

5/10/00

A-110550 F0147

Phila PD

R/S

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

APPLICATION OF PECO ENERGY	:	
COMPANY, PURSUANT TO CHAPTERS	:	
11, 19, 21, 22 AND 28 OF THE PUBLIC	:	
UTILITY CODE, FOR APPROVAL	:	
OF (1) A PLAN OF CORPORATE	:	
RESTRUCTURING, INCLUDING THE	:	APPLICATION
CREATION OF A HOLDING COMPANY	:	DOCKET NO. A-_____
AND (2) THE MERGER OF THE NEWLY	:	
FORMED HOLDING COMPANY AND	:	
UNICOM CORPORATION	:	

DOCK

MAY 11 2000

DOCUMENT
FOLDER

VOLUME I

APPLICATION OF PECO ENERGY COMPANY

RECEIVED
MAY 15 PM 1:56
PA. P.U.C.
SECRETARY'S BUREAU



Thomas P. Hill, Jr.
Vice President
Regulatory and External Affairs

PECO Energy Company
2301 Market Street
PO Box 8699
Philadelphia, PA 19101-8699
215 841 5802
Fax 215 841 6866

November 22, 1999

HAND DELIVERED

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
North Office Building, Room B-18
Commonwealth Avenue and North Street
Harrisburg, Pennsylvania 17105-3265

RE: Application of PECO Company, Pursuant to Chapters 11, 19, 21, 22 and 28 Of The Public Utility Code, For Approval of (1) A Plan of Corporate Restructuring, Including The Creation Of A Holding Company and (2) The Merger Of The Newly Formed Holding Company And Unicom Corporation

Dear Secretary McNulty:

Enclosed for filing with the Commission are an original plus nine copies of PECO Energy Company's Application in the above-referenced matter.

PECO hopes to consummate the proposed Restructuring and Merger and to begin creating the benefits therefrom as expeditiously as possible consistent with the legitimate review rights of interested parties. With that in mind, and because the transactions set forth herein do not raise competitive concerns, PECO requests that the Commission direct that this proceeding be concluded within five months, or by mid-April 2000. Such a schedule would be consistent with the time taken by the Commission to review and act upon other recent merger applications.

PECO suggests that holding a Prehearing Conference early in the process will assist the parties in identifying and resolving the issues that will need to be addressed. In addition, PECO proposes that this matter, should it proceed to full litigation, be briefed directly to the Commission without resort to an initial round of Briefs to the presiding Administrative Law Judge, the issuance of a Recommended Decision and the filing of Exceptions and Replies to Exceptions thereto. This procedure was followed successfully in PECO's electric restructuring proceeding and yielded significant savings in terms of time and litigation expense.

Sincerely,

A handwritten signature in black ink, appearing to read "TPH", written over the word "Sincerely,".

Thomas P. Hill, Jr.

TPH/mbo

Enclosures

cc: John M. Quain, Chairman (Via Hand Delivery)
Nora Mead Brownell, Commissioner (Via Hand Delivery)
Aaron Wilson, Jr., Commissioner (Via Hand Delivery)
Terrance J. Fitzpatrick, Commissioner (Via Hand Delivery)
Robert K. Bloom, Commissioner (Via Hand Delivery)
Irwin A. Popowsky, Office of Consumer Advocate (Via Hand Delivery)
Bernie A. Ryan, Office of Small Business Advocate (Via Hand Delivery)
Bohdan R. Pankiw, Chief Counsel - Law Bureau (Via Hand Delivery)
Chief Administrative Law Judge Christian (Via Hand Delivery)
Robert A. Rosenthal, Director - Fixed Utility Services (Via Hand Delivery)
David Kleppinger, Esquire -McNees Wallace & Nurick (Via Hand Delivery)

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**APPLICATION OF PECO ENERGY :
COMPANY, PURSUANT TO CHAPTERS :
11, 19, 21, 22 AND 28 OF THE PUBLIC :
UTILITY CODE, FOR APPROVAL :
OF (1) A PLAN OF CORPORATE :
RESTRUCTURING, INCLUDING THE : APPLICATION
CREATION OF A HOLDING COMPANY : DOCKET NO. A-_____**
**AND (2) THE MERGER OF THE NEWLY :
FORMED HOLDING COMPANY AND :
UNICOM CORPORATION :**

APPLICATION OF PECO ENERGY COMPANY

**Thomas P. Gadsden, Esquire
gads5234@mlb.com
Anthony C. DeCusatis, Esquire
decu5034@mlb.com
Morgan, Lewis & Bockius, LLP
1701 Market Street
Philadelphia, PA 19103-2921
Telephone: (215) 963-5234
Facsimile: (215) 963-5299**

November 22, 1999

**Paul R. Bonney, Esquire
pbonney@peco-energy.com
Ward L. Smith, Esquire
wlsmith@peco-energy.com
Kent D. Murphy, Esquire
kmurphy@peco-energy.com
PECO Energy Company
2301 Market Street
P. O. Box 8699
Philadelphia, PA 19101-8699
Telephone: (215) 841-4252
Facsimile: (215) 568-3389**

TABLE OF CONTENTS

	Page
A. INTRODUCTION	1
B. DESCRIPTION OF THE APPLICANT AND THE OTHER COMPANIES INVOLVED IN THE PROPOSED TRANSACTIONS	3
C. OVERVIEW OF THE PROPOSED TRANSACTIONS	4
D. REQUESTED APPROVALS AND LEGAL STANDARDS	8
E. IMPACT OF THE PROPOSED TRANSACTIONS ON SERVICE, RATES, JOBS AND LOCAL COMMUNITIES	16
F. IMPACT OF THE PROPOSED TRANSACTIONS ON COMPETITION	18
G. BENEFITS OF THE RESTRUCTURING AND MERGER	18
H. WRITTEN TESTIMONY	23
I. ADDITIONAL SUPPORTING DATA	24
J. OTHER REGULATORY AND SHAREHOLDER APPROVALS	25
K. PROPOSED LITIGATION SCHEDULE	27
L. NOTICE	27

INDEX OF EXHIBITS

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**APPLICATION OF PECO ENERGY :
COMPANY, PURSUANT TO CHAPTERS :
11, 19, 21, 22 AND 28 OF THE PUBLIC :
UTILITY CODE, FOR APPROVAL :
OF (1) A PLAN OF CORPORATE :
RESTRUCTURING, INCLUDING THE : APPLICATION
CREATION OF A HOLDING COMPANY : DOCKET NO. A-_____
AND (2) THE MERGER OF THE NEWLY :
FORMED HOLDING COMPANY AND :
UNICOM CORPORATION :**

APPLICATION OF PECO ENERGY COMPANY

A. INTRODUCTION

1. PECO Energy Company ("PECO" or the "Company"), pursuant to Chapters 11, 19, 21, 22 and 28 and all other applicable provisions of the Public Utility Code, hereby requests that the Pennsylvania Public Utility Commission (the "Commission") issue an Order approving a plan of corporate restructuring, including the creation of a holding company ("Restructuring"), and the merger of the newly formed holding company and Unicom Corporation ("Merger"). More specifically, PECO requests that the Commission authorize: (1) the formation of a holding company and the transfer of certain assets and common facilities from PECO to its newly established corporate affiliates; and (2) the merger of the newly formed holding company with Unicom Corporation ("Unicom"). In addition, PECO seeks approval of various affiliated interest agreements between it and other members of the new holding company system. Finally, PECO asks the Commission to make the findings needed for its new generating company affiliate to obtain "exempt wholesale generator" ("EWG") status and to engage in certain affiliated power

sales under Sections 32(c) and 32(k) of the Public Utility Holding Company Act of 1935
("PUHCA").

