February 1995 until the aircraft is returned, in Continental securities. The A-300 aircraft is one of the aircraft designated for sale by PCI under its previously-discussed plan to exit the aircraft leasing business. There will also be deferral of approximately 40% of aggregate monthly rentals from the four wholly owned and two jointly owned DC-10-30 aircraft for a period of sixteen months, commencing February 1995. In addition, PCI obtained cross-default provisions in its Continental leases and improvements in aircraft return conditions. The deferred amounts are to be repaid over a three and one-half year period with 8% interest, commencing June 1, 1996, at which time the aggregate deferred amount would be approximately \$20 million.

PCI's aircraft portfolio at June 30, 1995 is summarized below.

Aircraft Designated for Sale in Near Term	Qty(1)	Year(2)	Lessee	Lease Type
A-300 aircraft	1	1979	Continental(5)	Operating
B747-200 aircraft	1	1977	Air Atlanta	Operating
B747-200 aircraft	1	1976	Icelandic	Operating
B747-200 aircraft & spare engine	1	1976	Air Club	Operating
B747-200F aircraft & spare engine	1	1976	Atlas Air	Operating
F-28-4000 aircraft & spare engine	2	1979/80	USAir	Operating
L1011-50 aircraft	2	1974	ING	Operating
L1011-50 aircraft	1	1975	TWA	Operating
L1011-100 aircraft	4	1974/75	(4)	N/A

Aircraft With Increased Depreciation	Qty(1)	Year(2)	Lessee	Lease Type
B747-200 aircraft & spare engines	1	1972	Continental	Operating
B747-200 aircraft	1	1978	United	Operating
B747-200 aircraft	1	1978	United	Operating
DC-10-30 aircraft	4	1973	Continental(3)	Operating
DC-10-30 aircraft	1	1974	Continental	Operating

(1) Includes all equipment in which PCI has a greater than 10% ownership interest. Not included in PCI's balance sheet at June 30, 1995 are two DC-10-30 aircraft on operating lease to PCI which were sub-leased to Canadian Airlines in March 1995.

(2) Year of manufacture.

(3) PCI owns a partial interest in certain of this equipment.

(4) Currently not on lease.

(5) Scheduled to be returned to PCI in 1995.

All Other Aircraft Equipment	Qty(1)	Year(2)	Lessee	Lease Type
B737-300 aircraft	4	1988	United(3)	Direct Finance
B747-300 Combi aircraft	1	1984	KLM(3)	Leveraged
B747-300 aircraft	1	1985	Singapore	Leveraged
B757-200 aircraft	1	1986	Northwest	Leveraged
DC-10-30 aircraft	1	1979	Continental	Direct Finance
MD-11F aircraft	1	1993	Fed. Express	Leveraged
MD-82 aircraft	1	1982	Continental	Direct Finance
MD-82 aircraft & spare engine	2	1987	Continental(3)	Direct Finance
Assorted Aircraft Engines	12	Various	Various	Operating

(1) Includes all equipment in which PCI has a greater than 10% ownership interest. Not included in PCI's balance sheet at June 30, 1995 are two DC-10-30 aircraft on operating lease to PCI which were sub-leased to Canadian Airlines in

March 1995.

- (2) Year of manufacture.
- (3) PCI owns a partial interest in certain of this equipment.

During 1994, PCI purchased from and leased to a Dutch electric utility company an approximate one-third undivided interest in a recently-constructed 650 megawatt (gross) base load, coal and gas-fired power plant located in The Netherlands. PCI's original equity investment totaled \$60 million and is accounted for as a leveraged lease.

In prior years the Company has invested in five 30-megawatt Solar Electric Generating Systems (SEGS) projects in the Mojave Desert in California. The Company owns 22%, 10%, 19%, 31%, and 25% of SEGS projects III through VII, respectively, representing a net investment of \$58 million included in PCI's investment in finance leases at June 30, 1995.

The five SEGS power generating projects in which PCI has invested sell electricity to Southern California Edison Company (Edison) under thirty year Interim Standard Offer No. 4 power purchase agreements which fix the energy rate paid by Edison for the first ten years of the agreements. For the remaining term of the agreements, energy rates are variable, based on Edison's

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avoided cost of generation. The SEGS projects are scheduled to convert to supplying electricity at avoided cost rates at various times beginning in early 1997 through the end of 1998. As a result of declines in Edison's avoided costs subsequent to the inception of these agreements, revenues at these projects would be substantially lower than revenues presently being realized under the fixed energy price terms of the agreements. If current avoided cost levels were to continue into 1997 and beyond, PCI could experience reduced earnings or incur losses associated with these projects. PCI is investigating and pursuing alternatives for these projects, including but not limited to, renegotiating the power purchase agreements and restructuring the associated debt.

PCI generates income primarily from its leasing activities and securities investments. Revenue from leasing activities, which includes rental income, gains on asset sales, interest income and fees totaled \$22.1 million, \$45.9 million and \$108.8 million for the three, six and twelve months ended June 30, 1995, respectively, compared to \$23.9 million, \$48.4 million and \$119 million for the corresponding periods ended in 1994. The decrease in revenue for the three, six and twelve months ended June 30, 1995 over 1994 was primarily due to decreases in rental income from operating leases and decreased fee income.

PCI's marketable securities portfolio contributed pre-tax income of \$9.4 million, \$18.6 million and \$36.5 million for the three, six and twelve months ended June 30, 1995 respectively, compared to \$8.9 million, \$17.3 million and \$37.0 million for the same periods ended June 30, 1994. Net realized gains included in marketable securities income totaled approximately \$.02 million, \$.2 million and \$.6 million for the three, six and twelve months ended June 30, 1995, respectively, and \$.3 million, \$.3 million and \$5.2 million for the corresponding periods in 1994.

Other income decreased during the second quarter 1995 over the corresponding period in 1994 and increased for the six and twelve month periods ended June 30, 1995 over 1994. The decrease in the second quarter was due to a decrease in real estate income. The increase during the six and twelve months ended June 30, 1995 over 1994 was primarily due to a first quarter 1994 writeoff resulting from agreements settling lawsuits related to PCI's construction and operation of a municipally-owned waste-to-energy facility. For the twelve month period the increase was primarily caused by a September 1993 termination of approximately \$13.5 million related to the termination of obligations with respect to a real estate limited partnership interest.

The \$170.1 million pretax charge during the three, six and twelve months ended June 30, 1995 is the result of PCI's plan, adopted during the second quarter of 1995, to exit the aircraft equipment leasing business.

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Expenses before income taxes, which include interest,

depreciation and operating, and administrative and general expenses totaled \$46.4 million, \$90.9 million and \$157.6 million for the three, six and twelve months ended June 30, 1995, respectively, compared to \$50.1 million, \$83.9 million and \$157.3 million for the same periods ended June 30, 1994. Expenses decreased for the three month period ended June 30, 1995 over the same period in 1994 primarily due to the elimination of future accrued repairs and maintenance expenses for assets held for disposal. Expenses increased for the six month period ended June 30, 1995 over the same period in 1994 primarily as a result of a \$2.7 million pretax monthly accrual which commenced in March 1995 for the recognition of the difference between the guaranteed residual value and the expected market value of aircraft at the end of the initial term of a master lease agreement in September 1995. Due to increased interest rates, interest expense also increased for each of the three periods in 1995 over the corresponding periods in 1994.

PCI had income tax credits of \$68.3 million, \$74.6 million and \$78.1 million for the three, six and twelve months ended June 30, 1995, respectively, compared to income tax credits of \$16.2 million, \$19.2 million and \$15.0 million for the corresponding periods in 1994. The significant increase in income tax credits for each of the three periods ended June 30, 1995 compared to June 30, 1994 was the result of the previously mentioned charge relating to aircraft equipment.

CAPITAL RESOURCES AND LIQUIDITY

Investments in leased equipment of \$7.4 million for the six month period ended June 30, 1995 were for the purchase of aircraft engines placed under operating leases. The investments of \$76.5 million in leased equipment for the twelve month period ended June 30, 1995 also included \$60 million for a one-third undivided interest in a recently-constructed 650 megawatt (gross) baseload, coal and gas fired power plant located in The Netherlands which was purchased and leased back under a long-term leveraged lease to a Dutch electric utility.

PCI's outstanding short-term debt totaled \$136 million at June 30, 1995, an increase of \$87.6 million from the \$48.4 million outstanding at December 31, 1994 and an increase of \$108.2 million over the \$27.8 million outstanding at June 30, 1994. During the six and twelve months ended June 30, 1995, PCI issued \$75 million and \$151.8 million, respectively, in long-term debt, including non-recourse debt. No long-term debt was issued in the three months ended June 30, 1995. Debt repayments totaled \$115.7 million, \$177.5 million and \$266.3 million, respectively, for the three, six and twelve months ended June 30, 1995. At

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June 30, 1995, PCI had \$13.3 million available under its Medium-Term Note Program and \$270 million of unused short-term bank credit lines.

PCI has paid a total of \$100 million in dividends to the Company, including a \$9 million dividend paid in January 1995. Dividend payments are considered based upon factors such as future business plans, debt-to-equity ratios, and anticipated capital requirements. PCI paid a dividend of \$50 million to the Company in December 1990, and subsequent dividend payments, through January 1995, have been approximately 50% of annual net earnings.

The \$514.2 million portfolio of investment grade preferred stocks provides PCI with significant liquidity and flexibility to participate in additional investment opportunities.

Part II OTHER INFORMATION

Item 1 LEGAL PROCEEDINGS

See Part I, Item 1, Notes to Consolidated Financial Statements, (6) Commitments and Contingencies, for information on various legal proceedings. Also see Part II, Item 5, Base Rate Proceedings, for information about a Petition for Review filed by the Company with the District of Columbia Court of Appeals, in July 1994, related to the District of Columbia Public Service Commission's rate orders.

Item 5 OTHER INFORMATION

OTHER FINANCING ARRANGEMENTS - Credit Agreements

The Company and PCI satisfy their short-term financing requirements through the sale of commercial promissory notes. The Company and PCI maintain minimum 100 percent lines of credit back-up for their outstanding commercial promissory notes. These lines of credit were unused during 1995 and 1994.

BASE RATE PROCEEDINGS

Maryland

Effective November 1, 1993, pursuant to a settlement agreement, base rate revenue was increased by \$27 million, or 3%. In connection with the settlement agreement, no determination was made with respect to rate of return. The rate of return on

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common stock equity most recently determined for the Company in a fully litigated rate case was 12.75% established by the Commission in a June 1991 rate increase order.

Effective July 1, 1995, the DSM surcharge rate per KWH was increased from \$.00338 to \$.00556, which will provide approximately \$29 million in increased revenue. The surcharge includes a provision for the recovery of lost revenue, amortization of pre-1995 actual program expenditures plus the initial amortization of 1995 projected program costs, a capital cost recovery factor of 9.46% on the unamortized balance, and an incentive of \$8.7 million awarded for exceeding 1994 energy saving goals. The \$8.7 million conservation incentive is reflected in utility results in June 1995. An incentive of \$5 million for exceeding 1993 goals was recorded in June 1994.

District of Columbia

On June 30, 1995, the Commission authorized, in Formal Case No. 939, a \$27.9 million, or 3.8%, increase in base rate revenue effective July 11, 1995. The authorized rates 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 which excludes short-term debt. The Company's updated cost of service data filing in February 1995, had requested a \$56.6 million, or 7.6%, revenue increase based upon a 1994 calendar year test period and a return of 9.89% on average rate base, including a 12.75% return on common stock equity. The primary difference between the Company's \$56.6 million request and the \$27.9 million increase granted was due to the difference in the rate of return.

In addition, the Commission approved the Company's Least-Cost Plan filed in June 1994. DSM spending caps for the period 1995-1998 were approved, and the time period for filing Least-Cost Planning cases was increased from two to three years. The Commission also approved the Company's proposal to narrow the scope of DSM activities by discontinuing operation of certain DSM programs and by reducing expenditures on the remaining programs. The narrowing of the scope of the DSM activities and the adoption of the spending caps enable the Company to implement cost-effective conservation programs while limiting the impact on the price of electricity. An Environmental Cost Recovery Rider (ECRR) was approved to provide for full cost recovery of actual conservation program expenditures, through a billing surcharge. Costs will be amortized over 10 years with a return on unamortized amounts by means of a capital cost recovery factor computed at the authorized rate of return. The initial rate, which reflects all actual costs expended from July 1993 through December 1994, will result in \$15 million of additional revenue annually. Subsequent rate updates will be filed annually on June 1 to reflect the prior year's actual costs within the spending caps. Although the Commission denied the Company's request to

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recover "lost revenue", due to DSM programs, through the surcharge, a process has been established whereby the Company can seek recovery of lost revenue in a separate annual proceeding without the need to file frequent base rate increase requests.

In June 1995, the District of Columbia Court of Appeals

issued its Opinion and Order in response to the Company's July 1994 Petition for Review in connection with the Commission's decisions in Formal Case No. 929. The Court affirmed the decisions but remanded to the Commission for a fuller and clearer explanation justifying the decisions.

Federal - Wholesale

The Company has a 10-year full service power supply contract with the Southern Maryland Electric Cooperative, Inc. (SMECO), a wholesale customer. The contract period is to be 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 full service obligation can be reduced by SMECO by up to 20% of its annual requirements with a five-year advance notice for each such reduction. SMECO rates were increased by \$2.3 million effective January 1, 1995 and \$2.6 million effective January 1, 1994. Although a rate increase of \$4.2 million is scheduled to become effective on January 1, 1996, such increase is subject to revision to reflect significant reductions in the Company's purchased capacity costs which have occurred subsequent to the rate agreement.

Federal - Interchange and Purchased Energy

The Company's generating and transmission facilities are interconnected with the other members of the Pennsylvania-New Jersey-Maryland Interconnection Association (PJM) and other utilities. The pricing of most PJM internal economy energy transactions is based upon "split savings" so that the price of such energy is halfway between the cost that the purchaser would incur if the energy were supplied by its own sources and the cost of production to the company actually supplying the energy.

In addition to PJM interchange activity, the Company has interconnection agreements with Allegheny Power System (APS) and Virginia Power. These agreements provide a mechanism and the flexibility to purchase power from these parties or from others with whom they are interconnected on an as-needed basis in amounts mutually agreed to from time-to-time pursuant to negotiated rates, terms and conditions.