2. The name and address of the Applicant are as follows:

PECO Energy Company
2301 Market Street
P.O. Box 8699
Philadelphia, PA 19101-8699

3. The names and addresses of the Applicant's attorneys are as follows:

Paul R. Bonney, Esquire
pbonney@peco-energy.com
Ward L. Smith, Esquire
wlsmith@peco-energy.com
Kent D. Murphy, Esquire
kmurphy@peco-energy.com
Assistant General Counsel
PECO Energy Company
2301 Market Street
P.O. Box 8699
Philadelphia, PA 19101-8699
(215) 841-4252
(215) 568-3389 (FAX)

Thomas P. Gadsden, Esquire
gads5234@mlb.com
Anthony C. DeCusatis, Esquire
decu5034@mlb.com
Morgan, Lewis & Bockius LLP
1701 Market Street
Philadelphia, PA 19103-2921
(215) 963-5234
(215) 963-5299 (FAX)

**B. DESCRIPTION OF THE APPLICANT AND THE
OTHER COMPANIES INVOLVED IN THE
PROPOSED TRANSACTIONS**

4. PECO is an exempt public utility holding company under Section 3(a)(2) of PUHCA (15 U.S.C. § 79c(a)(2)), organized and existing under the laws of the Commonwealth of Pennsylvania, and is primarily engaged in the business of supplying and distributing electricity and natural gas.^{1/} Retail electric service is furnished in all or substantially all of Bucks, Chester, Delaware, Montgomery and Philadelphia Counties and a portion of York County. Retail gas service is provided in substantial portions of Bucks, Chester, Delaware and Montgomery Counties and a small section of Lancaster County. PECO is also engaged, through separate subsidiaries, functional divisions or partnership interests, in a variety of non-regulated activities, including the competitive marketing of electric generation and natural gas, telecommunications, real estate development and infrastructure services. A diagram depicting PECO's existing corporate structure is attached hereto as Exhibit "A."

5. Unicom is an exempt public utility holding company under Section 3(a)(1) of PUHCA (15 U.S.C. § 79c(a)(1)), organized and existing under the laws of the State of Illinois. Unicom's principal subsidiary is Commonwealth Edison Company ("ComEd"), a regulated utility that is engaged in the business of supplying, transmitting and distributing electricity in

^{1/} PECO has turned over the operational control of its electric transmission system to an independent system operator ("ISO") -- the PJM Interconnection, L.L.C. -- which performs that function for a control area comprising all or parts of the states of Pennsylvania, New Jersey, Delaware, Maryland and Virginia, and the District of Columbia.

northern Illinois and, through a wholly owned subsidiary, provides transmission service in portions of Indiana.^{2/} In addition, other subsidiaries are engaged in a variety of non-regulated activities, including energy monitoring, distributed generation, district cooling and the competitive marketing of electric generation and natural gas. A diagram depicting Unicom's existing corporate structure is attached hereto as Exhibit "B".

6. NEWHOLDCO Corporation ("NewCo."), a Pennsylvania corporation, is a wholly owned subsidiary of PECO that was established to effectuate the Restructuring and the Merger. As more fully described below, NewCo. will become the new publicly held holding company for the combined enterprise with PECO and ComEd as wholly owned first tier subsidiaries, and will register with the Securities and Exchange Commission ("SEC") under PUHCA.^{3/}

C. OVERVIEW OF THE PROPOSED TRANSACTIONS

7. The proposed Restructuring is described in detail in the attached Plan of Restructuring (Exhibit "C"). As discussed therein, the principal goals of the Restructuring are to establish a holding company system and to formalize, in a corporate sense, the functional separation of PECO's existing lines of business.

^{2/} ComEd is a charter member of the Midwest Independent System Operator ("MISO"), which is expected to commence operations in 2001. Once the MISO is operational, ComEd will turn over control of its transmission system to the MISO.

^{3/} "NewCo." will be renamed shortly after consummation of the Restructuring and Merger.

8. The proposed Restructuring will be accomplished in three major steps, the first being a share exchange. More specifically, each PECO shareholder will be entitled to receive for each share of PECO common stock held either one share of NewCo. common stock or \$45.00 in cash, subject to proration. NewCo. will thereby become the parent of PECO.

9. In the second step of the proposed Restructuring, PECO will transfer its generating assets and wholesale power contracts to a newly formed generation subsidiary ("GenCo.") and will transfer certain other assets and common facilities to NewCo., a newly formed service company ("ServeCo.") and newly formed non-utility business subsidiaries ("VenturesCo.").^{4/} These transfers will be effected through a "division" under the Pennsylvania Business Corporation Law (15 Pa. C.S. §§ 1101 *et seq.*). The transferred assets will include the stock of certain existing wholly owned subsidiaries. "PECO Energy Company," as the "dividing corporation," will "survive" the division as the regulated transmission and distribution utility. PECO's wholesale marketing operations (i.e., Power Team) will be located within GenCo.; its retail marketing operations (i.e., Excelon Energy) will report through VenturesCo. and may be located, as a matter of corporate structure, either in VenturesCo. or GenCo.

10. In the final step of the proposed Restructuring, PECO will distribute to NewCo. its shares of stock in GenCo., as well as its interest in several other existing subsidiaries. As a result, only the Eastern Pennsylvania Development Company, the PECO Energy Capital

^{4/} It is anticipated that, following the Restructuring and Merger, various administrative functions (e.g., accounting, legal, human resources, finance, information technology) will be centralized and that associated services will be provided to PECO, and other members of the affiliated group, on a contractual basis. See discussion below.

Corporation and the PECO Energy Transition Trust^{5/} will continue to be owned and controlled by PECO after the Restructuring and Merger.

11. Concurrent with the Restructuring, and pursuant to the terms of the attached Agreement and Plan of Exchange and Merger (the separately bound Exhibit "D"), Unicom will merge into NewCo. Each Unicom shareholder will be entitled to receive for each share of Unicom common stock held either a 0.95 share of NewCo. common stock or \$42.75, subject to proration. NewCo. will thereby become the corporate parent of ComEd and the other Unicom subsidiaries.

12. As indicated previously, PECO common stock will be exchanged for a like number of shares of NewCo. common stock.^{6/} Consequently, all common shareholders of PECO will become common shareholders of NewCo. (unless, of course, they elect to receive cash instead). The proposed Restructuring and Merger will not change the terms or character of PECO's outstanding preferred stock -- those shares will not be exchanged, but rather will continue to represent preferred equity in PECO. In addition, none of PECO's outstanding indebtedness will be assumed or guaranteed by NewCo.; indeed, the vast majority of PECO's debt will remain the sole obligation of PECO.^{7/}

^{5/} The PECO Transition Trust was established in conjunction with PECO's securitization of intangible transition property (i.e. recoverable stranded costs).

^{6/} As is the case with PECO common shares today, NewCo. common stock will be listed and publicly traded on the New York Stock Exchange.

^{7/} PECO expects that certain pollution control bonds which relate directly to specific
(continued...)

13. Diagrams depicting NewCo.'s post-Merger corporate structure are attached hereto as Exhibits "E," "E-1" and "E-2." As shown thereon, and as further described in supporting testimony submitted herewith, NewCo.'s principal subsidiaries will include PECO, ComEd, GenCo., ServeCo. and one or more companies engaged in miscellaneous non-regulated business ventures. As noted previously, NewCo., which will be headquartered in Chicago but also have offices in Philadelphia, will be a registered public utility holding company under PUHCA.

14. The NewCo. board of directors will consist of sixteen members, eight selected by PECO and eight selected by Unicom. Corbin A. McNeill, Jr., president, chief executive officer and chairman of the board of PECO, and John W. Rowe, president, chief executive officer and chairman of the board of Unicom, will share managerial responsibility for the combined enterprise for a transition period lasting until December 31, 2003. In broad terms, Mr. McNeill will oversee generation and energy marketing operations and Mr. Rowe will oversee transmission and distribution operations, as well as unregulated business lines. Kenneth G. Lawrence, a 30-year PECO veteran, will be President of the disaggregated PECO and will be responsible for managing the electric and natural gas delivery functions in Pennsylvania.