Pursuant to long-term capacity purchase agreements with Ohio Edison and APS, the Company is purchasing 450 megawatts of capacity and associated energy through the year 2005. The

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monthly capacity commitment under these agreements, excluding an allocation of fixed operating and maintenance cost, increased from \$12,380 per megawatt through 1993 to \$18,060 per megawatt, effective January 1, 1994, with provision for escalation in 1999. In addition, from June 1994 through May 1995, the Company purchased 147 megawatts of capacity from Pennsylvania Power and Light Company at a total cost of \$3 million.

Duquesne Light Company Transmission Case

On March 29, 1995, FERC issued a Notice of Proposed Rulemaking (NOPR) covering open access to transmission lines and the recovery of stranded costs. These rules, if adopted, provide for open access to the interstate electric transmission network.

Subsequent to this NOPR, Duquesne Light Company requested that it be provided with 300 megawatts of transmission service, firm and non-firm with flexible destinations, for 20 years on the PJM and APS systems. During May 1995, FERC issued an order directing the PJM and APS companies to provide Duquesne with the transmission service it requested and to negotiate jointly, over the next 45 days, the appropriate rates, terms and conditions. On June 30, 1995 a "final offer" was submitted as directed by the transmitting companies. This final offer contained the allocation of the 300 megawatts among the member utilities and each company's firm transmission rates. Final briefs were filed with FERC on July 25, 1995.

PEAK LOAD, SALES, CONSERVATION, AND CONSTRUCTION

AND GENERATING CAPACITY

Peak Load and Sales Data

Kilowatt-hour sales decreased 2.7% for the three months ended and 4.3% for the six and twelve months ended June 30, 1995, as compared to sales for the corresponding periods ended June 30, 1994. The decreases in sales for the three and six months ended June 30, 1995, reflect decreased customer usage due to below average weather in June 1995, as compared to the above average weather in June 1994 and milder winter weather in 1995, as compared to 1994 when record-breaking frigid temperatures in January resulted in extraordinarily high sales. Cooling degree hours for the quarter were 53% below the corresponding period in 1994, and were 32% below the 20-year average weather for this period. The decline in sales for the twelve months ended June 30, 1995 also reflects the mild summer weather during the 1994 cooling season. Assuming future weather conditions approximate

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historical averages, the Company expects its compound annual growth in kilowatt-hour sales to range between 1% and 2% over the next decade.

Through July 26, 1995, the 1995 summer peak demand was 5,595 megawatts. The 1994 summer peak demand was 5,660 megawatts and the all-time summer peak demand of 5,769 megawatts occurred in July 1991. The Company's present generation capability, including capacity purchase contracts, is 6,576 megawatts. To meet the 1995 summer peak demand, the Company had 271 megawatts available from its dispatchable energy use management programs. Based on average weather conditions, the Company estimates that its peak demand will grow at a compound annual rate of approximately 1%, reflecting continuing emphasis on conservation and energy use management programs and anticipated service area growth trends. The 1994-1995 winter season peak demand of 4,685 megawatts was 6.5% below the all-time winter peak demand of 5,010 megawatts which was established in January 1994.

Conservation - -----

The Company's conservation and energy use management (EUM) programs are designed to curb growth in demand in order to defer the need for construction of additional generating capacity and to cost-effectively increase the efficiency of energy use. To reduce the near-term upward pressure on prices and total customer bills, the Company is limiting the DSM programs being offered to those with the strongest cost benefit results and has reduced previously planned five-year conservation expenditures by approximately \$120 million. By narrowing its conservation offerings, the Company expects to be able to continue to encourage its customers to use energy efficiently without significantly increasing electricity prices.

During 1994, the Company invested approximately \$90 million in energy conservation programs, all of which is currently being recovered in rates. During the next five years, the Company plans to expend an estimated \$370 million (\$86 million in 1995) to encourage the efficient use of electric energy and to reduce the need to build new generating facilities. The Company also estimates that in 1994 energy savings of more than 810 million kilowatt-hours were realized through operation of its conservation and energy use management programs. It is further estimated that peak load reductions of approximately 510 megawatts have been achieved to date from conservation and energy use management programs and that additional peak load reductions of approximately 395 megawatts will be achieved in the next five years. See the discussions included in Part I, Item 1, Summary of Significant Accounting Policies, Total Revenue, and Part II, Item 5, Base Rate Proceedings, for additional information.

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Construction and Generating Capacity - -----

The Company's construction expenditures, excluding AFUDC, are projected to total \$1.1 billion for the five-year period 1995 through 1999, which includes \$165 million of estimated Clean Air Act (CAA) expenditures. Making use of the flexibilities in its long-term construction plan, the Company in 1994 reduced projected expenditures for the five years 1995 through 1999 by \$190 million from amounts previously planned. This reduction

followed a \$365 million reduction in 1993. The construction reductions and deferrals are associated with lower rates of projected growth in usage of electricity resulting in large part from implementing economical conservation programs. The Company plans to finance its construction program primarily through funds provided by operations.

The electric utility industry is subject to increasing competitive pressures, stemming from a combination of increasing independent power production, greater reliance upon long-distance transmission, and regulatory and legislative initiatives intended to increase bulk power competition, including the Energy Policy Act of 1992. Since the early 1980s, the Company has pursued strategies which achieve financial flexibility through conservation and energy use management 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 which compare favorably with regional and national averages.

The Company has developed cost-effective plans for complying with the CAA which requires the reduction of sulfur dioxide and nitrogen oxides emissions in two phases to achieve prescribed standards. Both the District of Columbia and Maryland commissions have approved the Company's plans for meeting Phase I requirements including cost recovery of investment and inclusion of emission allowance expenses in the Company's fuel adjustment clause. The Company anticipates capital expenditures totaling \$165 million over the next five years pursuant to Phase II plans.

A 32-megawatt municipally owned resource recovery facility is nearing completion in Montgomery County, Maryland. Under the contract covering this project, the Company will initially purchase energy without capacity payment obligations. In addition, the Company has an agreement with Panda Energy Corporation for a 230-megawatt gas-fueled combined-cycle cogeneration project in Prince George's County, Maryland scheduled for operation in 1996 with capacity payments commencing in 1997. The Company currently projects that existing contracts for nonutility generation and the Company's commitment to conservation will provide adequate reserve margins to meet

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customers' needs well beyond the year 2000. Completion of the first combined-cycle unit at its Station H facility in Dickerson, Maryland, is currently scheduled for 2004. This will add a steam cycle to the two existing combustion turbine units.

SELECTED NONUTILITY SUBSIDIARIES FINANCIAL INFORMATION

The Company's wholly owned nonutility subsidiary, Potomac Capital Investment Corporation (PCI), was organized in late 1983 with the objective of supplementing utility earnings and building long-term value. The principal assets of PCI are portfolios of securities and equipment leases, and to a lesser extent real estate and other investments. The \$514.2 million portfolio of investment grade preferred stocks provides PCI with significant liquidity and flexibility to participate in additional investment opportunities. The Company's equity investment in PCI was \$168.6 million at June 30, 1995 and \$266.5 million at June 30, 1994, following an April 1995 reduction of \$110 million (\$.93 per share) relating to a one-time, non-cash, after-tax charge to earnings as the result of the adoption of a plan to exit the aircraft equipment leasing business and dividend payments of \$9 million and \$15 million in January 1995 and 1994, respectively.

<TABLE>
Consolidated Statements of Earnings:

<CAPTION>

	Three Months Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	1995	1994	1995	1994	1995	1994
	(Thousands of Dollars)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Income						
Leasing activities	\$ 22,105	\$ 23,886	\$ 45,931	\$ 48,426	\$ 108,767	\$118,993
Marketable securities	9,423	8,902	18,568	17,261	36,455	36,978
Other	1,138	1,254	2,052	1,364	1,284	(7,741)
	-----	-----	-----	-----	-----	-----
	32,666	34,042	66,551	67,051	146,506	148,230
	-----	-----	-----	-----	-----	-----
Loss on assets held for disposal	(170,078)	-	(170,078)	-	(170,078)	-
	-----	-----	-----	-----	-----	-----
Expenses						
Interest	22,806	20,313	45,119	40,813	89,089	80,404
Administrative and general	2,797	2,494	5,428	5,004	10,682	12,546
Depreciation and operating	20,796	27,274	40,400	38,126	57,845	64,318
Income tax credit	(68,312)	(16,176)	(74,601)	(19,234)	(78,062)	(15,001)
	-----	-----	-----	-----	-----	-----
	(21,913)	33,905	16,346	64,709	79,554	142,267
	-----	-----	-----	-----	-----	-----
Net (loss) earnings from nonutility subsidiary	\$ (115,499)	\$ 137	\$ (119,873)	\$ 2,342	\$ (103,126)	\$ 5,963
	=====	=====	=====	=====	=====	=====
Per share contribution to (loss) earnings of the Company	\$(.98)	\$ -	\$(1.01)	\$.02	\$(.87)	\$.05
	=====	=====	=====	=====	=====	=====
Per share contribution includes:						
Charge Upon Adoption of Plan to End Investment in Aircraft Equipment Leasing Business	\$(.93)	\$ -	\$(.93)	\$ -	\$(.93)	\$ -
Valuation Adjustment of Aircraft Equipment Under Master Lease	\$(.05)	\$ -	\$(.06)	\$ -	\$(.06)	\$ -

</TABLE>

<TABLE>

STATISTICAL DATA

<CAPTION>

	Three Months Ended June 30,			Twelve Months Ended June 30,		
	1995	1994	% Change	1995	1994	% Change
	<C>	<C>	<C>	<C>	<C>	<C>
Revenue from Sales						
----- of Electricity ----- (Thousands of Dollars)						
Residential	\$122,990	\$125,490	(2.0)	\$ 514,891	\$ 538,452	(4.4)
General Service	271,684	285,457	(4.8)	1,052,432	1,051,240	0.1
Large Power Service <F1>	9,048	9,538	(5.1)	35,516	35,153	1.0
Street Lighting	2,908	3,272	(11.1)	13,127	13,914	(5.7)
Rapid Transit	6,788	6,930	(2.0)	27,808	26,035	6.8
Wholesale	25,424	26,246	(3.1)	109,776	116,383	(5.7)
	-----	-----		-----	-----	
System	\$438,842	\$456,933	(4.0)	\$1,753,550	\$1,781,177	(1.6)
	=====	=====		=====	=====	
Energy Sales						
----- (Millions of KWH)						
Residential	1,394	1,421	(1.9)	6,337	6,935	(8.6)
General Service	3,708	3,833	(3.3)	15,110	15,522	(2.7)
Large Power Service <F1>	164	171	(4.1)	678	702	(3.4)
Street Lighting	34	34	-	161	163	(1.2)
Rapid Transit	99	97	2.1	403	388	3.9
Wholesale	517	523	(1.1)	2,311	2,414	(4.3)
	-----	-----		-----	-----	
System	5,916	6,079	(2.7)	25,000	26,124	(4.3)
	=====	=====		=====	=====	
Average System Revenue						
----- per KWH (cents per KWH) -----						
	7.42	7.52	(1.3)	7.01	6.82	2.8
System Peak Demand						
----- (Thousands of KW)						
Summer	-	-		5,660	5,754	
Winter	-	-		4,685	5,010	
Net Generation						
----- (Millions of KWH)						
	3,877	4,983		16,996	20,453	
Fuel Mix (% of Btu)						

Coal (%)	93	80		85	72	
Oil (%)	1	17		7	25	
Gas (%)	6	3		8	3	
Fuel Cost per MBtu						

System Average	\$1.66	\$1.91		\$1.80	\$2.00	
Weather Data						

Heating Degree Days	333	267		3,635	4,339	
20 Year Average	323			3,985		
Cooling Degree Hours	1,833	3,924		9,363	14,674	
20 Year Average	2,684			10,998		

Heating Degree Days - The daily difference in degrees by which the mean temperature is below 65 degrees Fahrenheit (dry bulb).

Cooling Degree Hours - The daily sum of the differences, by hours, by which the temperature (effective temperature) for each hour exceeds 71 degrees Fahrenheit (effective temperature).

<FN>
<F1> Large Power Service customers are served at high voltage of 66KV or higher.

</FN>

</TABLE>

(a) Exhibits

- Exhibit 10.1 - Employment Agreement - filed herewith.
- Exhibit 10.2 - Potomac Electric Power Company Supplemental Executive Retirement Plan - filed herewith.
- Exhibit 10.3 - Potomac Electric Power Company Executive Split Dollar Insurance Plan - filed herewith.
- Exhibit 10.4 - Potomac Electric Power Company Revised and Restated Executive and Director Deferred Compensation Plan - filed herewith.
- Exhibit 10.5 - Potomac Electric Power Company Executive Performance Supplemental Retirement Plan - filed herewith.
- Exhibit 10.6 - Potomac Electric Power Company Supplemental Benefit Plan - filed herewith.
- Exhibit 11 - Computation of Earnings Per Common Share - filed herewith.
- Exhibit 12 - Computation of ratios - filed herewith.
- Exhibit 15 - Letter re unaudited interim financial information - filed herewith.
- Exhibit 27 - Financial data schedule - filed herewith.

(b) Reports on Form 8-K

A Current Report on Form 8-K was filed by the Company on May 19, 1995, providing information regarding Potomac Capital Investment Corporation's plan to exit the aircraft leasing business.

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SIGNATURES

Pursuant to the requirements 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.

Potomac Electric Power Company

Registrant

By /s/ D. R. Wraase

(D. R. Wraase)
Senior Vice President,
Finance and Accounting

July 28, 1995

DATE

<TABLE>
 Exhibit 11 Computations of Earnings Per Common Share

The following is the basis for the computation of primary and fully diluted earnings per common share for the twelve months ended June 30, 1995 and the twelve months ended December 31, 1994 and 1993:

<CAPTION>

	June 30, 1995	December 31, 1994	December 31, 1993
<S>	<C>	<C>	<C>
Average shares outstanding for computation of primary earnings per common share	118,214,907	118,005,847	115,639,668
Average shares outstanding for fully diluted computation:			
Average shares outstanding	118,214,907	118,005,847	115,639,668
Additional shares resulting from:			
Conversion of Serial Preferred Stock, \$2.44 Convertible Series of 1966 (the "Convertible Preferred Stock")	47,222	48,110	51,967
Conversion of 7% Convertible Debentures	2,473,968	2,531,244	2,546,858
Conversion of 5% Convertible Debentures	3,392,500	3,392,500	3,392,500
Average shares outstanding for computation of fully diluted earnings per common share	124,128,597	123,977,701	121,630,993
Earnings applicable to common stock	\$70,949,000	\$210,725,000	\$225,324,000
Add: Dividends paid or accrued on Convertible Preferred Stock	20,000	20,000	22,000
Interest paid or accrued on Convertible Debentures, net of related taxes	6,480,000	6,537,000	6,548,000
Earnings applicable to common stock, including cumulative effect of accounting change and assuming conversion of convertible securities	\$77,449,000	\$217,282,000	\$231,894,000
Primary earnings per common share	\$0.60	\$1.79	\$1.95
Fully diluted earnings per common share	\$0.62	\$1.75	\$1.91

</TABLE>

This calculation is submitted in accordance with Regulation S-K item 601 (b) (11) a1- though it is contrary to paragraph 40 of APB Opinion No. 15 because it produces an anti-dilutive result for the twelve months ended June 30, 1995. In addition, the valuation is not required by footnote 2 to paragraph 14 for 1994 and 1993 because it results in dilution of less than 3%.

<TABLE>
 Exhibit 12 Computation of Ratios

The computations of the coverage of fixed charges, excluding the cumulative effect of the 1992 accounting change, before income taxes, and the coverage of combined fixed charges and preferred dividends for the twelve months ended June 30, 1995 and for each of the preceding five years on the basis of parent company operations only, are as follows.

<CAPTION>

	Twelve Months Ended June 30, 1995	For The Year Ended December 31,				
		1994	1993	1992	1991	1990
		(Thousands of Dollars)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net income before cumulative effect of accounting change	\$190,772	\$208,074	\$216,478	\$172,599	\$186,813	\$165,199
Taxes based on income	110,169	116,648	107,223	76,965	80,988	70,962
Income before taxes and cumulative effect of accounting change	300,941	324,722	323,701	249,564	267,801	236,161
Fixed charges:						
Interest charges	143,813	139,210	141,393	138,097	138,512	127,386
Interest factor in rentals	16,933	6,300	5,859	6,140	5,690	4,237
Total fixed charges	160,746	145,510	147,252	144,237	144,202	131,623
Income before income taxes, cumulative effect of accounting change and fixed charges	\$461,687	\$470,232	\$470,953	\$393,801	\$412,003	\$367,784
Coverage of fixed charges	2.87	3.23	3.20	2.73	2.86	2.79
Preferred dividend requirements	\$16,697	\$16,437	\$16,255	\$14,392	\$12,298	\$10,598
Ratio of pre-tax income to net income	1.58	1.56	1.50	1.45	1.43	1.43
Preferred dividend factor	\$26,381	\$25,642	\$24,383	\$20,868	\$17,586	\$15,155
Total fixed charges and preferred dividends	\$187,127	\$171,152	\$171,635	\$165,105	\$161,788	\$146,778
Coverage of combined fixed charges and preferred dividends	2.47	2.75	2.74	2.39	2.55	2.51

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</TABLE>

<TABLE>

Exhibit 12 Computation of Ratios

The computations of the coverage of fixed charges, excluding the cumulative effect of the 1992 accounting change, before income taxes, and the coverage of combined fixed charges and preferred dividends for the twelve months ended June 30, 1995 and for each of the preceding five years on a fully consolidated basis are as follows.

<CAPTION>

	Twelve Months Ended June 30, 1995	For The Year Ended December 31,				
		1994	1993	1992	1991	1990
<S>	<C>	<C>	<C>	<C>	<C>	<C>
		(Thousands of Dollars)				
Net income before cumulative effect of accounting change	\$87,646	\$227,162	\$241,579	\$200,760	\$210,164	\$170,234

Taxes based on income	32,107	93,953	62,145	79,481	80,737	63,360
Income before taxes and cumulative effect of accounting change	119,753	321,115	303,724	280,241	290,901	233,594
Fixed charges:						
Interest charges	233,032	224,514	221,312	226,453	225,323	199,469
Interest factor in rentals	20,503	9,938	9,257	6,599	6,080	4,559
Total fixed charges	253,535	234,452	230,569	233,052	231,403	204,028
Nonutility subsidiary capitalized interest	(130)	(521)	(2,059)	(2,200)	(6,542)	-
Income before income taxes, cumulative effect of accounting change and fixed charges	\$373,158	\$555,046	\$532,234	\$511,093	\$515,762	\$437,622
Coverage of fixed charges	1.47	2.37	2.31	2.19	2.23	2.14
Preferred dividend requirements	\$16,697	\$16,437	\$16,255	\$14,392	\$12,298	\$10,598
Ratio of pre-tax income to net income	1.37	1.41	1.26	1.40	1.38	1.37
Preferred dividend factor	\$22,875	\$23,176	\$20,481	\$20,149	\$16,971	\$14,519
Total fixed charges and preferred dividends	\$276,410	\$257,628	\$251,050	\$253,201	\$248,374	\$218,547
Coverage of combined fixed charges and preferred dividends	1.35	2.15	2.12	2.02	2.08	2.00

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</TABLE>

Exhibit 15

July 28, 1995

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Ladies and Gentlemen:

We are aware that Potomac Electric Power Company has incorporated by reference our report dated July 28, 1995 (issued pursuant to the provisions of Statement on Auditing Standards No. 71) in the Prospectuses constituting parts of the Registration Statements (Numbers 33-36798, 33-53685 and 33-54197) on Form S-8 filed on September 12, 1990, May 18, 1994 and June 17, 1994, respectively, and (Numbers 33-58810 and 33-50377) on Form S-3 filed on February 26, 1993 and September 23, 1993, respectively. We are also aware of our responsibilities under the Securities Act of 1933.

Very truly yours,

/s/ Price Waterhouse LLP
Price Waterhouse LLP
Washington, D.C.

This Agreement, made this 26th day of April, 1995 between Potomac Electric Power Company, hereinafter referred to as the "Company" and Edward F. Mitchell, hereinafter referred to as "Mitchell",

WITNESSETH:

WHEREAS, Mitchell has served as Chief Executive Officer of the Company since September 1, 1989; and

WHEREAS, the Company wishes to make provision for the continuance of Mitchell's employment as Chief Executive Officer for the period specified herein; and

WHEREAS, Mitchell is willing to continue as Chief Executive Officer upon the terms and conditions hereinafter set forth;

NOW THEREFORE, the parties agree as follows:

1. For the period beginning on the date of execution of this Agreement and ending on January 1, 1997 (or such subsequent date as may be mutually agreed to in writing between the Company and Mitchell) Mitchell will serve as Chief Executive Officer of the Company, unless his services are sooner terminated in accordance with the provisions of clause numbered 3 hereafter. During the continuance of his employment, Mitchell will devote his full time and energies and best efforts to the business of the Company.

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2. Mitchell's salary during the period of this Agreement shall be payable monthly at an annual rate to be established by the Company's Board of Directors from time to time.

3. Mitchell's services as Chief Executive Officer may be terminated at a time prior to January 1, 1997 (or such subsequent date as may be mutually agreed to in writing between the Company and Mitchell) in the following circumstances:

(a) The Board of Directors of the Company may terminate Mitchell's services and effectuate his retirement upon a showing by clear and convincing evidence of just cause and with six (6) months' notice to Mitchell.

(b) Mitchell's services shall be terminated upon a

determination by the Company that he has become totally and permanently disabled to work for the Company due to physical or mental disability.

4. Upon termination of Mitchell's services with the Company, whether on or before January 1, 1997 (or such subsequent date as may be mutually agreed to in writing between the Company and Mitchell) and for whatever reason, the Company will pay or cause to be paid to Mitchell, in addition to any amounts payable under the Company's General Retirement Plan, a monthly amount, commencing on the first day of the month following such termination and continuing through the first day of the month in

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which occurs Mitchell's death, equal to the excess of (a) below over (b) below:

(a) one-twelfth (1/12th) of sixty-five percent (65%) of Mitchell's "final average annual pay", as defined below;

(b) the monthly amount of pension benefit which Mitchell receives under the General Retirement Plan, calculated in the form of the Automatic Joint and Survivor Annuity, as defined in the General Retirement Plan, if Mitchell is married at the time of termination (to a spouse as to whom Automatic Joint and Survivor Annuity payments are available for election and elected under the General Retirement Plan), and on the Normal Form of Annuity, as defined in the General Retirement Plan, if Mitchell is not married at the time of termination. Mitchell hereby agrees that he shall not elect an optional form of annuity under the General Retirement Plan inconsistent with the foregoing.

For purposes of this Agreement, Mitchell's final average annual pay shall be: (i) the amount paid or payable to Mitchell in respect of the last twelve (12) full months of his employment, without reduction for any deferrals under any deferred compensation plan or arrangement made available to Mitchell by the Company, plus (ii) the target annual award designated as applicable to Mitchell's position under the Company's Executive

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Incentive Compensation Plan guidelines for the year in which his termination of employment occurs.

5. (i) In the event of Mitchell's death after termination of employment but before 120 monthly payments have been made to Mitchell under clause 4 above, if Mitchell is survived by a spouse who is entitled to Automatic Joint and Surviving Spouse Annuity payments under the General Retirement Plan, the Company will pay or cause to be paid to such surviving spouse, in addition to any amounts payable under the Company's General Retirement Plan, a monthly amount, commencing on the first day of the month following the month in which Mitchell dies and continuing through the date upon which a total of 120 payments have been made to Mitchell and his surviving spouse, equal to the excess of (a) below over (b) below:

(a) the amount described in paragraph (a) under clause 4 above;

(b) the monthly amount which said spouse receives under the General Retirement Plan by operation of the automatic Joint and Surviving Spouse Annuity in effect thereunder.

If Mitchell's spouse survives Mitchell but dies prior to the date upon which a total of 120 payments have been made to Mitchell and his surviving spouse, the estate of Mitchell's surviving spouse shall be entitled to receive monthly payments in an amount equal to the amount described in paragraph (a) under

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clause 4, above, until the date upon which a total of 120 payments have been made to Mitchell, his surviving spouse and the estate of such surviving spouse.

(ii) If Mitchell's surviving spouse is still living after a total of 120 payments have been made under clause 4 and paragraph (i) of this clause 5, the Company will pay or cause to be paid to said surviving spouse, in addition to any amounts payable under the General Retirement Plan, a monthly amount, commencing on the first day of the month following the 120th payment and continuing through the first day of the month in which occurs the death of said surviving spouse, equal to the amount described in paragraph (iii) below.

(iii) In the event of Mitchell's death after termination of employment and after 120 monthly payments have been made to Mitchell under clause 4 above, if Mitchell is survived by a spouse who is entitled to Automatic Joint and Survivor Annuity payments under the General Retirement Plan, the

Company will pay or cause to be paid, in addition to any amounts payable under the General Retirement Plan, a monthly amount, commencing on the first day of the month following the month in which Mitchell dies and continuing through the first day of the month in which occurs the death of said surviving spouse, equal to the excess of (a) below over (b) below:

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(a) seventy-five percent (75%) of the amount described in paragraph (a) under clause 4 above;

(b) the monthly amount which said spouse receives under the General Retirement Plan by operation of the Automatic Joint and Surviving Spouse Annuity in effect thereunder.

(iv) In the event of Mitchell's death after termination of employment but prior to receipt by Mitchell of 120 monthly payments of the benefit described in clause 4, above, if Mitchell is not survived by a spouse who is entitled to Automatic Joint and Surviving Spouse Annuity payments under the General Retirement Plan, the Company shall pay or cause to be paid to Mitchell's designated beneficiary, commencing on the first day of the month following Mitchell's death, an amount equal to the amount described in paragraph (a) under clause 4, above, until the sum of the number of monthly payments received by Mitchell under clause 4, above, and the number of monthly payments received by Mitchell's beneficiary under this paragraph (iv) of this clause 5 equals 120. For purposes of this paragraph (iv) of this clause 5, Mitchell's designated beneficiary shall be deemed to constitute the individual or individuals designated by Mitchell in his most recent writing on file with the Company. In the event that Mitchell fails to designate a beneficiary or in the event that Mitchell's designated beneficiary fails to survive

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Mitchell, Mitchell shall be deemed to have designated his estate as beneficiary hereunder.

6. In the event of Mitchell's death before termination of employment, if Mitchell is survived by a spouse to whom he was married for one year or more on the date of his death, the Company will pay or cause to be paid to such surviving spouse, in

addition to any amounts payable under the Company's General Retirement Plan, a monthly amount, commencing on the first day of the month following the month in which Mitchell dies and continuing through the first day of the month in which occurs the death of said surviving spouse, equal to the excess of (a) below over (b) below:

(a) seventy-five percent (75%) of the amount described in paragraph (a) under clause 4 above;

(b) the monthly amount of Surviving Spouse Benefits which Mitchell's spouse receives under Article VI of the General Retirement Plan.

7. If pensions under the Company's General Retirement Plan should be increased for retired employees at any time or from time to time after Mitchell's termination of employment to take into account cost-of-living increases, the amount of the payments described in clauses 4 through 6 of this Agreement shall be increased at the same time or times according to the same formula

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that is applied to pension amounts under the General Retirement Plan.

It is agreed that all benefits payable to Mitchell or to his beneficiary under Clauses 4 through 6 of this Agreement will be treated as compensation income to Mitchell or as income in respect of a decedent to Mitchell's beneficiary and that Mitchell (or his beneficiary) shall be personally responsible for any Federal income tax liability attributable thereto. However, in the event any additional excise tax or other extraordinary tax liability arises from such benefits and results in a Federal tax liability in excess of that generally attributable to compensation income, the Company shall increase the amount of benefits payable under clauses 4 through 6 so as to provide Mitchell or his beneficiary with additional funds to pay the amount of such additional excise tax or other extraordinary tax liability, plus any additional tax liability arising from such additional benefit payments.

8. The Company agrees to continue after Mitchell's termination of employment, and for the remainder of his life, on a basis which produces no net additional income tax liability or other cost to Mitchell or his beneficiary, life insurance coverage or the equivalent on Mitchell's life through an

arrangement under which Mitchell shall have the power to name the beneficiary and to assign the incidents of ownership in the

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policy. The face amount of such coverage shall be an amount equal to the excess of (a) over (b) below:

(a) Three times Mitchell's final average salary determined in the manner described in provision (i) of the last paragraph of Clause 4 above.

(b) The amount otherwise provided under the Company's group life insurance program generally applicable to retired executives of Mitchell's age during each year including, without limitation, any death benefits attributable to the Company's split dollar insurance program.