15. PECO will remain headquartered in Philadelphia and, as noted above, will house local electric and natural gas delivery operations. Consistent with the terms of the May 14, 1998 Full Settlement in its electric restructuring proceeding at Docket No. R-00973953 (the

7/(...continued)

generating plant investment will be assigned to GenCo.

“Restructuring Settlement”), PECO will satisfy its obligations as provider of last resort by purchasing required amounts of energy and capacity at wholesale from GenCo. and other generation suppliers.

16. In short, PECO will continue to provide regulated electric and natural gas service and, as such, will remain subject to the Commission’s jurisdiction over its retail rates and terms and conditions of service. PECO’s dealings with its affiliates, in turn, will be governed by the provisions of Chapter 21 of the Public Utility Code and, in the case of GenCo., by the Code of Conduct and Competitive Safeguards set forth in the Restructuring Settlement. Finally, should it engage in retail electric and natural gas sales in the Commonwealth, GenCo. (and its affiliated suppliers) will subject itself to regulation under Chapters 28 and 22 of the Code.

D. REQUESTED APPROVALS AND LEGAL STANDARDS

17. The transactions described herein implicate a number of Code provisions. To the extent the Commission concludes that the following recitation of requested actions is incomplete, PECO asks that the Commission grant such additional approvals as are necessary to complete the proposed Restructuring and Merger.

Chapter 11

18. Section 1102(a)(3) of the Public Utility Code (66 Pa. C.S. 1102(a)(3)) requires that a public utility obtain a certificate of public convenience before it may “acquire from, or transfer to, . . . the title to, or the possession or use of, any tangible or intangible property used or

useful in the public service.” Section 1103(a) of the Code further provides that such a certificate shall be issued only upon a showing that its granting is “necessary or proper for the service, accommodation, convenience, or safety of the public” (66 Pa. C.S. § 1103(a)).

19. In *York v. Pa. P.U.C.*, 295 A.2d 825, 828 (1972), the Pennsylvania Supreme Court held that those seeking approval of a utility merger must demonstrate that the merger “will affirmatively promote the ‘service, accommodation, convenience, or safety of the public’ in some substantial way.” Evidence deemed sufficient to satisfy this standard has included testimony that the merger would produce a stronger company; that investors would be more attracted to a larger enterprise; that certain duplicative tasks would be eliminated; that service would be improved; and that economies would give rise to lower rates than otherwise over time.^{8/} See *York, supra*,; see also *Application of Newtown Artesian Water Co. and Indian Rock Water Co.*, 1992 Pa. PUC LEXIS 44 (April 7, 1992).

20. **Share Exchange and Change in Control.** The share exchange between PECO and NewCo., by effecting a “change in control” of PECO, will constitute a transfer of used or useful property under Section 1102(a)(3) (66 Pa. C.S. § 1102(a)(3)), as that provision has been interpreted and applied by the Commission. See 52 Pa. Code § 69.901 (Utility Stock Transfer

^{8/} In several recent decisions, the Commission has ruled that the specific impact of a merger or acquisition on future rates was more appropriately addressed in a subsequent rate proceeding. See, e.g., *Joint Application of PG Energy, Inc. et al.*, Docket No. A-120011 (Order entered September 15, 1999); *Joint Application of Philadelphia Suburban Water Co. et al.*, Docket No. A-212370.F0018 (Order entered March 31, 1995).

Under 66 Pa. C.S. § 1102(a)(3) - Statement of Policy).^{9/} For the reasons discussed in Paragraph 35, below, PECO submits that the proposed Restructuring is in the public interest and therefore requests that the Commission issue a certificate of public convenience evidencing the foregoing approval.^{10/}

21. **Transfer Of Assets.** In its May 14, 1998 Order approving PECO's Restructuring Settlement, the Commission stated as follows (p. 10):

2. That the Commission hereby approves without condition all aspects of PECO's transfer or assignment of its generation assets and liabilities and the wholesale power contracts as set forth in the settlement. The transfer or assignment may be, in PECO's discretion, to an entity that is an affiliate or subsidiary of PECO, or a non-affiliate. We hereby grant and issue all approvals and certificates of public convenience required under the Public Utility Code regarding the transfer or assignment of PECO's generating assets and liabilities and wholesale power contracts under the settlement, including but not limited to approvals under Chapters 5, 11, 19, 21 and 28 of the Public Utility Code.

^{9/} The Merger of NewCo. and Unicom will not result in the creation of a new controlling interest or the elimination of an existing controlling interest, as those terms are defined in the Commission's Policy Statement (52 Pa. Code § 69.901), and therefore, in PECO's view, does not itself trigger the requirements of Section 1102(a)(3).

^{10/} To the extent necessary, PECO further requests that the Commission approve the concomitant change in control over PECO's 50% interest in PECO Hyperion Telecommunications ("PHT"). PHT, a general partnership formed by PECO and Hyperion Telecommunications of Pa., Inc., was issued a certificate of public convenience on March 14, 1996 to furnish intrastate telecommunications services in the Philadelphia area as a competitive access provider (see Docket No. A-310378). On May 25, 1998, PHT's certificate was revised to allow it to provide competitive local exchange services and to offer intraLATA toll services (Docket No. A-310378, F.0002 and F.0003). On March 29, 1999, PHT's certificate was further revised to allow it to operate as a competitive local exchange carrier in the service territory of United Telephone (Docket No. A-310378 F. 0002). The proposed Restructuring and Merger will have no effect on PHT's operations.

Consistent with the Restructuring Settlement (p. 24), the generating assets and liabilities will be transferred to GenCo. at their value at the date of transfer.^{11/} In accordance with Section 1102 of the Code (66 Pa. C.S. § 1102), PECO requests that the Commission take the ministerial step to issue any necessary certificate of public convenience.

The proposed Restructuring and Merger further anticipate the transfer by PECO to NewCo., ServeCo. and VenturesCo. of various assets that will be utilized by them in furnishing miscellaneous business services (e.g., accounting, legal, human resources, finance, information technology). As discussed in Paragraph 35 below, PECO believes that the consolidated group can achieve certain efficiencies by centralizing these common functions and that such efficiencies will ultimately inure to the benefit of PECO's retail electric and natural gas customers. The specific items to be transferred will not be known until integration teams conclude their analyses; however, a preliminary representation of the assets and liabilities to be transferred is provided in Exhibit "G." Following the practice utilized in the Restructuring Settlement for its generating assets, PECO requests that the Commission pre-approve the transfer of miscellaneous assets and common facilities to NewCo., ServeCo. and VenturesCo. at their value as of the date of transfer, with the understanding that PECO will file with the Commission an itemized list of such assets and liabilities once the transfers have been completed.

^{11/} A general description of the generating assets, liabilities and wholesale power contracts to be transferred is provided in Exhibit "F." Also included is a schedule setting forth, by plant account, the net book value of such assets and liabilities at June 30, 1999.

Chapter 19

22. **Securities And Obligations.** The proposed Restructuring and Merger do not call for PECO to issue or assume any new securities. However, several debt obligations of PECO will likely be assigned to GenCo. as part of the aforementioned transfer of generating assets and liabilities. This transaction would not appear to trigger the requirements of Section 1901 of the Code (66 Pa. C.S. § 1901). In the alternative, to the extent required by law, PECO requests that the Commission issue the necessary approvals.

Chapter 21

23. **Contracts With Affiliated Interests.** Following the proposed Restructuring and Merger, services that are presently furnished by separate business units within PECO will be provided by separate corporate entities. For example, and as earlier described, certain routine functions, such as accounting, legal, human resources, finance and information technology, will be housed within ServeCo. and made available to PECO on a contractual basis. The provision of non-power goods and services from a ServeCo. in a registered holding company system is generally regulated by the SEC. PECO and Unicom will submit a form of affiliated services contract to the SEC that generally controls the provision of non-power goods and services to all entities in the corporate family, including PECO. The SEC contract is attached as Exhibit "H-1." This contract conforms to SEC requirements on pricing -- that the services be provided at no more than cost -- and rigorous requirements for allocation of indirect costs. PECO anticipates that the contract will be approved by the SEC in substantially the form attached as Exhibit "H-1."