9. The Company agrees that upon Mitchell's death, if Mitchell is survived by a spouse who is entitled to Automatic Joint and Surviving Spouse Annuity payments under the General Retirement Plan, the Company will continue for the remainder of said spouse's life to provide or cause to be provided to said spouse, on a basis which produces no net additional income tax or other cost to said spouse, medical coverage and benefits equivalent to those provided to the Company's active employees.

10. The Company will also continue to provide tax preparation and financial advisory services to Mitchell for years up to and including the year in which he attains age 72, or, if Mitchell dies before reaching age 72, to his surviving spouse up to and including the year in which he would have reached age 72.

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11. This Agreement shall inure to the benefit of and be binding upon the Company, its successors and assigns (including without limitation any corporation which might acquire all or substantially all of the Company's assets and business or with which the Company may be consolidated or merged).

12. This Agreement is effective on the date of execution hereof.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officers, under its corporate

seal, by the order of its Board of Directors, and Mitchell has hereunto set his hand and seal both as of the day and year first above written.

POTOMAC ELECTRIC POWER COMPANY

/s/ John M. Derrick
By _____
President

Attest:

/s/ William Torgerson

Secretary

/s/ Edward F. Mitchell

Edward F. Mitchell (Seal)

POTOMAC ELECTRIC POWER COMPANY

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

The Potomac Electric Power Company Supplemental Executive Retirement Plan was established, effective July 1, 1986, by the Board of Directors of Potomac Electric Power Company (the "Company") to provide supplemental retirement benefits to key executives of the Company. The Plan was amended by the Board of Directors on December 19, 1988, April 26, 1989, April 24, 1991, and January 27, 1994 and is restated herein.

I. Definitions

1.1 Applicable Form of Benefit - The type of life annuity which will be provided to a Participant receiving benefits under this Plan. The Plan benefit to be paid to a Participant under this Plan shall be paid in the annuity form elected by the Participant with respect to the Participant's benefits under the General Retirement Plan, except that the variable annuity option under the General Retirement Plan is not an annuity form available for payments of benefits under this Plan. If a Participant does elect the variable annuity option under the General Retirement Plan, benefits under this Plan will be paid in the form applicable to the component of the Participant's accrued benefit under the General Retirement Plan which is not payable in the variable annuity form.

1.2 Committee - The Human Resources Committee of the Board of Directors of the Company.

1.3 Eligible Member - A Member of the General Retirement Plan who is described in Section 2.1 of this Plan.

1.4 General Retirement Plan - The General Retirement Plan for Employees of Potomac Electric Power Company.

1.5 Surviving Spouse Welfare Plan - The Exempt Employees Surviving Spouse Welfare Plan of Potomac Electric Power Company.

1.6 Participant - An Eligible Member who has satisfied the conditions described in Section 2.1 and to whom the provisions of Section 2.2 are not applicable.

1.7 Participation Agreement - The separate agreement with a designated Participant which sets forth the constructive years of Benefit Service which will be credited to the Participant for purposes of determining benefits under the Plan.

1.8 Plan - The Supplemental Executive Retirement Plan of the Potomac Electric Power Company.

1.9 Supplemental Benefit Plan - Supplemental Benefit Plan of Potomac Electric Power Company.

Any term which is not defined in this section or any other section of the Plan will have the same meaning as that term has under the General Retirement Plan.

II. Eligibility and Participation

2.1 Any executive officer or key executive of the Company shall be eligible to participate in this Plan upon being designated by the Board of Directors of the Company as a Participant hereunder and upon providing to the Company satisfactory evidence concerning all other pension benefits, if any, which such individual has received or to which such individual may become entitled from plans or arrangements maintained by such individual's prior employers. The Board of Directors shall designate the amount of service to be credited to the Participant for purposes of determining benefits under the Plan.

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2.2 An employee shall cease to be a Participant in this Plan and shall not be entitled to any benefits hereunder if the employment of such employee is terminated for any reason, other than death, before the later of (i) the date the employee attains age 59, or (ii) the date the employee first attains either his Early Retirement Date or his Normal Retirement Date under the General Retirement Plan.

III. Retirement Benefits

3.1 This Section 3.1 defines the amount of retirement income which will be paid to a Participant (who terminated employment on or after attaining age 59 for any reason other than death) to supplement other pension benefits. The amount of retirement benefits payable from this Plan in the Applicable Form of Benefit shall be the difference, if any, between (i) the amount of the benefits to which such Participant would be entitled under the provisions of the General Retirement Plan and the Supplemental Benefit Plan (expressed in the Applicable Form of Benefit) (1) had the amount of the benefits under such plans not been otherwise reduced due to the limitations imposed by Section 415 of the Internal Revenue Code, (2) had any dollar limitation under the Internal Revenue Code on the amount of compensation that may be considered in determining benefits under such plans not been imposed, (3) had the deferred compensation earned by such Participant which was excluded from the Participant's compensation base used in determining retirement benefits under such plans been included in such compensation base, and (4) had the number of

such Participant's years of Benefit Service under such General Retirement Plan been increased by the additional years of service set forth in such Participant's Participation Agreement, and (ii) the amount of benefits, if any, to which such Participant is otherwise entitled under the General Retirement Plan and the Supplemental Benefit Plan. Notwithstanding the above, in no event will a Participant be granted constructive years of Benefit

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Service hereunder which would cause the combination of his actual years of Benefit Service (as earned under the General Retirement Plan) and his constructive years of Benefit Service granted hereunder to exceed the lesser of (i) forty (40), or (ii) the number by which the Participant's then current age exceeds twenty-five (25). To the extent that a cost of living adjustment is made to the benefits payable under the General Retirement Plan, a comparable and proportionate adjustment will be made to the benefits payable hereunder.

3.2 The monthly benefit provided to a Participant under Section 3.1 shall commence as of the first day of the month on which such Participant begins receipt of retirement benefits under the General Retirement Plan and shall continue for so long as benefits are payable to such Participant (or his surviving spouse) under such General Retirement Plan.

3.3 Death Benefits - This Section 3.3 defines the amount of death benefits, if any, which will be paid to the surviving spouse of a Participant who dies while employed by the Company. In order to receive death benefits hereunder, a surviving spouse must have been legally married to the Participant for at least one (1) year prior to the Participant's death and the sum of the Participant's actual years of Benefit Service and constructive years of Benefit Service granted herein must equal at least ten (10) years. The amount of death benefits payable from this Plan shall be the difference, if any, between (i) (a) the amount of the death benefits to which such surviving spouse would have been entitled under the provisions of the General Retirement Plan and/or Surviving Spouse Welfare Plan and the Supplemental Benefit Plan (expressed as a single life annuity) and (b) the amount of the benefits under such plans (1) had the amount not been otherwise reduced due to the limitations imposed by Section 415 of the Internal Revenue Code, (2) had any dollar limitation under the Internal Revenue Code on the amount of compensation that may be considered in determining benefits under such plans not been imposed, (3) had the deferred compensation earned by such Participant

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which was excluded from the Participant's compensation base used in determining retirement benefits under such plans been included in such compensation base, and (4) had the number of such Participant's years of

Benefit Service under such General Retirement Plan been increased by the additional constructive years of Benefit Service set forth in such Participant's Participation Agreement, and (ii) the amount of the benefits, if any, to which the surviving spouse would otherwise be entitled under those plans.

3.4 The monthly death benefit provided to a surviving spouse under Section 3.3 shall commence as of the first day of the month on which such surviving spouse begins receipt of death benefits under the General Retirement Plan or Surviving Spouse Welfare Plan and shall continue for so long as benefits are payable to such surviving spouse under either such plan.

3.5 Loss of Benefits

(a) Notwithstanding any other section of this Plan, if a Participant is discharged by the Company because of misfeasance, malfeasance, dishonesty, fraud, misappropriation of funds, or commission of a felony, or if the Committee determines that the Participant has made a material misrepresentation regarding the amount or nature of any pension, retirement or deferred compensation benefits resulting from Participant's prior employment, such Participant's rights to any benefit under this Plan shall be forfeited.

(b) If during his employment with the Company or after the Participant has ceased to be employed by the Company, and after providing him an opportunity to be heard, following 30 days written notice, sent by registered mail, return receipt requested, the Committee finds that such Participant has used or is using trade secrets or other confidential, secret or proprietary information gained while in the employ of the Company in a manner which is, or is likely to be detrimental to the best interests of the Company, the Committee shall notify such Participant of such findings and stop

all current and future distributions of his interest hereunder. If within one year of the date or such notice, it is determined by the Committee upon proof submitted by such Participant that he has ceased to so use such information and the Company's loss from such Participant's past and future improper use of such information is likely to be insubstantial in proportion to the future loss of his benefit hereunder, the Committee may reinstate him; and, if payment of his retirement income has stopped, it shall be resumed. If he is not reinstated within one year of such notice, the Committee shall cancel his interest hereunder.

3.6 Facility of Payment - If the Committee shall find that any person to whom a benefit is payable is unable to care for his affairs because of illness or accident, any payment due hereunder (unless a prior claim therefor shall have been made by a duly appointed guardian, committee, or other legal representative) may be paid to the spouse, a child, children, a parent, or a

brother or sister, or to any person deemed by the Company to have incurred expense for such person otherwise entitled to payment. Any such payment shall be a complete discharge of all liability under the Plan therefor.

3.7 Payment of Benefits Upon Change in Control

(a) Notwithstanding any other provisions of the Plan except Section 3.5, if a Participant terminates employment before the later of (i) the date the employee attains age 59, or (ii) the date the employee first attains either his Early Retirement Date or his Normal Retirement Date under the General Retirement Plan for any reason other than death following the occurrence of an event described in subsection (b) of this Section 3.7, the entitlements of such Participant under the Plan shall be paid to him in a lump sum within thirty (30) days of the date of his termination of employment. The amount of such lump sum payment shall be computed in two steps. Under the first step, a calculation will be made of the monthly annuity payments to which such Participant would otherwise have been entitled under the provisions

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of Sections 3.1 and 3.2 of the Plan based upon (a) the service performed by the Participant through the date of such termination of employment, plus (b) the additional years of service set forth in such Participant's Participation Agreement (hereinafter collectively referred to as "Aggregate Service") under the assumptions that (i) the Participant was scheduled to commence receipt of benefits under this Plan as of the earliest date on which the Participant could receive benefits under the General Retirement Plan that were not subject to the early retirement reduction factor described in Section 3.02(a) of the General Retirement Plan determined as if such Participant's years of Vesting Service under the General Retirement Plan equalled his Aggregate Service and (ii) this Plan did not contain any minimum age requirement as to eligibility for receipt of benefits. Under the second step, such monthly annuity payments will be discounted to their present value as of the date of the Participant's termination of employment using the Pension Benefit Guaranty Corporation's immediate payment interest rate in effect on the date of the Participant's termination of employment plus one-half of one percent (1/2%).

(b) The provisions of subsection (a) of this Section 3.7 shall apply in the event that (i) any "person" (as such term is used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 30% or more of the combined voting power of the Company's then outstanding securities; or (ii) during any period of twenty-four (24) consecutive months (not including any

period prior to the adoption of this Plan), individuals who at the beginning

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of such period constitute the Board of Directors of the Company and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in clause (i) or (iii) of this subsection (b)) whose election by the Board of Directors of the Company or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or (iii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 70% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, the stockholders of the Company approve a plan of complete liquidation of the Company, or the stockholders of the Company approve an agreement for the sale or disposition by the Company of all or substantially all the Company's assets.

IV. Administration of the Plan

4.1 Administration - The Human Resources Committee of the Board of Directors shall administer the Plan.

(a) The Committee shall have the sole, exclusive authority to interpret and construe the provisions of this Plan, to decide any disputes which may arise with regard to the rights of employees under the terms of this Plan, to give instructions and directions necessary hereunder and, in general, to direct the administration of the Plan. All fees, salaries, and other costs

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incurred in connection therewith shall be paid by the Company.

(b) The Committee shall keep or cause to be kept, records containing all relevant data pertaining to Participants and their rights under this Plan, and is charged with the primary duty of seeing that each Participant receives the benefits to which he may be entitled under this Plan.

4.2 Accounts and Reports - The Company and its officers, employees and directors or designees and the Committee shall be entitled to rely upon all tables, valuations, certificates, and reports furnished by any actuary selected by the Committee; upon all certificates and reports made by any accountant selected by the Committee; and upon all opinions given by any legal counsel selected by the Committee; and the Company and its officers and directors or designees and the Committee shall be fully protected in respect of any action taken or suffered by them in good faith in reliance upon any tables, valuations, certificates, reports, opinions, or other advice furnished by any such actuary, accountant, or counsel; and all action so taken or suffered shall be conclusive upon each of them and upon all Participants of the Plan.

4.3 Expenses of Administration - All expenses shall be paid by the Company.

4.4 Liability - The Company, the Board of Directors, the Committee, officers, and employees shall incur no liability for any action taken in good faith in connection with the administration of this Plan. The Company may provide all appropriate and necessary insurance to render the aforesaid harmless from any and all liability incurred in the discharge of their duties.

V. Funding

5.1 Company Contributions - No assets of the Company shall be set aside, earmarked or placed in trust or escrow for the benefit of any Participant to fund the Company's obligations which may exist under the Plan;

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provided, however, that the Company may establish a grantor trust to hold assets to secure the Company's obligations to the Participants under this Plan if the establishment of such a trust does not result in the Plan being 'funded' for purposes of the Internal Revenue Code of 1986, as amended. Except to the extent provided through a grantor trust established under the provisions of the preceding sentence, all payments under this Plan shall be made out of the Company's general revenue and a Participant's right to payments shall be solely that of an unsecured general creditor of the Company.

5.2 Employee Contributions - No Participant shall be required or permitted to make any contribution to the Plan.

VI. Miscellaneous

6.1 Limitation of Responsibility - Neither the establishment of the Plan, any modifications thereof, nor the payment of any benefits shall be construed as giving to any Participant or other person any legal or equitable

right against the Company (the Board of Directors, the Committee, or any officer or employee) except as herein provided; and in no event shall the other terms of employment of any employee be modified or in any way affected thereby.

6.2 Restrictions on Alienation and Assignment - Except as any of the following provisions may be contrary to the law of any state having jurisdiction in the premises, no Participant, or beneficiary shall have the right to assign transfer, hypothecate, encumber, commute or anticipate his interest in any payments under this Plan, and such payments shall not in any way be subject to any legal process to levy upon or attach the same for payment of any claim against any Participant, or beneficiary.

6.3 Failure to Claim Amounts Payable under the Plan - In the event that any amount shall become payable hereunder to any person or, upon his death, to his surviving spouse and if after written notice from the Committee

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mailed to such person's last known address as shown in the Company's records, such person or his personal representative shall not have presented himself to the Committee within six months after mailing of such notice, the Committee may, but it is not required to, determine that such person's interest in the Plan has terminated, which determination shall be conclusive upon all persons provided, however, in lieu of the foregoing, the Committee may in its sole discretion apply to a court of competent jurisdiction for direction as to the distribution of such amount.

6.4 Right of the Company to Dismiss or Demote Employees - Neither the action of the Company in establishing this Plan nor any action taken by it under any provisions of this Plan shall be construed as giving to any employee of the Company the right to be retained in any specific position or in its employ in general or any right to any retirement income or benefit or to any payment whatsoever, except to the extent of the benefits which may be provided for by the express provisions of this Plan. The Company expressly reserves the right at any time, to dismiss, demote or reduce the compensation of any employee without incurring any liability for any claim against itself for any payment whatsoever.

6.5 Amendment and Termination - Nothing in this Plan shall be deemed to limit the Company's right, by resolution of the Board of Directors of the Company, to amend, modify or terminate the Plan at any time and for any reason except that no such amendment, modification or termination shall serve to decrease the benefits set forth in a Participant's Participation Agreement, other than by operation of Section 3.5 or by operation of an involuntary termination of employment under the rights reserved to the Company in Section 6.4.

6.6 Laws to Govern - The provisions of this Plan shall be construed, administered, and enforced according to the laws of the District of Columbia.

IN WITNESS WHEREOF, the Company has caused this restated version of the Plan to be signed on this 2nd day of June, 1995, which restated version reflects all modifications made to the Plan through the date of execution, and supersedes the Plan document signed April 1, 1993.

ATTEST

POTOMAC ELECTRIC POWER COMPANY

/s/ Ellen Sheriff Rogers
By: _____
Asst. Secretary

/s/ E. F. Mitchell
By: _____
Chairman of the Board

POTOMAC ELECTRIC POWER COMPANY

EXECUTIVE SPLIT DOLLAR INSURANCE PLAN

Potomac Electric Power Company (the "Company"), pursuant to authority granted by its Board of Directors, established the Executive Split Dollar Insurance Plan (the "Plan") on July 28, 1988. The Plan was amended on April 26, 1989, October 22, 1992, December 21, 1992, and April 25, 1995 and is restated herein.

1. Purpose of the Plan. The purpose of the Potomac Electric Power Company Executive Split Dollar Insurance Plan is to provide those key employees who are mainly responsible for the continued growth and financial success of the Company and its Subsidiaries with life insurance protection in the event of their demise during active employment with the Company or subsequent to their retirement from active service with the Company.

2. Definitions. The following definitions are applicable herein:

(a) "Beneficiary -- the person or persons designated by the Eligible Employee as beneficiary or beneficiaries under the Policy owned by the Eligible Employee.

(b) "Board" -- the Board of Directors of the Company.

(c) "Company" -- Potomac Electric Power Company or its successors.

(d) "Compensation" -- the annual base salary rate established for an Eligible Employee as of the date he or she becomes eligible to participate in the Plan.

(e) "Eligible Employee" -- any person employed by the Company or a Subsidiary on a regularly scheduled basis who is selected by the Board to participate in the Plan.

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(f) "Insurer" -- the insurance company which has issued a particular Policy.

(g) "Policy" -- a life insurance policy on the life of an Eligible Employee which is owned by the Eligible Employee and is subject to the Company premium contribution feature and collateral assignment requirements of the Plan.

(h) "Rollout Policy" -- the new life insurance policy issued by the Insurer to the Company on the Rollout Qualification Date of a Policy or upon such earlier date as a rollout of a Policy may take place under the provisions of Sections 7, 8 or 9 of the Plan. The Rollout Policy will be initially funded with some or all of the cash surrender value attributable to the Policy from which it was originated.

(i) "Rollout Qualification Date" -- the later of the date of retirement (following attainment of age sixty-five (65)) or the fifth (5th) anniversary of an Eligible Employee's acquisition of a Policy.

(j) "Subsidiary" -- any corporation of which 50% or more of its outstanding voting stock or voting power is beneficially owned, directly or indirectly by the Company.

3. Eligibility. Key employees of the Company and its Subsidiaries who, in the opinion of the Board are mainly responsible for the continued growth and financial success of the business of the Company or one or more of its Subsidiaries shall be eligible to acquire life insurance protection under the terms and conditions of this Plan. Subject to the provisions of the Plan, the Board may from time to time select such Eligible Employees to participate hereunder. No employee of the Company or its Subsidiaries shall have any

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right to be selected under this Plan.

4. Administration. The Plan shall be administered in accordance with the terms of the Plan document by the Human Resources Committee of the Board which shall implement the decisions of the Board. All questions of interpretation and application of the Plan, or the terms and conditions of any documents effectuating the Plan shall be subject to the determination of the Board or the Human Resources Committee of the Board, to the extent delegated by the Board. Such determination shall be final and binding upon all parties affected thereby.

5. Acquisition of Policies. Each Eligible Employee shall be granted the opportunity to acquire a Policy in the face amount and with such other policy characteristics as may be approved by the Human Resources Committee of the Board. During the period of the Eligible Employee's employment with the Company, the Company will pay all premium amounts in respect of the Policy. The Employee will execute a collateral assignment on a form satisfactory to the Human Resources Committee assigning to the Company certain economic rights to the Policy as described in the Plan.

6. Death of Employee Prior to Rollout Qualification Date. In the event of the death of an Eligible Employee prior to termination of employment with the Company or any Subsidiary, death benefit proceeds under the Policy in an amount equal to three (3) times the Eligible Employee's Compensation,

increased by seven percent (7%) each January 1 through the date of death, or such other amount as the Human Resources Committee may designate at the time the Policy is established, will be paid to the Eligible Employee's Beneficiary. In the event an Eligible Employee terminates employment on or

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after attaining age sixty-five (65) and dies prior to his or her Rollout Qualification Date, death benefit proceeds under the Policy in an amount equal to three (3) times the Eligible Employee's Compensation, increased by seven percent (7%) each January 1 through the date of death, or such other amount as the Human Resources Committee may designate at the time the Policy is established, will be paid to the Eligible Employee's Beneficiary. All remaining death benefit proceeds under the Policy will be paid to the Company.

7. Termination of Employment Prior to Age 55. In the event an Eligible Employee terminates employment for any reason other than death prior to attainment of age fifty-five (55), the Insurer will issue a Rollout Policy to the Company having a cash surrender value equal to the total premiums paid to date by the Company on the Policy. The Eligible Employee will be entitled to retain the Policy with any remaining cash surrender value subject to the requirement to pay any premiums necessary to continue the Policy in effect.

8. Termination of Employee Between Age 55 and Age 65. In the event an Eligible Employee terminates employment for any reason other than death subsequent to attaining age fifty-five (55) but prior to attaining age sixty-five (65), the Insurer will issue a Rollout Policy to the Company having a cash surrender value equal to the total premiums paid to date by the Company on the Policy. The Eligible Employee will be entitled to retain the Policy with the remaining cash surrender value. A determination will be made by the Human Resources Committee of the amount of additional life insurance coverage which can be provided to the Eligible Employee by the cash surrender value

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retained within the Policy. To the extent that such additional life insurance coverage is projected to be less during any future year than the amount of life insurance coverage to which the Eligible Employee would have been entitled under the terms and provisions of the group term insurance program in effect on June 30, 1988, the Company will take appropriate steps to acquire and maintain a term life insurance policy to provide the Eligible Employee's designated Beneficiary with the projected differential in life insurance coverage.

9. Termination of Employment On or After Attainment of Age 65.

(a) In the event of the termination of employment of an Eligible Employee for any reason other than death on or after attainment of age sixty-five (65) but before the Rollout Qualification Date, the Company shall continue to pay the premium costs attributable to the Policy until the Rollout Qualification Date. Upon the Rollout Qualification Date, the Eligible Employee will be entitled to receive the treatment described in Section 9(b).

(b) In the event of the termination of employment of an Eligible Employee for any reason other than death on or after attainment of his or her Rollout Qualification Date, the Policy will be divided between the Policy retained by the Eligible Employee and the Rollout Policy to be issued to the Company. The Policy retained by the Eligible Employee will have a death benefit equal to that which would have been payable to the Eligible Employee's Beneficiary under Section 6 above if the Eligible Employee had died immediately prior to the Rollout Qualification Date. The amount of the cash surrender value which will be retained in the Eligible Employee's Policy will be determined by applying the ratio which (i) the death benefit which would be

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payable to the Eligible Employee's Beneficiary under Section 6, above, if the Eligible Employee had died immediately prior to the Rollout Qualification Date, bears to (ii) the total amount of death benefits provided under the Policy as of the Rollout Qualification Date to the total cash surrender value in the Policy as of the Rollout Qualification Date. The Company will receive a Rollout Policy reflecting the remaining amount of such cash surrender value.

10. Amendment of Plan. The Board may at any time and from time to time alter, amend, suspend or terminate the Plan in whole or in part provided, however, that such termination shall not adversely affect the rights thereunder of any Eligible Employee in connection with any outstanding Policy, unless deemed necessary by the Board due to a projected material net after-tax cost of the Plan resulting from modifications made to the Internal Revenue Code of 1986, as amended.

11. Miscellaneous Provisions.

(a) No Employment Right. Neither this Plan nor any action taken hereunder shall be construed as giving any right to be retained as an officer or employee of the Company or any of its Subsidiaries.

(b) Indemnification. Each member of the Board or Human Resources Committee (and any person to whom any of them has delegated any authority or power under this Plan) shall be indemnified and held harmless by the Company against and from (i) any loss, cost, liability or expense that may be imposed upon or incurred by such person in connection with or resulting from any claim, action, suit or proceeding to which such person may be a party

or in which such person may be involved by reason of any action or failure to act under the Plan; and (ii) any and all amounts paid by such person in satisfaction of judgment in such action, suit or proceeding relating to the Plan. Each person covered by this indemnification shall give the Company an opportunity, at its own expense, to handle and defend the same before such person undertakes to handle and defend it on such person's own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Charter or By-Laws of the Company or any of its Subsidiaries, as a matter of law, or otherwise, or of any other power that the Company may have to indemnify such person or hold such person harmless.

(c) Governing Law. All matters relating to the Plan shall be governed by the laws of the District of Columbia without regard to the principles of conflict of laws.

(d) Expenses. The expenses of administering the Plan shall be borne by the Company and its Subsidiaries.

(e) Titles and Headings. The titles and headings of the sections in the Plan are for convenience of reference only and in the event of any conflict, the text of the Plan, rather than such titles and headings, shall control.

(f) The right of any Eligible Employee, Beneficiary, or other person to receive payments under this Plan shall not be subject to attachment or other legal process of whatever nature.

12. (a) Notwithstanding any other provisions of the Plan, if

following the occurrence of an event described in Section 12(b), an Eligible Employee terminates employment before attaining his or her Rollout Qualification Date for any reason other than death, the Company shall continue to pay all premium amounts in respect of the Eligible Employee's Policy for the lesser of ten (10) years from the effective date of the event described in Section 12(b), or the time period remaining until the Eligible Employee's attainment of his Rollout Qualification Date, which ever first occurs.

(b) The provisions of Section 12(a) shall apply in the event that (i) any "person" (as such term is used in section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than

a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned, directly or indirectly by the stockholders of the Company in substantially the same proportion as their ownership of stock of the Company, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 30% or more of the combined voting power of the Company's then outstanding securities; or (ii) during any period of twenty-four (24) consecutive months (not including any period prior to the adoption of this Plan), individuals who at the beginning of such period constitute the Board of Directors of the Company and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in clause (i) or (iii) of this subsection (b)) whose election by the Board of Directors of the Company or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a

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majority thereof or (iii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 70% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, the stockholders of the Company approve a plan of complete liquidation of the Company, or the stockholders of the Company approve an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.

13. The Company shall establish a grantor trust to hold assets to secure the Company's obligations to pay Policy premiums hereunder in such a manner that the establishment of such a trust does not result in the Plan being "funded" for purposes of the Internal Revenue Code of 1986, as amended. Such trust shall initially receive a transfer of ten thousand dollars (\$10,000). However such trust shall provide that the full present value of the Policy premiums payable hereunder shall subsequently be contributed to the trust in the event the Company fails to pay any Policy premiums due hereunder in a timely manner. Except to the extent provided through a grantor trust established under the provisions of this Section, all payments of Policy premiums under this Plan shall be made out of the Company's general revenue, a Participant's right to payment of Policy premiums shall be solely that of an unsecured general creditor of the Company, and no assets of the Company shall

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be set aside, earmarked or placed in trust or escrow for the benefit of any Participant to fund the Company's obligations which may exist under the Plan.

IN WITNESS WHEREOF, the Company has caused this restated version of the Plan to be signed on this 2nd day of June, 1995, which restated version reflects all modifications made to the Plan through such date of execution, and supersedes the Plan document signed April 1, 1993.

ATTEST

POTOMAC ELECTRIC POWER COMPANY

/s/ Ellen Sheriff Rogers

/s/ E. F. Mitchell

By: _____
Asst. Secretary

By: _____
Chairman of the Board

POTOMAC ELECTRIC POWER COMPANY
REVISED AND RESTATED
EXECUTIVE AND DIRECTOR DEFERRED COMPENSATION PLAN

I. INTRODUCTION

Potomac Electric Power Company (the "Company") established the Potomac Electric Power Company Executive Deferred Compensation Plan, effective November 18, 1982, to enable certain executives to supplement their retirement income by deferring the receipt of compensation for services performed while this Plan is in effect. The Potomac Electric Power Company Executive Deferred Compensation Plan was amended by action of the Board of Directors on February 17, 1983, June 21, 1984, December 16, 1985, July 27, 1989, October 25, 1990, December 16, 1991, October 22, 1992, and January 27, 1994, and is restated herein and is now known as the Potomac Electric Power Company Revised and Restated Executive and Director Deferred Compensation Plan (the "Plan").

II. DEFINITIONS

2.01 "Account" means the bookkeeping account maintained by the Company (i) for each participating Executive and (ii) for each participating Director, which is credited with the Executive's or the Director's Deferred Compensation, as the case may be, and with additional amounts in the nature of interest and which is debited to reflect benefit distributions.