PECO also believes that the agreement is reasonable and in the public interest. Insofar as the SEC contract will control the provision of non-power goods and services from ServeCo. to PECO, PECO therefore requests that the contract, in the form provided as Exhibit "H-1" or in such other substantially similar form as ultimately approved by the SEC, be approved under Section 2102(b) of the Code (66 Pa. C.S. § 2102(b)).

24. In addition to the services that will be provided by ServeCo., from time to time other entities within the corporate group may provide or receive non-power goods and services from PECO. A form of service agreement for the provision of those goods and services is attached as Exhibit "H-2." This contract is based on the SEC contract described above and contains the same pricing and allocation factors, with one key exception: for transactions that involve PECO and any affiliated electric generation supplier ("EGS"), the contract provides that PECO will continue to honor the specific pricing provisions approved by the Commission in Appendices G and H of the Restructuring Settlement. Since this contract implements the affiliate transaction pricing for PECO - EGS transactions that the Commission previously approved, PECO believes that the agreement is reasonable and in the public interest and requests that the contract, in the form provided as Exhibit "H-2" or in such other substantially similar form to conform that contract to the service contract that will ultimately be approved by the SEC, be approved under Section 2102(b) of the Code (66 Pa. C.S. § 2102(b)).

25. PECO will enter into a purchased power agreement with its GenCo. affiliate to provide substantially all of PECO's generation needs for the year 2000. The form of contract for that service is attached as Exhibit "H-3." PECO will either submit this wholesale purchased

power contract to the Federal Energy Regulatory Commission (“FERC”) for its approval, or seek waiver of that requirement. In the Restructuring Settlement, PECO committed to abide by the comparable treatment/non-discrimination features set forth in the Competitive Safeguards (Appendix G) and the Interim Code of Conduct (Appendix H) attached to the Settlement Agreement. PECO acknowledges that its obligations under that agreement continue, notwithstanding the Restructuring and Merger, and will apply to its purchased power agreement with GenCo. PECO therefore believes that the form of agreement is reasonable and consistent with the public interest.

Chapters 22 and 28

26. **Natural Gas And Electric Restructuring.** Chapters 22 (Natural Gas Competition Act) and 28 (Electric Competition Act) contain parallel provisions requiring the Commission to consider whether a proposed merger, consolidation, acquisition or disposition “is likely to result in anticompetitive or discriminatory conduct, including the unlawful exercise of market power, which will prevent retail [gas] [electricity] customers in this Commonwealth from obtaining the benefits of a properly functioning and workable competitive retail [natural gas] [electricity] market.” See 66 Pa. C.S. §§ 2210 and 2811(e). As the Commission previously recognized in approving the Restructuring Settlement, the formal separation of PECO’s electric generation and delivery functions, coupled with the consumer protections to which PECO has already agreed, will have a beneficial effect on the development of a competitive retail electric

market.^{12/} In addition, PECO and ComEd have taken leading roles in their respective jurisdictions in promoting and facilitating the opening up of wholesale and retail markets for competition. As demonstrated by the detailed analyses submitted with this filing, the Merger will not result in anticompetitive or discriminatory conduct or the unlawful exercise of market power, will not impede the further development of retail electric competition and will have no effect on PECO's natural gas operations.

Exempt Wholesale Generator ("EWG") Findings

27. PECO does not plan to seek EWG status for GenCo. from the FERC at this time. However, that situation may change in the future. In order to minimize the possibility of having to refile a similar application, PECO therefore requests that the Commission's Order approving this Application contain the findings required by Section 32(c) of PUHCA (15 U.S.C. § 793-5a(c)), namely that the transfer of generating assets, liabilities and wholesale power contracts to a newly formed corporate subsidiary (1) will benefit customers, (2) is in the public interest and (3) does not violate state law.

28. In addition, and for the same reasons, PECO requests that the Commission's Order include the findings required by Section 32(k) of PUHCA (15 U.S.C. § 793-5(a)(k)) with respect to purchases of power from GenCo., i.e. that (1) the Commission possesses sufficient regulatory authority, resources and access to books and records of PECO and any relevant

^{12/} PECO notes that Chapter 28 approval for the transfer of electric generating assets, liabilities and wholesale power contracts was expressly granted as part of PECO's Restructuring Settlement. See Paragraph 21 above.

associate, affiliate or subsidiary company to exercise its duties under Section 32(k) and (2) the purchase by PECO of energy and capacity from an affiliated EWG will benefit customers, does not violate State law, would not provide the EWG an unfair competitive advantage and is in the public interest. See *Application of UGI Development Co.*, Docket No. P-00991693 (Order adopted August 26, 1999).

29. The Commission essentially made the foregoing findings when it approved the Restructuring Settlement, authorizing the transfer of PECO's generating assets to a separate corporate entity and adopting stringent Competitive Safeguards/Code of Conduct provisions governing transactions between PECO and GenCo. PECO simply asks that those findings be made explicit in the Commission's Order approving the proposed Restructuring and Merger.

E. IMPACT OF THE PROPOSED TRANSACTIONS ON SERVICE, RATES, JOBS AND LOCAL COMMUNITIES

30. PECO is committed to providing adequate, efficient, safe and reliable electric service, and its track record of extraordinary dependability bears this out. Neither the Restructuring nor the Merger will diminish in any way PECO's aggressive pursuit of service excellence. To the contrary, PECO believes that the combined enterprise, by virtue of its greater resources and the sharing of "best practices," will be even better positioned to meet future customer demands and to ensure that the high quality of service presently being provided is maintained and/or enhanced.

31. The rates, rules, regulations, and terms and conditions of service in effect on the date of closing will not change as a result of the Restructuring and Merger. Going forward, PECO believes that economies generated by the Restructuring and the Merger will help to offset the ongoing rise in the cost of providing regulated electric service, will give rise to lower rates than otherwise over time and will delay the need for rate relief following the expiration of the transmission and distribution (“T&D”) rate cap on June 30, 2005.^{13/}

32. The proposed transactions have very positive implications for the long-term outlook for employment in the Commonwealth. PECO, as the local “pipes and wires” company, will continue to be headquartered in Philadelphia and there will be no reduction in force of non-supervisory field personnel. In addition, GenCo., including power marketing operations such as the Power Team, will be headquartered in suburban Philadelphia and its presence is expected to create substantial employment opportunities as it grows and as competitive wholesale and retail electric and natural gas markets flourish. Finally, ServeCo., which will be headquartered in Chicago, will also maintain offices in the Philadelphia area and will employ substantial numbers of administrative personnel currently working for PECO.

33. PECO has always played a vital role in the day-to-day life of southeastern Pennsylvania through the financial support of numerous civic and charitable organizations and, of equal importance, through the tireless involvement of PECO employees in the activities of those groups. That commitment will continue.

^{13/} As part of the Restructuring Settlement, PECO agreed to extend the T&D rate cap by an additional 4 years from the June 30, 2001 date specified in the Electric Competition Act.

F. IMPACT ON COMPETITION

34. PECO believes that the proposed Restructuring and Merger will have a positive impact on competition by (1) facilitating the separation of the generation and delivery functions and (2) furthering the development of new energy-related goods and services. However, to ensure that the specific concerns of Sections 2210(a) and 2811(e) are addressed, PECO is submitting herewith a detailed market power study performed by Dr. William H. Hieronymus (Ex. WHH-1). The study was conducted in a manner consistent with the Competitive Analysis Screen described in Appendix A to the FERC's Merger Policy Statement, which, in turn, is intended to comport with the Department of Justice and Federal Trade Commission Horizontal Merger Guidelines ("DOJ/FTC Guidelines").^{14/} Based on his analysis, Dr. Hieronymus concludes that the Merger will have no adverse competitive effect on Pennsylvania's retail energy markets.

G. BENEFITS OF THE RESTRUCTURING AND MERGER

35. **Restructuring.** The holding company structure is a well-established form of corporate organization for those companies conducting multiple lines of business. Indeed, PECO is one of the very few major utilities in Pennsylvania that has not heretofore structured its

^{14/} The Commission has adopted the DOJ/FTC Guidelines as the framework for evaluating the competitive impact of electric utility mergers. See *Joint Application of DQE Inc., Allegheny Power System, Inc., and AYP Sub, Inc.*, Docket No. A-110150F0015 (Order entered August 29, 1997).

operations in this fashion.^{15/} The benefits of the proposed Restructuring and functional disaggregation are summarized below.

(a) **Financial And Operational Flexibility.** The holding company structure will allow use of financing techniques that are better suited to the requirements, characteristics and risks of non-utility operations without affecting PECO's creditworthiness. The ability to access different capital markets quickly with a broad range of financial instruments and maturities will permit a financing to be tailored to the type of investment being made on the most attractive possible terms, taking into account the appropriate capitalization for a particular subsidiary. This, in turn, will permit NewCo. to take advantage of non-utility business opportunities in a more timely manner.

(b) **Increased Accountability.** Legally distinct entities will increase internal accountability and enable management to more thoroughly evaluate the success of existing and new businesses. This form of organization will also facilitate business segment reporting as now required under SEC and financial accounting rules.

^{15/} To the best of PECO's knowledge, all of the following entities are part of holding company systems: **Electric** -- Duquesne Light Company, Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company, Pennsylvania Power and Light Company and West Penn Power Company; **Natural Gas** - Columbia Gas of Pa., Equitable Gas Company, National Fuel Gas Distribution Corporation, Penn Fuel Gas Companies, PG Energy, Inc., Peoples Natural Gas Company, and UGI Utilities, Inc.; **Telecommunications** -- Bell of Pa. and Citizens Utilities, Inc.; **Water** -- Consumers Water Companies, Pennsylvania-American Water Company, Philadelphia Suburban Water Company and United Water Pennsylvania.

(c) **Insulation Of Utility Customers From Unregulated Business Risks.**

The adoption of a holding company structure will further serve to insulate utility customers from the risks attendant to unregulated businesses. Conducting non-utility businesses through separate subsidiaries of NewCo., rather than through subsidiaries or functional divisions of PECO, and the separate financing of their activities should provide additional comfort that PECO's customers are effectively shielded from the potential earnings volatility of those businesses.

(d) **Positive Effects On Retail Competition.** The separation of electric generation and marketing functions from regulated delivery services will facilitate compliance with the *Code of Conduct and Competitive Safeguards* adopted as part of PECO's Restructuring Settlement because the individuals involved in these functions will be employed by different corporate entities. In addition, the creation of a stand-alone generating company was clearly anticipated and favored by the parties to that Settlement.

(e) **Reduction Of The Potential For Cross-Subsidization.** PECO believes that economies can be achieved by centralizing certain business functions in a ServeCo., particularly as its non-utility operations expand in the future. Moreover, this step, coupled with rigorous adherence to the service agreements attached hereto as Exhibits H-1 and H-2, should significantly reduce any risk of PECO's utility customers subsidizing unregulated businesses.

36. **Merger.** The proposed Merger will create one of the premier energy companies in the nation. Indeed, by combining their considerable resources and expertise, PECO and ComEd will strengthen their ability to provide cost-effective, safe and reliable service in the

rapidly evolving competitive energy marketplace and thereby will affirmatively promote the public interest in a number of substantial ways.

(a) **Expanded Portfolio Of Generation Assets.** The combined enterprise is expected to have a national portfolio of generation assets with a capacity nearly double that of PECO alone. It is anticipated that this will enable PECO and ComEd to enhance reliability and minimize their exposure to the risk of supply disruptions.

(b) **Sharing Of Best Practices.** The sharing of "best practices" between PECO and ComEd will enhance operations at all levels -- e.g., nuclear generating plant performance, fuel procurement, transmission and distribution system maintenance and customer service. Over time, such improvements will directly benefit customers in terms of the quality and cost of the service they receive.

(c) **Improved Reliability And Customer Service.** With a customer base of approximately 5 million, the combined enterprise will be able to invest in new technologies that might be cost prohibitive for either PECO or ComEd on a stand-alone basis. In addition, PECO and ComEd plan to assess the viability of coordinating their call center operations to provide enhanced phone coverage during high volume periods.

(d) **Commitment To Competition.** PECO and ComEd fully support wholesale and retail competition and, as previously noted, have become strong advocates of the restructuring initiatives undertaken in Pennsylvania and Illinois in recent years. This shared

vision, and the critical mass that will come with the Merger, will allow both companies to be even more proactive in the development of new energy-related goods and services.

(e) **Cost Savings.** The Merger will create the opportunity to achieve meaningful cost savings not only through the sharing of best practices (see discussion above), but also through purchasing economies and the elimination of duplicative functions. These savings will inure to the benefit of customers over time as they will mitigate the need to file for rate relief in the future.

(f) **Intellectual Capital.** The merged entity will be able to draw upon the knowledge, technical expertise and experience of a deeper and more diverse workforce simply by virtue of the combination of human resources.

(g) **Creation Of A Stronger Company.** All of the foregoing will result in the creation of a stronger company that is better positioned to compete and to attract capital on reasonable terms.

37. PECO remains fully committed to providing safe and reliable electric and natural gas service at reasonable rates and, in fact, is convinced that the relief requested in this Application will enhance its ability to do so in the emerging deregulated environment.

H. WRITTEN TESTIMONY

38. PECO is submitting herewith the written testimony and supporting exhibits of five witnesses that comprise its case-in-chief:

Kenneth G. Lawrence is President of PECO Energy Distribution and is responsible for managing PECO's retail natural gas and electric delivery functions. Mr. Lawrence makes clear that the proposed Restructuring and Merger will not adversely affect PECO's regulated operations, the employees who staff those operations or the local communities and organizations that have enjoyed PECO's support over the years.

Richard G. White is PECO's Vice President of Corporate Planning. Mr. White describes the proposed Restructuring and Merger and identifies the principal factors that PECO considered in deciding to pursue a merger with Unicom.

Thomas P. Hill, Jr. is PECO's Vice President, Regulatory and External Affairs. Mr. Hill underscores PECO's unwavering commitment to honor all aspects of its Restructuring Settlement and explains how various provisions of that Settlement will apply following consummation of the Restructuring and Merger proposed herein. Mr. Hill also discusses the impact of merger-related synergies on future regulated rates.

Thomas J. Flaherty is the National Partner - Energy Consulting and a partner in the Deloitte & Touche Consulting Group LLC. Mr. Flaherty presents the results of a study

that he conducted to assist PECO and Unicom in identifying and quantifying the potential cost savings in regulated operations that will likely arise from the proposed Merger.

William H. Hieronymus is Senior Vice President of PHB Hagler Bailly, Inc. Dr. Hieronymus analyzes the Merger in light of the FERC's Merger Policy Statement and concludes that the Merger will have no adverse competitive impact on Pennsylvania's retail energy markets.

I. ADDITIONAL SUPPORTING DATA

39. Attached as Exhibit "T" are statements of the original cost of PECO's electric and natural gas plant in service, by primary account, together with the associated reserve for depreciation, as of December 31, 1998. As noted previously, a schedule setting forth the net book value of assets and liabilities to be transferred to GenCo. is provided in Exhibit F.

40. Attached as Exhibit "J-1" is a consolidated balance sheet for PECO as of June 30, 1999 and a pro forma, post-Restructuring and Merger balance sheet for NewCo. as of that same date. Exhibit "J-2" provides a post-Restructuring and Merger balance sheet for PECO.