2.02 "Agreement" means the Participation Agreement executed by the Company and an Executive or a Director, as the case may be, which designates the amount of the Executive's or the Director's Deferred Compensation, the time and manner of benefit distributions, and the Executive's or the Director's Beneficiary.

2.03 "Beneficiary" means any person designated by a participating Executive or a participating Director to receive benefits under the Plan in the event of the Executive's or the Director's death prior to the completion of all benefit payments under the Plan. An Executive's or a Director's Agreement, as the case may be, may designate more than one Beneficiary or may designate primary and contingent Beneficiaries.

2.04 "Board of Directors" means the Board of Directors of Potomac Electric Power Company.

2.05 "Deferred Compensation" means any remuneration which would otherwise be currently payable to the Executive or the Director, but which the Executive or the Director irrevocably agrees to receive on a deferred basis in accordance with the terms of the Plan.

2.06 "Director" means a member of the Board of Directors.

2.07 "Executive" means any individual who, as of the first day of any Plan Year, holds the position with the Company of Chairman of the Board, President, Vice Chairman and Chief Financial Officer, Executive Vice President, Senior Vice President or Vice President, any employee whose Normal Compensation is fixed by the Board of Directors on an individual basis, or any other individual designated as such for purposes of this Plan by the Chairman of the Board of Directors of the Company.

2.08 "Human Resources Committee" shall mean that Committee, comprised of members of the Board of Directors, which governs the development of personnel policies for the Company.

2.09 "Normal Compensation" with respect to an Executive means the amount of salary that would be payable to an Executive for the twelve (12) month period commencing on the first day of

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any Plan Year if the Executive were not participating hereunder. "Normal Compensation" with respect to a Director means the amount of retainer/fees that would be payable to a Director for the twelve (12) month period commencing on the first day of any Plan Year if the Director were not participating hereunder.

2.10 "Plan Year" means the twelve-month period commencing on July 1 of each calendar year and ending on June 30 of the following calendar year.

2.11 "Retirement" with respect to an Executive means the date following an Executive's Separation from Service on which the payment of benefits to the Executive commences under the Company's General Retirement Plan by reason of the Executive having attained normal or early retirement age under that plan. In the event that an Executive is not entitled to receive benefits under the Company's General Retirement Plan following Separation from Service, "Retirement" means Separation from Service and attainment of age sixty-five (65). "Retirement" with respect to a Director means Separation from Service and

attainment of age sixty-five (65).

2.12 "Separation from Service" means an Executive's termination of employment with the Company or a Director's cessation of participation on the Board of Directors. An Executive who terminates regular employment with the Company or a Director who discontinues participation on the Board of Directors and who thereafter performs consulting services for the Company on a part-time basis will nonetheless be deemed to have had a Separation from Service at the date of termination of regular employment or the date of discontinuance of participation on the Board of Directors, as the case may be.

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III. PARTICIPATION

3.01 An Executive or a Director may execute an Agreement and become a participant in the Plan prior to the first day of any Plan Year. Except as set forth in Section 5.02, an Executive's or a Director's Agreement for a Plan Year may not be amended or revoked once that Plan Year has commenced, provided that a participating Executive or a participating Director may at any time change his Beneficiary designation by providing written notice of such change to the Company.

3.02 An Executive's or a Director's Agreement shall relate to (i) compensation for services performed during the Plan Year to which it relates, (ii) benefit entitlements otherwise payable in connection with prior deferrals pursuant to Section 5.01 of the Potomac Electric Power Company Director and Executive Deferred Compensation Plan, (iii) other remuneration approved by the Board of Directors as eligible to be deferred under the Plan, provided that such Agreement shall be entered into prior to payment of such compensation to the Executive or the Director, as the case may be, or (iv) other remuneration approved by the Board of Directors as eligible to be credited under the Plan by way of a transfer of a deferred compensation entitlement to this Plan from any other nonqualified deferred compensation program maintained by the Company.

IV. DEFERRAL OF COMPENSATION - EXECUTIVE AND DIRECTOR RULES

4.01 The deferral of compensation for an Executive shall be made in accordance with the following provisions.

A. Each Plan Year, the Executive may elect any or all of the following four options for deferring compensation:

Option 1 - the Executive may elect to defer an amount of Normal Compensation. The Agreement may specify that the Executive's salary will be reduced by the amount of the Deferred Compensation on a ratable basis throughout the Plan Year or that the Executive's salary will be reduced by a specified amount or amounts in a specified month or months of the Plan Year.

Option 2 - the Executive may elect to defer the difference between (i) six percent (6%) of his compensation, as defined in Article I of the Savings Plan for Exempt Employees of Potomac Electric Power Company, and (ii) the amount of pre-tax contributions he is permitted to make under the Savings Plan for Exempt Employees of Potomac Electric Power Company. Under this Option 2, the Executive's salary will be reduced by the amount of Deferred Compensation at the same time and in the same amounts as if such reduction was governed by the election then in effect for the Executive under the Savings Plan for Exempt Employees of Potomac Electric Power Company.

Option 3 - the Executive may elect to further defer benefits which would otherwise be paid to the Executive during the calendar year that begins during the Plan Year in accordance with Section 5.01 of the Potomac Electric Power Company Director and Executive Deferred Compensation Plan.

Option 4 - the Executive may elect to defer such other compensation which would otherwise be paid to the Executive during the Plan Year provided such compensation has been approved by the Board of Directors in its sole discretion as eligible to be deferred under the Plan.

Option 5 - subject to the prior approval of the Board of Directors, which approval may be granted or withheld in the sole discretion of the Board of the Directors, the Executive may elect to have the Executive's Account under this Plan credited with a deferred compensation entitlement attributable to any other nonqualified deferred compensation program maintained by the Company, provided that such transfer will be

accompanied by a corresponding elimination of the Company's obligation under such other deferred compensation arrangement and provided further that no such transfer will be permitted with respect to any deferred compensation entitlement which would otherwise become payable to the Executive under the terms of such other nonqualified deferred compensation program within the same calendar year as the year of the proposed transfer.

Each Executive who elects Deferred Compensation with respect to a Plan Year shall specify in his Agreement for such Plan Year the Option or Options which shall apply for such Plan Year.

B. The Company will credit the Deferred Compensation to the Account of each participating Executive as of the day such amount would have been paid to the Executive if the Executive's Agreement had not been in effect. Prior to July 1, 1994, the Company will credit the Executive's Account on a monthly basis with an amount in the nature of interest at a rate equal to the prime interest rate quoted by the Chase Manhattan Bank, N.A. (the "Prime Rate"), as of the last day of that month. Such interest shall be credited to the Executive's Account as of the last day of each calendar month based on the daily balances in the Account

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during such month, and the crediting of such interest on a monthly basis shall continue until the balance in the Executive's Account has been reduced to zero by reason of benefit payments under the Plan. Effective July 1, 1994, the Executive may elect to have the Company credit, on a monthly basis, all Deferred Compensation accrued on and after July 1, 1994 into the Executive's Account with an amount in the nature of interest at either (i) the Prime Rate, (ii) a rate equal to the rate of return with respect to any one or a combination of the investment funds selected by the Human Resources Committee (an "Investment Fund Rate"), or (iii) a combination of the Prime Rate and an Investment Fund Rate. In addition, Executives who previously accrued pre-July 1, 1994 amounts of Deferred Compensation ("Pre-July 1, 1994 Accruals") may elect to have the Company credit the portion of their Account consisting of the Pre-July 1, 1994 Accruals with an amount in the nature of interest at either (i) the Prime Rate, (ii) an Investment Fund Rate, or (iii) a combination of the two rates. The portion of the Account consisting of Pre-July 1, 1994 Accruals may also be designated to

be credited with interest computed by reference to one or more Investment Fund Rates. However, such process of designation must be effectuated by a written election filed by the Executive with the Human Resources Committee prior to July 1, 1994. The appropriate rate or rates of interest shall be credited to the Executive's Account as of the last day of each calendar month based on the daily balances in the Account attributable to each designated investment fund and, if applicable, the daily balance in the Account to be credited with the Prime Rate. The crediting of such interest on a monthly basis shall continue until such balance in the Executive's Account has been reduced to zero by reason of benefit payments under the Plan.

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C. If the Executive elects Option 2, the Company shall credit the Executive's Account with a Matching Company Credit equal in value to the percentage of Deferred Compensation elected by the Executive under Option 2 which would have been matched by the Company if the Executive had contributed such Deferred Compensation to the Savings Plan for Exempt Employees of Potomac Electric Power Company. The Matching Company Credit shall be made to the Executive's Account at the same time as the corresponding Deferred Compensation is credited to the Executive's Account pursuant to Option 2.

D. The Company shall furnish each participating Executive with an annual report showing the balance in the Executive's Account as of June 30 of each year.

4.02 The deferral of Normal Compensation for a Director shall be made in accordance with the following provisions.

A. Each Plan Year or until the Director provides written notification of cancellation of a previous election, each Director may elect to defer an amount of retainer/fees constituting such Director's Normal Compensation. The Agreement may specify that the Director's retainer/fees will be reduced by the elected amount of the Deferred Compensation on a ratable basis throughout the Plan Year or that the Director's retainer/fees will be reduced by a specified amount or amounts in a specified month or months of the Plan Year. In addition, subject to the prior approval of the Board of Directors, which approval may be granted or withheld in the sole discretion of the Board of Directors, a Director may elect to have the Director's Account under this Plan credited with a deferred compensation entitlement attributable to any other nonqualified deferred compensation program maintained by the Company, provided that

such transfer will be accompanied by a corresponding elimination

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of the Company's obligation under such other deferred compensation arrangement and provided further that no such transfer will be permitted with respect to any deferred compensation entitlement which would otherwise become payable to the Director under the terms of such other nonqualified deferred compensation program within the same calendar year as the year of the proposed transfer.

B. The Company will credit the Deferred Compensation to the Account of each participating Director as of the day such amount would have been paid to the Director if the Director's Agreement had not been in effect. The Company will, in addition, credit the Director's Account on a monthly basis with an amount in the nature of interest at a rate equal to the rate of return with respect to any one or a combination of the investment funds (including the Prime Rate option) selected by the Human Resources Committee (an "Investment Fund Rate"). The appropriate rate or rates of interest shall be credited to the Director's Account as of the last day of each calendar month based on the daily balances in the Account attributable to each designated investment fund, and the crediting of such interest on a monthly basis shall continue until such balance in the Director's Account has been reduced to zero by reason of benefit payments under the Plan.

C. The Company shall furnish each participating Director with an annual report showing the balance in the Director's Account as of June 30 of each year.

V. PAYMENT OF BENEFITS

5.01 Except as otherwise provided in this Article V, the payment of benefits to a participating Executive shall commence as of the date specified by the Executive in the Executive's Agreement under one of the following options: (i) on the date of commencement of benefits under the Company's General Retirement

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Plan; (ii) on January 31 of the calendar year following the year of the Executive's Retirement; (iii) on the first day of the month following the Executive's Separation from Service; (iv) on

January 31 of the calendar year following the later of the year of the Executive's Separation from Service or attainment of an age specified in the Agreement; or (vi) on January 31 of the calendar year specified in the Agreement, which may not be earlier than the second calendar year following the calendar year which includes the first day of the Plan Year for which the Agreement is made. Except as otherwise provided in this Article V, the payment of benefits to a participating Director shall commence as of the date specified by the Director in the Director's Agreement under one of the following options: (i) on the first day of the month following the Director's Separation from Service; (ii) on January 31 of the calendar year following the year of the Director's Separation from Service; (iii) on January 31 of the calendar year following the latter of the year of the Director's Separation from Service or attainment of an age specified in the Agreement; or (iv) on January 31 of the calendar year specified in the Agreement, which may not be earlier than the second calendar year following the calendar year which includes the first day of the Plan Year for which the Agreement is made.

5.02 As specified in the Executive's or the Director's Agreement, as the case may be, benefits shall be paid (i) in a lump sum amount equal to the Executive's or the Director's Account balance as of the benefit commencement date, or (ii) in a series of approximately equal monthly or annual installments, as computed by the Company, over a period of between two (2) and fifteen (15) years with the final payment equalling the then remaining balance in the Executive's or the Director's Account. If annual installments are elected by the Executive or the

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Director, such annual installments shall be payable on the benefit commencement date and each succeeding January 31 during the payment period. Notwithstanding a specification of installment payments in an Executive's or Director's Agreement, as the case may be, if the balance in the Executive's or the Director's Account as of the benefit commencement date is less than one thousand dollars (\$1,000.00), the Company shall instead make a lump sum payment of that amount on that date. The time for payment of benefits to an Executive or a Director may be modified by the Executive or Director by the filing of a written election prior to the beginning of the calendar year in which benefits would otherwise become payable under the existing Agreement. Any election to accelerate benefits may not provide for a commencement date earlier than the calendar year following

the date of such election.

5.03 In the event that a participating Executive or a participating Director dies before the benefit commencement date, the Company shall make benefit payments to the Executive's or the Director's Beneficiary or Beneficiaries in an aggregate amount equal to twice the balance credited to the Account of the participating Executive or participating Director, as the case may be, immediately prior to such individual's death. An amount equal to Account balance will be paid on the first of the month following the Executive's or the Director's death and the remaining amount of the death benefit will commence as of January 31 of the calendar year following the Executive's or the Director's death in accordance with the method of payment under Section 5.02 specified in the Executive's or the Director's Agreement. In the event that a participating Executive or a participating Director dies after the benefit commencement date, any remaining benefit payments shall be paid to the Executive's or the Director's Beneficiary or Beneficiaries. In the event that no Beneficiary survives the Executive or the Director, an

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amount equal to the remaining balance in the Executive's or Director's Account (or two times the Account balance if death occurs prior to the benefit commencement date) shall be paid to the estate of the Executive or the Director, as the case may be, in a lump sum within thirty (30) days following the date on which the Company is notified of the Beneficiary's death.

5.04 Notwithstanding the foregoing, the Company may at any time make a lump sum payment to an Executive or Director (or surviving Beneficiary) equal to part or all of the balance in the Executive's or Director's Account, as the case may be, upon a showing of a financial emergency caused by circumstances beyond the control of the Executive or Director (or surviving Beneficiary) which would result in serious financial hardship if such payment were not made. The determination whether such emergency exists shall be made in the sole discretion of the Board of Directors of the Company, the amount of the payment shall be limited to the amount necessary to meet the financial emergency, and any remaining balance in the Executive's or Director's Account shall be paid at the time and in the manner otherwise set forth in the Executive's or Director's Agreement, as the case may be.