41. Attached as Exhibit "K-1" is an income statement for PECO for the twelve months ended December 31, 1998 and the six months ended June 30, 1999, and pro forma, post-Restructuring and Merger income statements for NewCo. for those same periods. Exhibit "K-2" provides a post-Restructuring and Merger income statement for PECO for the six months ended June 30, 1999.

42. Attached as Exhibit "L" is a listing of the number of electric customers and natural gas customers, by rate classification, for PECO as of June 30, 1999. Approval of this Application and consummation of the transactions proposed herein will have no effect on the number of customers served by PECO or the rates that they are charged.

43. Attached as Exhibit "M" is a copy of PECO's 1998 annual report to shareholders.

44. Attached as Exhibit "N" is a copy of Unicom's 1998 annual report to shareholders.

45. All annual reports, tariffs, certificates of public convenience, applications, securities certificates and similar documents previously filed by PECO are made a part hereof by reference.

J. OTHER REGULATORY AND SHAREHOLDER APPROVALS

46. Consummation of the proposed Restructuring and Merger is subject to various conditions, including: (a) the approval of the SEC under PUHCA; (b) the registration of NewCo.'s common stock by the SEC under the Securities Act of 1933; (c) the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976; (d) the approval of the FERC under the Federal Power Act; and (e) the approval of the Nuclear Regulatory Commission ("NRC") under Section 184 of the Atomic Energy Act of 1954.

In addition, ComEd will shortly be making a filing with the Illinois Commerce Commission under Section 16-111(g) of the Illinois Public Utilities Act.^{16/}

47. PECO is preparing and will file shortly a request seeking a ruling from the Internal Revenue Service ("IRS") that the Restructuring transactions contemplated herein will qualify as a tax-free restructuring for Federal corporate income tax purposes. In addition, certain rulings by the IRS and/or legislative changes to the Internal Revenue Code will be necessary to assure that nuclear decommissioning funds accumulated in qualified and non-qualified trust accounts and presently maintained by PECO may be transferred to GenCo. on a tax-free basis.

48. The proposed Restructuring and Merger are subject to the affirmative vote of the holders of a majority of the votes cast by all of PECO's common shareholders. In addition, the proposed Merger is subject to the affirmative vote of at least two-thirds of the outstanding shares of Unicom common stock. PECO and Unicom intend to seek the approval of their shareholders at meetings to be scheduled for early April, 2000 and plan to complete the Restructuring and Merger as soon as possible after all regulatory and shareholder approvals have been obtained.

^{16/} A copy of the FERC Merger application, filed jointly by PECO and ComEd on November 22, 1999, is being served on the Commission under separate cover. Copies of the SEC, NRC and Illinois filings will be served on the Commission when made.

K. PROPOSED LITIGATION SCHEDULE

49. PECO hopes to consummate the proposed Restructuring and Merger and to begin creating the benefits therefrom as expeditiously as possible consistent with the legitimate review rights of interested parties. With that in mind, and because the transactions set forth herein do not raise competitive concerns, PECO requests that the Commission direct that this proceeding be concluded within five months, or by mid-April 2000. Such a schedule would be consistent with the time taken by the Commission to review and act upon other recent merger applications.

50. PECO suggests that holding a Preheating Conference early in the process will assist the parties in identifying and resolving the issues that will need to be addressed. In addition, PECO proposes that this matter, should it proceed to full litigation, be briefed directly to the Commission without resort to an initial round of Briefs to the presiding Administrative Law Judge, the issuance of a Recommended Decision and the filing of Exceptions and Replies to Exceptions thereto. This procedure was followed successfully in PECO's electric restructuring proceeding and yielded significant savings in terms of time and litigation expense.

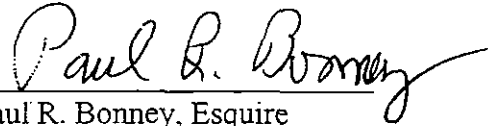
L. NOTICE

51. PECO will shortly begin sending bill inserts to its customers advising them of this filing and will issue a press release and publish notice of this Application in newspapers of general circulation in its service territory. PECO is also serving copies of this filing on the Offices of Trial Staff, Consumer Advocate and Small Business Advocate and is serving notice of this filing on all other active parties to PECO's electric restructuring proceeding at Docket No.

R-00973953 and parties that have been active in natural gas restructuring (see the service list attached to PECO's transmittal letter). A copy of the form of notice is appended hereto as Exhibit O.

WHEREFORE, for the reasons set forth above, PECO Energy Company requests that the Commission approve this Application and grant the relief requested herein.

Respectfully submitted,



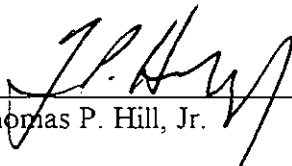
Paul R. Bonney, Esquire
pbonney@peco-energy.com
Ward L. Smith, Esquire
wlsmith@peco-energy.com
Kent D. Murphy, Esquire
kmurphy@peco-energy.com
Assistant General Counsel
PECO Energy Company
2301 Market Street
P.O. Box 8699
Philadelphia, PA 19101-8699
(215) 841-4252
(215) 568-3389 (FAX)

Thomas P. Gadsden, Esquire
gads5234@mlb.com
Anthony C. DeCusatis, Esquire
decu5034@mlb.com
Morgan, Lewis & Bockius LLP
1701 Market Street
Philadelphia, PA 19103-2921
(215) 963-5234
(215) 963-5299 (FAX)
Counsel for PECO Energy Company

Dated: November 22, 1999

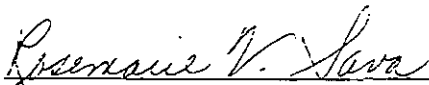
VERIFICATION

I, T. P. Hill, Jr., hereby declare that I am Vice President Regulatory and External Affairs of PECO Energy Company; that as such I am authorized to make this verification on its behalf; that the facts set forth in the foregoing Application are true to the best of my knowledge, information and belief, and that I make this verification subject to the penalties of 18 Pa. C.S. §4904 pertaining to false statements to authorities.



Thomas P. Hill, Jr.

Subscribed and sworn to before me
this 22nd day of November 1999.



(Notary Public)

My Commission Expires Apr. 17, 2001

NOTARIAL SEAL
ROSEMARIE V. SAVA, Notary Public
City of Philadelphia, Phila. County
My Commission Expires April 17, 2001

Certificate of Service

I hereby certify that I have this day served the foregoing document on the following in the matter of PECO Energy Company's Application For Approval of (1) A Plan of Corporate Restructuring, Including the Creation of a Holding Company and (2) The Merger of the Newly Formed Holding Company and Unicom Corporation; by hand delivery, fax or overnight mail:

Parties Receiving Paper Copy of the Filing:

Kenneth L. Mickens, Esquire
Pennsylvania Public Utility Commission
Office of Trial Staff
P.O. Box 3265
Harrisburg, PA 17105-3265

Irwin A. Popowsky/ Tanya McCloskey, Esquire
Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101

David Kleppinger, Esquire
McNees, Wallace & Nurick
100 Pine Street
Harrisburg, PA 17108-1166
(Counsel for PAIEUG)

Bernie Ryan, Esquire
Small Business Advocate
Suite 1102, Commerce Building
300 N. 2nd Street
Harrisburg, PA 17101

Christopher B. Craig, Esquire
Democratic Committee on Appropriations
Room 545, Main Capitol Building
Harrisburg, PA 17120
(Counsel for The Honorable Vincent J. Fumo)

Parties Receiving Notice of the Filing

Audrey Van Dyke, Associate Counsel
Naval Facilities Engineering Command
Washington Navy Yard, Building 218, Room 200
901 M Street, S.E.
Washington, DC 20374-5018
(Counsel for Dept. of Navy)

Phil Bertocci, Esquire
Community Legal Services, Inc.
1424 Chestnut Street
Philadelphia, PA 19102
(Counsel for CEPA, TAG, Action Alliance of Sr. Citizens & John Long, Jr.)

Steven P. Hershey, Esquire
Connolly Epstein Chicco Foxman et al.
1515 Market Street - 9th Floor
Philadelphia, PA 19102-1909

Daniel Clearfield, Esquire
Alan Kohler, Esquire
Wolf, Block, Schorr and Solis-Cohen
Locust Court Bldg., Suite 300
Harrisburg, PA 17101
(Counsel for Enron)

Paul Russell, Esquire
Pennsylvania Power & Light Company
Two North Ninth Street
Allentown, PA 18101
(Counsel for PP&L)

Kenneth Zielonis, Esq.
Stevens & Lee
208 N. 3rd Street - Suite 310
Harrisburg, PA 17108-2090
(Counsel for Pennsylvania Retailers Association)

Robert A. Mills, Esquire
McNees, Wallace & Nurick
100 Pine Street
Harrisburg, PA 17108-5216
(Counsel for Pennsylvania Retailers Association)

Roger Clark, Esquire
NESIP 905 Denston Drive
Ambler, PA 19002-3901
(Attorney for Environmentalists)

Craig A. Doll, Esquire
214 State Street
Harrisburg, PA 17101
(Counsel for Conectiv)

Randall V. Griffin, Esquire
Delmarva Power & Light Company
800 King Street
Wilmington, DE 19899
(Counsel for Conectiv/ Delmarva Power & Light)

Walter W. Cohen, Esquire
Andrew J. Giorgione, Esquire
Obermayer Rebmann Maxwell & Hippel LLP
204 State Street
Harrisburg, PA 17101
(Counsel for IP&L)

Michael G. Banta, Esquire
Indianapolis Power & Light Company
One Monument Circle
P.O. Box 1595
Indianapolis, IN 46206-1595
(Counsel for IP&L)

Stephanie A. Sugrue, Esquire/ Mary Ann Ralls, Esquire
Shelia Hollis, Esquire
Duane, Morris & Heckscher, LLP
1667 K Street, N.W. - Suite 700
Washington, DC 20006
(Counsel for QST)

Paul Nordstrom/ Joel D. Newton, Esquire
Verner Lipfert Bernhard McPherson & Hand
901 - 15th Street, NW
Washington, DC 20005-2301
(Counsel for Allegheny Power)

Gordon Smith, Esquire
John & Hengerer
1200 17th Street, N.W. - Suite 600
Washington, DC 20036-3006
(Counsel for Electric Clearinghouse, Vastar and Noram Energy)

Joseph A. Dworetzky, Esquire
Hangley Aronchick Segal & Pudlin
One Logan Square - 12th Floor
Philadelphia, PA 19102
(Counsel for New Energy Ventures and Conectiv)

Linda C. Smith, Esquire
Dilworth, Paxson, Kalish & Kauffman
305 North Front Street, Suite 403
Harrisburg, PA 17101
(Counsel for AARP)

John Klauberg, Esquire
LeBoeuf, Lamb, Greene & MacRae, LLP
125 West 55th Street
New York, NY 10019-5389
(Counsel for Enron Energy Services Power, Inc.)

Vincent J. Walsh, Jr., Esq.
SouthEastern Pennsylvania Transportation Authority
1234 Market Street - Fifth Floor
Philadelphia, PA 19107-378-0
(Counsel for SEPTA)

Susan M. Shanaman, Esquire
212 North Third Street, Suite 203
Harrisburg, PA 17101
(Counsel for CEED)

Ethan Giddings
217 Rodman Avenue
Jenkintown, PA 19046

Michael L. Kessler, VP & General Counsel
American Energy Solutions, Inc.
111 South Alfred Street
Alexandria, VA 22314

John Earwood
Pennsylvania Department of Aging
555 Walnut Street - 5th Floor
Harrisburg, PA 17101

Vickiren S. Aeshleman
Director - Regulatory Policy
QST Energy Inc.
300 Hamilton Blvd. - Suite 300
Peoria, IL 61602

John L. Munsch, Esquire
Allegheny Power
800 Cabin Hill Drive
Greensburg, PA 15601-1689
(Counsel for Allegheny Power)

Al Benincasa
Skipping Stone
46 9th Avenue
Sea Cliff, NY 11579

Usher Fogel, Esquire
Roland, Fogel, Koblenz & Carr, LLP
1 Columbia Place
Albany, NY 12207
(Counsel for Pennsylvania Petroleum Association)

Alan Seltzer, Esquire
Ryan, Russell, Ogden & Seltzer
800 North Third Street, Suite 101
Harrisburg, PA 17102
(Counsel for GPU)

John Gallagher, Esquire
Michael Klein, Esquire
LeBoeuf, Lamb, Greene & MacRae, LLP
200 North Third Street - Suite 300
Harrisburg, PA 17108-2105
(Counsel for Enron Energy Services Power, Inc.)

Kenneth G. Hurwitz, Esq.
Maureen Z. Hurley, Esq.
Venable, Baetjer, Howard & Civiletti, LLP
1201 New York Ave., Suite 1100
Washington, DC 20005-3917
(Counsel for SEPTA)

Lance S. Haver
6048 Ogontz Avenue
Philadelphia, PA 19141

Paul L. Zeigler, Esquire
Zeigler & Zimmerman, PC
355 North 21st Street, Suite 304
P.O. Box 1080
Camp Hill, PA 17011-3707

Philip D. McFarren
McFarren Group
Suite 1100, 200 North Third Street
Harrisburg, PA 17101

Craig Goodman
3220 North Street, NW
Suite 338
Washington, DC 20007

Michael W. Reville, Esq.
National Fuel Gas Distribution Corp.
10 Lafayette Square, 17th Floor
Buffalo, NY 14203

Jay W. Dawson, Esq.
T. W. Phillips Gas & Oil Company
205 North Main Street
Butler, PA 16001

John Kell, Vice President Financial
PG Energy
One P&I Center
Wilkes Barre, PA 18711-0601

Kenneth Christman, General Counsel
Columbia Gas Company
650 Washington Road - 8th Fl.
Pittsburgh, PA 1522802703

Andrew S. Tubbs
Pennsylvania Rural Electric Association
212 Locust Street
Harrisburg, PA 17108

Mark C. Morrow, Esq.
UGI Utilities, Inc. - Gas Division
460 North Guiph Road
King of Prussia, PA 19406

Thomas T. Niesen, Esq.
Thomas, Thomas, Armstrong & Niesen
212 Locust Street, Suite 500
PO Box 9500
Harrisburg, PA 17108-9500
(Counsel for Equitable)

Susan George
The Peoples Natural Gas Company
625 Liberty Avenue
Pittsburgh, PA 15222-3197



Paul R. Bonney
Assistant General Counsel
PECO Energy Company
2301 Market Street, S23-1
Philadelphia, PA 19103
(215) 841-4252

Dated: November 22, 1999



PECO ENERGY

Alfred A. Miller
Director
Rates & Regulatory Affairs

PECO Energy Company
2301 Market Street
PO Box 8699
Philadelphia, PA 19101-8699
215 841 5760

November 22, 1999

By Fax Or First Class Mail

To: Interested Parties

RE: Application of PECO Company, Pursuant to Chapters 11, 19, 21, 22 and 28 Of
The Public Utility Code, For Approval of (1) A Plan of Corporate Restructuring,
Including The Creation Of A Holding Company and (2) The Merger Of The
Newly Formed Holding Company And Unicom Corporation

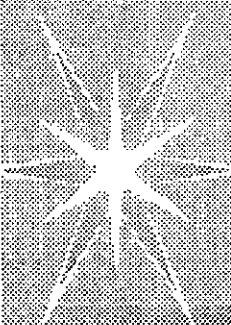
Today we filed with the Pennsylvania Public Utility Commission PECO Energy
Company's Application in the above-captioned matter. If you have not received a copy
of the filing by electronic e-mail, and would like a copy (electronic or hard copy), please
contact our Rates and Regulatory Affairs Department at 215-841-5765.