5.05 In the event that a participating Executive or

Director ceases to be an employee or Director of the Company and becomes a proprietor, officer, partner, employee, or otherwise becomes affiliated with any business or entity that is in competition with the Company, or becomes employed by any governmental agency having jurisdiction over the affairs of the Company, the Company reserves the right in the sole discretion of its Board of Directors to make an immediate lump sum payment to the Executive or the Director in an amount equal to the balance in the Executive's or the Director's Account at that time.

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5.06 If an Executive or a Director has entered into two (2) or more Agreements with respect to different Plan Years which specify different benefit commencement dates under Section 5.01 or different methods of payment under Section 5.02, the Company will separately account for the Deferred Compensation attributable to each such Agreement and distribute the amounts covered by each Agreement in accordance with the terms thereof.

VI. RIGHTS OF PARTICIPATING OFFICERS AND BENEFICIARIES

6.01 Nothing contained in this Plan or any Agreement and no action taken hereunder shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company and any Executive, any Director, any Beneficiary or any other person. Any compensation deferred under the Plan shall continue for all purposes to be a part of the general funds of the Company. To the extent that any person acquires a right to receive payments from the Company under this Plan, such right shall be no greater than the right of any unsecured general creditor of the Company.

6.02 The right of any Executive, Director, Beneficiary, or other person to receive benefits under the Plan may not be assigned, transferred, pledged or encumbered except by will or the laws of descent and distribution, nor shall it be subject to attachment or other legal process of whatever nature.

6.03 If the Company finds that any person to whom any payment is payable under the Plan is unable to care for his or her affairs because of illness or accident, or is a minor, any payment due (unless a prior claim therefor shall have been made by a duly appointed guardian, committee or other legal representative) may be paid to the spouse, a parent, or a brother

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or sister, or to any person deemed by the Company to have incurred expense for the person who is otherwise entitled to payment.

VII. MISCELLANEOUS

7.01 This Plan may be amended, suspended or terminated at any time by the Company provided, however, that no amendment, suspension or termination shall have the effect of impairing the rights of (i) participating Executives or their Beneficiaries or (ii) participating Directors or their Beneficiaries with respect to amounts credited to their Accounts before the date of the amendments, suspension or termination.

7.02 To the extent required by law, the Company shall withhold federal or state income or payroll taxes from benefit payments hereunder and shall furnish the recipient and the applicable governmental agency or agencies with such reports, statements, or information as may be legally required in connection with such benefit payments.

7.03 This Plan and all Agreements hereunder shall be construed in accordance with and governed by the laws of the District of Columbia.

IN WITNESS WHEREOF, the Company has caused this restated version of the Plan to be signed on this 2nd day of June, 1995, which restated version reflects all modifications made to the Plan through such date of execution, and supersedes the Plan document signed April 1, 1993.

ATTEST

POTOMAC ELECTRIC POWER COMPANY

/s/ Ellen Sheriff Rogers
By: _____
Asst. Secretary

/s/ E. F. Mitchell
By: _____
Chairman of the Board

POTOMAC ELECTRIC POWER COMPANY

EXECUTIVE PERFORMANCE SUPPLEMENTAL RETIREMENT PLAN

The Potomac Electric Power Company Executive Performance Supplemental Retirement Plan (the "Plan") was established, effective January 27, 1994, by the Board of Directors of Potomac Electric Power Company (the "Company") to provide supplemental retirement benefits to key executives of the Company, based on awards received by such executives under the Executive Incentive Compensation Plan. The Plan was amended on April 25, 1995 and is as set forth herein.

I. Definitions

1.1 Applicable Form of Benefit - The type of life annuity which will be provided to a Participant receiving benefits under this Plan. The Plan benefit to be paid to a participant under this Plan shall be in the annuity form elected by the Participant under the General Retirement Plan. No other benefit options are provided under this Plan. If a Participant does elect the variable annuity plan option under the General Retirement Plan, benefits under this Plan will be paid in the form applicable to the component of the Participant's accrued benefit under the General Retirement Plan which is not payable in the variable annuity form.

1.2 Committee - The Human Resources Committee of the Board of Directors of the Company.

1.3 Eligible Member - A Member of the General Retirement Plan who is described in Section 2.1 of this Plan.

1.4 Executive Incentive Compensation Plan - The Executive Incentive Compensation Plan of the Potomac Electric Power Company established by the Board of Directors on February 17, 1983, as amended from time to time.

1.5 General Retirement Plan - The General Retirement Plan for Employees of Potomac Electric Power Company.

1.6 Participant - An Eligible Member who has satisfied the conditions described in Section 2.1 and to whom the provisions of Section 2.2 are not applicable.

1.7 Plan - The Executive Performance Supplemental Retirement Plan of the Potomac Electric Power Company.

1.8 SERP - The Supplemental Executive Retirement Plan of the Potomac

Electric Power Company established by the Board of Directors, effective July 1, 1986, as amended from time to time.

1.9 Surviving Spouse Welfare Plan - The Exempt Employees Surviving Spouse Welfare Plan of Potomac Electric Power Company.

1.10 Supplemental Benefit Plan - The Supplemental Benefit Plan of Potomac Electric Power Company.

Any term which is not defined in this Section or any other section of the Plan will have the same meaning as that term has under the General Retirement Plan or the Executive Incentive Compensation Plan, if applicable.

II. Eligibility and Participation

2.1 Any individual who holds the position of Chairman of the Board, President, Vice Chairman and Chief Financial Officer, Executive Vice President, Senior Vice President or Vice President and any other individual designated by the Board of Directors shall be eligible to participate in the Plan.

2.2 An employee shall cease to be a Participant in this Plan and shall

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not be entitled to any benefits hereunder if the employment of such employee is terminated for any reason, other than death, before the later of (i) the date the employee attains age 59, or (ii) the date the employee first attains either his Early Retirement Date or his Normal Retirement Date under the General Retirement Plan.

2.3 In order to receive benefits under the Plan, a Participant (i) must not have incurred a forfeiture of benefits under Section 2.2 and (ii) must have held one or more of the offices designated in Section 2.1 within the twelve (12) months immediately preceding his actual retirement under the General Retirement Plan, and either (a) have held such position for at least a five year period, or (b) have attained age 65.

III. Retirement Benefits

3.1 This Section 3.1 defines the amount of retirement income which will be paid to a Participant under this Plan to supplement other pension benefits. The amount of retirement benefits payable from this Plan in the Applicable Form of Benefit shall be the difference, if any, between (i) the aggregate amount of the benefits to which such Participant would be entitled under the provisions of the General Retirement Plan, the provisions of the SERP and the provisions of the Supplemental Benefit Plan (expressed in the Applicable Form of Benefit) (a) had the amount of the Participant's Final Average Earnings under such plans (expressed on an annual basis) been

increased by the average of the three highest Awards made to such Participant (or such number of Awards actually made to such Participant if less than three) under the Executive Incentive Compensation Plan (without regard to any deferral of receipt of an Award elected by such Participant) within the five consecutive years immediately preceding the Participant's retirement under the General Retirement Plan and (b) (1) had the amount of the benefits under such plans not been otherwise reduced due to the limitations imposed by Section 415

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of the Internal Revenue Code, (2) had any dollar limitation under the Internal Revenue Code on the amount of compensation that may be considered in determining benefits under such plans not been imposed, and (3) had the deferred compensation earned by such Participant which was excluded from the Participant's compensation base used in determining retirement benefits under such plans been included in such compensation base, and (ii) the amount of benefits, if any, to which such Participant is otherwise entitled under the General Retirement Plan, the SERP and the Supplemental Benefit Plan. To the extent that a cost of living adjustment is made to benefits payable under the General Retirement Plan, a comparable and proportional adjustment will be made to the benefits payable herein.

3.2 The monthly benefit provided to a Participant under Section 3.1 shall commence as of the first day of the month on which such Participant begins receipt of retirement benefits under the General Retirement Plan and shall continue for so long as benefits are payable to such Participant (or his surviving spouse) under such General Retirement Plan.

3.3 Death Benefits - This Section 3.3 defines the amount of death benefits, if any, which will be paid to the surviving spouse of a Participant who dies while employed by the Company. In order to receive death benefits hereunder, a surviving spouse must have been legally married to the Participant for at least one (1) year prior to the Participant's death and the sum of the Participant's actual years of Benefit Service and constructive years of Benefit Service granted under the Supplemental Executive Retirement Plan must equal at least ten (10) years. The amount of death benefits payable from this Plan shall be the difference, if any, between (i) the amount of the death benefits to which such surviving spouse would have been entitled under the provisions of the General Retirement Plan, the SERP, the Supplemental Benefit Plan and/or Surviving Spouse Welfare Plan (expressed as a single life annuity) (a) had the amount of the Participant's Final Average Earnings under

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such plans been increased by the average of the three highest Awards made to such Participant (or such number of Awards actually made to such Participant if less than three) under the Executive Incentive Compensation Plan (without regard to any deferral of receipt of an Award elected by such Participant) within the five consecutive years immediately preceding the Participant's retirement under the General Retirement Plan or death, as the case may be, and (b) (1) had the amount of the benefits under such plans not been otherwise reduced due to the limitations imposed by Section 415 of the Internal Revenue Code, (2) had any dollar limitation under the Internal Revenue Code on the amount of compensation that may be considered in determining benefits under such plans not been imposed, and (3) had the deferred compensation earned by the Participant which was excluded from the Participant's compensation base used in determining retirement benefits under such plans been included in such compensation base, and (ii) the amount of the benefits, if any, to which the surviving spouse would otherwise be entitled under the General Retirement Plan, the SERP, the Supplemental Benefit Plan and/or the Surviving Spouse Welfare Plan.

3.4 The monthly death benefit provided to a surviving spouse under Section 3.3 shall commence as of the first day of the month on which such surviving spouse begins receipt of death benefits under the General Retirement Plan or Surviving Spouse Welfare Plan and shall continue for so long as benefits are payable to such surviving spouse under either such Plan.

3.5 Loss of Benefits

(a) Notwithstanding any other section of this Plan, if a Participant is discharged by the Company because of misfeasance, malfeasance, dishonesty, fraud, misappropriation of funds, or commission of a felony, such Participant's rights to any benefit under this Plan shall be forfeited.

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(b) If during his employment with the Company or after the Participant has ceased to be employed by the Company, and after providing him an opportunity to be heard, following 30 days written notice, sent by registered mail, return receipt requested, the Committee finds that such Participant has used or is using trade secrets or other confidential, secret or proprietary information gained while in the employ of the Company in a manner which is, or is likely to be detrimental to the best interests of the Company, the Committee shall notify such Participant of such findings and stop all current and future distributions of his interest hereunder. If, within one year of the date or such notice, it is determined by the Committee upon proof submitted by such Participant that he has ceased to so use such information and the Company's loss from such Participant's past and future improper use of such information is likely to be insubstantial in proportion to the future loss of his benefit hereunder, the Committee may reinstate him; and, if payment of his retirement income has stopped, it shall be resumed. If

he is not reinstated within one year of such notice, the Committee shall cancel his interest hereunder.

3.6 Facility of Payment - If the Committee shall find that any person to whom a benefit is payable is unable to care for his affairs because of illness or accident, any payment due hereunder (unless a prior claim therefor shall have been made by a duly appointed guardian, committee, or other legal representative) may be paid to the spouse, a child, children, a parent, or a brother or sister, or to any person deemed by the Company to have incurred expense for such person otherwise entitled to payment. Any such payment shall be a complete discharge of all liability under the Plan therefor.

3.7 Payment of Benefits Upon Change in Control

(a) Notwithstanding any other provisions of the Plan except Section 3.5, if a Participant terminates employment before the later of (i) the date the employee attains age 59, or (ii) the date the employee first

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attains either his Early Retirement Date or his Normal Retirement Date under the General Retirement Plan for any reason other than death following the occurrence of an event described in subsection (b) of this Section 3.7, the entitlements of such Participant under the Plan shall be paid to him in a lump sum within thirty (30) days of the date of his termination of employment. The amount of such lump sum payment shall be computed in two steps. Under the first step, a calculation will be made of the monthly annuity payments to which such Participant would otherwise have been entitled under the provisions of Sections 3.1 and 3.2 of the Plan based upon the service performed by the Participant through the date of such termination of employment, plus any constructive years of Benefit Service granted under the Supplemental Executive Retirement Plan (hereinafter collectively referred to as "Aggregate Service") under the assumptions that (i) the Participant was scheduled to commence receipt of benefits under this Plan as of the earliest date on which the Participant could receive benefits under the General Retirement Plan that were not subject to the early retirement reduction factor described in Section 3.02(a) of the General Retirement Plan determined as if such Participant's years of Vesting Service under the General Retirement Plan equalled his Aggregate Service and (ii) this Plan did not contain any minimum age requirement as to eligibility for receipt of benefits. Under the second step, such monthly annuity payments will be discounted to their present value as of the date of the Participant's termination of employment using the Pension Benefit Guaranty Corporation's immediate payment interest rate in effect on the date of the Participant's termination of employment plus one-half of one percent (1/2%).

(b) The provisions of subsection (a) of this Section 3.7 shall apply in the event that (i) any "person" (as such term is used in Section

13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than a trustee or other fiduciary holding securities

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under an employee benefit plan of the Company or a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 30% or more of the combined voting power of the Company's then outstanding securities; or (ii) during any period of twenty-four (24) consecutive months (not including any period prior to the adoption of this Plan), individuals who at the beginning of such period constitute the Board of Directors of the Company and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in clause (i) or (iii) of this subsection (b)) whose election by the Board of Directors of the Company or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or (iii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 70% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, the stockholders of the Company approve a plan of complete liquidation of the Company, or the stockholders of the Company approve an agreement for the sale or disposition by the Company of all or substantially all the Company's assets.

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IV. Administration of the Plan

4.1 Administration - The Human Resources Committee of the Board of Directors shall administer the Plan.

(a) The Committee shall have the sole, exclusive authority to interpret and construe the provisions of this Plan, to decide any disputes which may arise with regard to the rights of employees under the terms of this

Plan, to give instructions and directions necessary hereunder and, in general, to direct the administration of the Plan. All fees, salaries, and other costs incurred in connection therewith shall be paid by the Company.

(b) The Committee shall keep or cause to be kept, records containing all relevant data pertaining to Participants and their rights under this Plan, and is charged with the primary duty of seeing that each Participant receives the benefits to which he may be entitled under this Plan.

4.2 Accounts and Reports - The Company and its officers, employees and directors or designees and the Committee shall be entitled to rely upon all tables, valuations, certificates, and reports furnished by any actuary selected by the Committee; upon all certificates and reports made by any accountant selected by the Committee; and upon all opinions given by any legal counsel selected by the Committee; and the Company and its officers and directors or designees and the Committee shall be fully protected in respect of any action taken or suffered by them in good faith in reliance upon any tables, valuations, certificates, reports, opinions, or other advice furnished by any such actuary, accountant, or counsel; and all action so taken or suffered shall be conclusive upon each of them and upon all Participants of the Plan.

4.3 Expenses of Administration - All expenses shall be paid by the Company.

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4.4 Liability - The Company, the Board of Directors, the Committee, officers, and employees shall incur no liability for any action taken in good faith in connection with the administration of this Plan. The Company may provide all appropriate and necessary insurance to render the aforesaid harmless from any and all liability incurred in the discharge of their duties.

V. Funding

5.1 Company Contributions - The Company shall establish a grantor trust to hold assets to secure the Company's obligations to the Participant under this Plan in such a manner that the establishment of such a trust does not result in the Plan being "funded" for purposes of the Internal Revenue Code of 1986, as amended. Such trust shall initially receive a transfer of ten thousand dollars (\$10,000). However such trust shall provide that the full present value of the benefits of the benefits payable hereunder shall subsequently be contributed to the trust in the event the Company fails to pay such benefits due hereunder in a timely manner. Except to the extent provided through a grantor trust established under the provisions of this Section, all payments under this Plan shall be made out of the Company's general revenue, a Participant's right to payment shall be solely that of an unsecured general

creditor of the Company, and no assets of the Company shall be set aside, earmarked or placed in trust or escrow for the benefit of any Participant to fund the Company's obligations which may exist under the Plan.

5.2 Employee Contributions - No Participant shall be required or permitted to make any contribution to the Plan.

VI. Miscellaneous

6.1 Limitation of Responsibility - Neither the establishment of the Plan, any modifications thereof, nor the payment of any benefits shall be construed as giving to any Participant or other person any legal or equitable

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right against the Company (the Board of Directors, the Committee, or any officer or employee) except as herein provided; and in no event shall the other terms of employment of any employee be modified or in any way affected thereby.

6.2 Restrictions on Alienation and Assignment - Except as any of the following provisions may be contrary to the law of any state having jurisdiction in the premises, no Participant, or beneficiary shall have the right to assign transfer, hypothecate, encumber, commute or anticipate his interest in any payments under this Plan, and such payments shall not in any way be subject to any legal process to levy upon or attach the same for payment of any claim against any Participant, or beneficiary.

6.3 Failure to Claim Amounts Payable under the Plan - In the event that any amount shall become payable hereunder to any person or, upon his death, to his surviving spouse and if after written notice from the Committee mailed to such person's last known address as shown in the Company's records, such person or his personal representative shall not have presented himself to the Committee within six months after mailing of such notice, the Committee may, but it is not required to, determine that such person's interest in the Plan has terminated, which determination shall be conclusive upon all persons provided, however, in lieu of the foregoing, the Committee may in its sole discretion apply to a court of competent jurisdiction for direction as to the distribution of such amount.

6.4 Right of the Company to Dismiss or Demote Employees - Neither the action of the Company in establishing this Plan nor any action taken by it under any provisions of this Plan shall be construed as giving to any employee of the Company the right to be retained in any specific position or in its employ in general or any right to any retirement income or benefit or to any payment whatsoever, except to the extent of the benefits which may be provided

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for by the express provisions of this Plan. The Company expressly reserves the right at any time, to dismiss, demote or reduce the compensation of any employee without incurring any liability for any claim against itself for any payment whatsoever.

6.5 Amendment and Termination - Nothing in this Plan shall be deemed to limit the Company's right, by resolution of the Board of Directors of the Company, to amend, modify or terminate the Plan at any time and for any reason except that no such amendment, modification or termination shall serve to decrease the Participants' benefits accrued under this Plan, other than by operation of Section 3.5 or by operation of an involuntary termination of employment under the rights reserved to the Company in Section 6.4.

6.6 Laws to Govern - The provisions of this Plan shall be construed, administered, and enforced according to the laws of the District of Columbia.

IN WITNESS WHEREOF, the Company has caused this Plan to be signed and to become effective on this 2nd day of June, 1995.

ATTEST

POTOMAC ELECTRIC POWER COMPANY

/s/ Ellen Sheriff Rogers
By: _____
Asst. Secretary

/s/ E. F. Mitchell
By: _____
Chairman of the Board

POTOMAC ELECTRIC POWER COMPANY
SUPPLEMENTAL BENEFIT PLAN

Introduction

On February 17, 1983, the Potomac Electric Power Company (the "Company") established the Supplemental Benefit Plan (the "Plan") to provide for the payment of a retirement supplement to executives eligible to participate in the Company's Executive Deferred Compensation Plan or their beneficiaries in amounts equal to any reduction of total retirement benefits that otherwise would be payable under the General Retirement Plan to the extent such reduction is attributable to A) the benefit limitation provisions of the Internal Revenue Code of 1954, as amended (the "Code"); or B) the exclusion of deferred compensation from the compensation base used in determining retirement benefits under the General Retirement Plan, as required under the Code. The Plan was amended on December 19, 1988, April 26, 1989 and January 27, 1994 and April 25, 1995 and is as set forth herein.

I. Definitions:

1.1 Applicable Form of Benefit - The type of life annuity which will be provided to a Participant receiving benefits under this Plan. The Plan benefit to be paid to a Participant under this Plan shall be paid in the annuity form elected by the Participant with respect to the Participant's benefits under the General Retirement Plan, except that the variable annuity option under the General Retirement Plan is not an annuity form available for payment of benefits under this Plan. If a Participant does elect the variable annuity option under the General Retirement Plan, benefits under this Plan will be paid in the form applicable to the component of the Participant's

accrued benefit under the General Retirement Plan which is not payable in the variable annuity form.

1.2 Committee - The Human Resources Committee of the Board of Directors of the Company.

1.3 General Retirement Plan - The General Retirement Plan for Employees of Potomac Electric Power Company.

1.4 Surviving Spouse Welfare Plan - The Exempt Employees Surviving Spouse Welfare Plan of Potomac Electric Power Company.

1.5 Participant - An employee who has been so designated as described in Section II.

1.6 Plan - The Supplemental Benefit Plan of the Potomac Electric Power Company.

Any term which is not defined in this section or any other section of the Plan shall have the same meaning as that term has under the General Retirement Plan.

II. Eligibility and Participation

Any officer of the Company and any other employee of the Company designated by the President of the Company as a Participant hereunder shall be eligible to participate in this Plan.

III. Supplemental Benefit

3.1 This Section defines the amount of retirement income (the "Supplemental Benefit") which will be paid to a Participant under this Plan. The amount of retirement benefits payable from this Plan in the Applicable Form of Benefit shall be the difference, if any, between (i) the amount of the

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benefits to which such Participant would be entitled under the provisions of the General Retirement Plan (expressed in the Applicable Form of Benefit) (1) had the amount of the benefits under such plan not been otherwise reduced due to the limitations imposed by Section 415 of the Internal Revenue Code, (2) had any dollar limitation under the Internal Revenue Code on the amount of compensation that may be considered in determining benefits under such plan not been imposed, and (3) had the deferred compensation earned by such Participant which was excluded from the Participant's compensation base used in determining retirement benefits under such plan been included in such compensation base, and (ii) the amount of benefits, if any, to which such Participant is otherwise entitled under the General Retirement Plan. To the extent that a cost of living adjustment is made to the benefits payable under the General Retirement Plan, a comparable and proportionate adjustment will be made to the benefits payable hereunder.

3.2 Vesting

- a) The Supplemental Benefit shall vest when the Participant otherwise would be vested under the terms and conditions of the Company's General Retirement Plan.
- b) A Participant whose employment with the Company is terminated prior to the attainment of a vested retirement benefit under the General Retirement Plan shall not be entitled to receive a benefit from the Supplemental Benefit Plan.

3.3 Supplemental Benefit Account

- a) For bookkeeping purposes only, the Company will establish and maintain a Supplemental Benefit Account for each Participant which reflects the Participant's currently accrued Supplemental Benefit, expressed in the form of straight life annuity.
- b) The Company shall furnish each Participant with an annual statement, as of December 31 of each year, showing the Supplemental Benefit which the Executive is eligible to receive.

3.4 Time and Form of Payment of Supplemental Retirement Benefit

- a) The Supplemental Benefit shall be payable to the Participant in the Applicable Form of Benefit elected by the Participant under the terms and conditions of the General Retirement Plan.
- b) The Supplemental Benefit shall be payable to the Participant beginning on the first of the month in which such Participant begins receipt of retirement benefits under the General Retirement Plan and shall continue for as long as benefits are payable to such Participant (or his surviving spouse) under the General Retirement Plan.
- c) In the event that a Participant ceases to be an employee of the Company and becomes a proprietor, officer, partner, employee or otherwise becomes employed by a governmental agency having jurisdiction over the affairs of the Company, the Company reserves the right in its sole discretion to make an immediate lump sum payment of the Actuarial

Equivalent value of the Participant's Supplemental Benefit.

- d) Notwithstanding anything in the foregoing to the contrary, in the event benefits under the General Retirement Plan are paid to a Participant prior to his Normal Retirement Date, the Supplemental Benefit payable hereunder shall be adjusted by use of the same methodology as is then in effect to

adjust the benefit payable under the General Retirement Plan to reflect commencement of benefits prior to a Participant's Normal Retirement Date.

3.5 Death Benefits

Except as provided in Section 1.1, above, the terms of the General Retirement Plan and the Surviving Spouse's Welfare Plan shall govern the timing and form of payment of the Participant's Supplemental Benefit to the surviving spouse upon the Participant's death. Payment of the Supplemental Benefit, if any, to a Participant's surviving spouse (as that term is used under the General Retirement Plan and the Surviving Spouse Welfare Plan) shall begin when benefits commence to such surviving spouse under either such plan and shall continue for so long as benefits are payable to such surviving spouse under either such plan.

IV. General Provisions

4.1 Rights of Participants, Joint Annuitants and Beneficiaries

- a) The Company shall establish a grantor trust to hold assets to secure the Company's obligations to the Participant under

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this Plan in such a manner that the establishment of such a trust does not result in the Plan being "funded" for purposes of the Internal Revenue Code of 1986, as amended. Such trust shall initially receive a transfer of Ten Thousand Dollars (\$10,000). However such trust shall provide that the full present value of the benefits payable hereunder shall subsequently be contributed to the trust in the event the Company fails to pay any benefits due hereunder in a timely manner. Except to the extent provided under the provisions of this Section, all payments under this Plan shall be made out of the Company's general revenue, a Participant's right to payment shall be solely that of an unsecured general creditor of the Company, and no assets of the Company shall be set aside, earmarked or placed in trust or escrow for the benefit of any Participant to fund the Company's obligations which exist under the Plan.

- b) Except as any of the following provisions may be contrary to the law of any state having jurisdiction in the premises, no Participant, or beneficiary shall have the right to assign, transfer, hypothecate, encumber, commute or anticipate his interest in any payments under this Plan, and such payments

shall not in any way be subject to any legal process to levy upon or attach the same for payment of any claim against any Participant, or beneficiary.

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- c) If the Company finds that any person to whom any payment is payable under this Plan is unable to care for his or her affairs because of illness or accident, or is a minor, any payment due (unless a prior claim therefor shall have been made by a duly appointed guardian, committee or other legal representative) may be paid to the spouse, a parent, or a brother or sister, or to any person deemed by the Company to have incurred expenses for the person who is otherwise entitled to payment, in such manner and proportions as the Company may determine. Any such payment will serve to discharge the liability of the Company under this Plan to make payment to the person who is otherwise entitled to payment.
- d) To the extent it deems required by law, the Company shall withhold applicable taxes from benefit payments hereunder and shall furnish the recipient and the applicable governmental agency or agencies with such reports, statements, or information as may be legally required in connection with such benefit payments.
- e) Neither the action of the Company in establishing this Plan nor any action taken by it under any provisions of this Plan shall be construed as giving to any employee of the Company the right to be retained in any specific position or in its employ in general or any right to any retirement income or benefit or to any payment whatsoever, except to the extent of the benefits which may be provided for by the express

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provisions of this Plan. The Company expressly reserves the right at any time, to dismiss, demote or reduce the compensation of any employee without incurring any liability for any claim against itself for any payment whatsoever.

- f) In the event that any amount shall become payable hereunder to any person or, upon his death, to his surviving spouse and if after written notice from the Committee mailed to such person's last known address as shown in the Company's

records, such person or his personal representative shall not have presented himself to the Committee within six months after mailing of such notice, the Committee may, but it is not required to, determine that such person's interest in the Plan has terminated, which determination shall be conclusive upon all persons provided, however, in lieu of the foregoing, the Committee may in its sole discretion apply to a court of competent jurisdiction for direction as to the distribution of such amount.

4.2 Amendment and Termination

The Plan may be amended, suspended or terminated at any time by the Company; provided, however, that no amendment, suspension or termination shall have the effect of impairing the rights of Participants or Beneficiaries with respect to the amount reflected in their Supplemental Benefit Account on or before the date of the amendment, suspension or termination.

4.3 Interpretation

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This Plan shall be construed in accordance with and governed by the laws of the District of Columbia.

4.4 Limitation of Responsibility

Neither the establishment of the Plan, any modifications thereof, nor the payment of any benefits shall be construed as giving to any Participant or other person any legal or equitable right against the Company (the Board of Directors, the Committee, or any officer or employee) except as herein provided; and in no event shall the other terms of employment of any employee be modified or in any way affected thereby.

IN WITNESS WHEREOF, the Company has caused this Plan to be signed on this 2nd day of June, 1995.

ATTEST

POTOMAC ELECTRIC POWER COMPANY

/s/ Ellen Sheriff Rogers

/s/ E. F. Mitchell

By: _____
Asst. Secretary

By: _____
Chairman of the Board

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<F1>Included on the Balance Sheet in the caption "Short-term debt."

<F2>Total annualized interest costs for all utility long-term debt outstanding at June 30, 1995.

<F3>If all the convertible preferred stock and debentures were converted into common stock, the result would be anti-dilutive.

</FN>

</TABLE>