Sincerely,

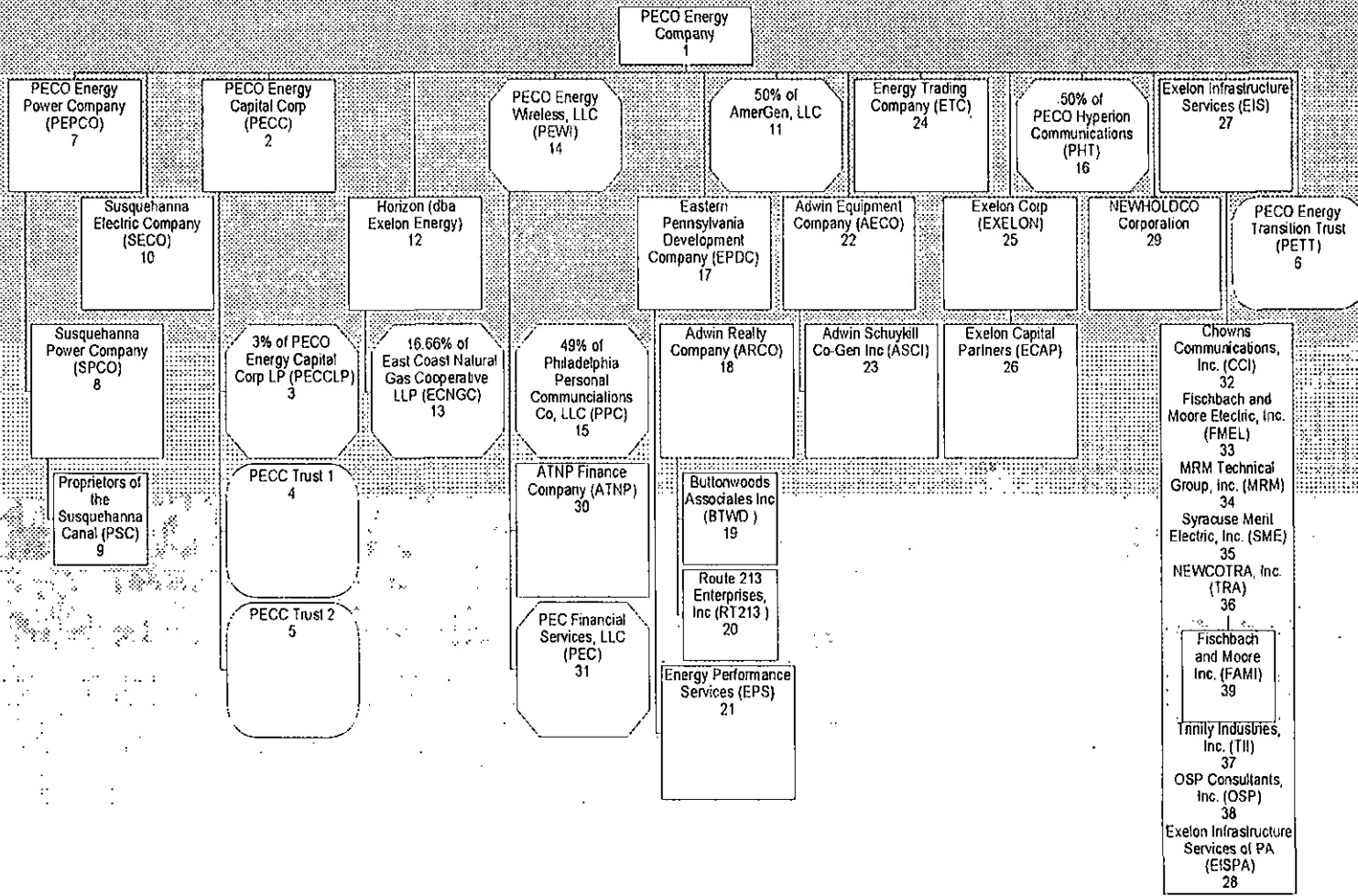

Al Miller

AM/mbo

Enclosures



PECO Current Structure



PECO's Organizational Structure

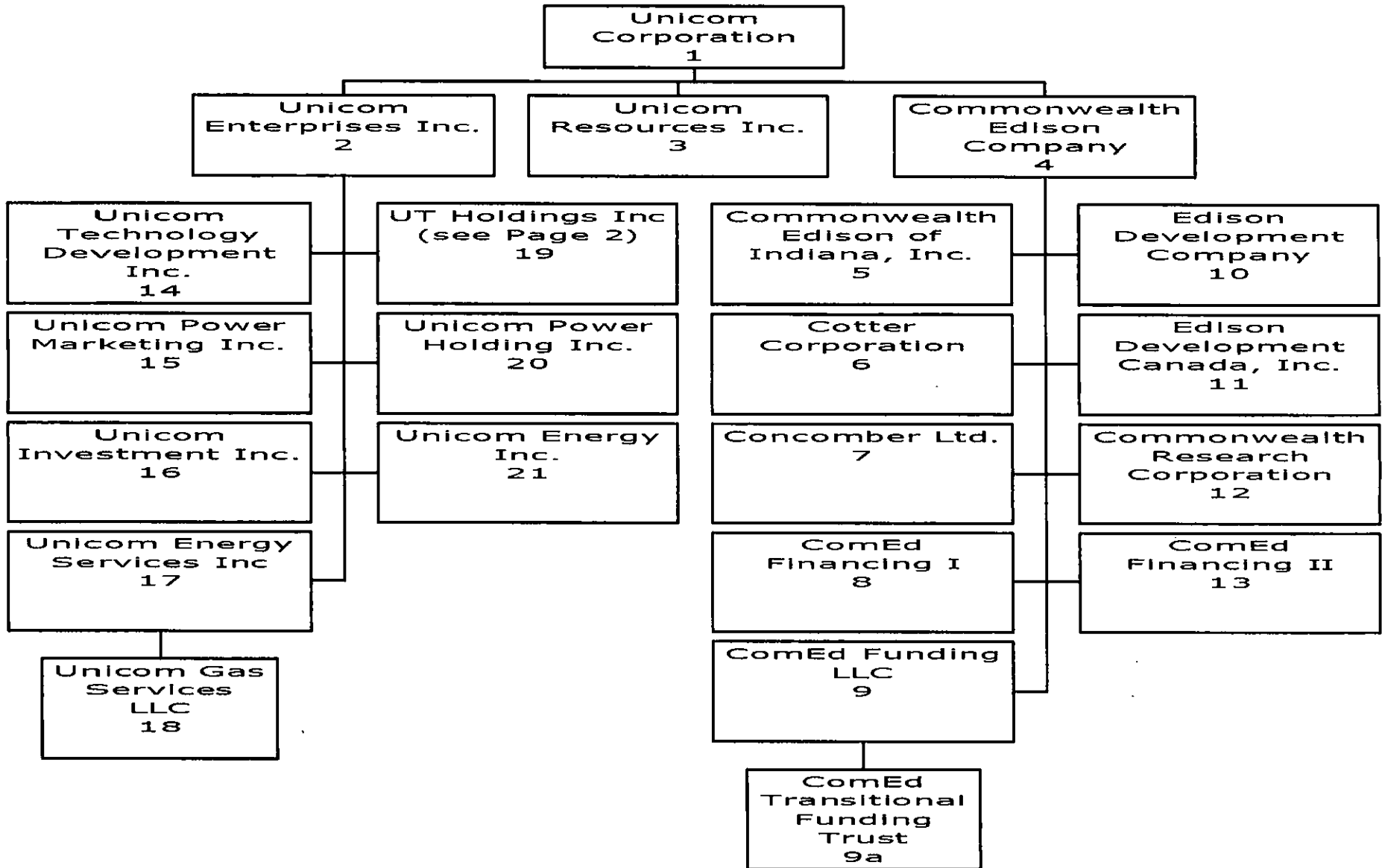
1. **PECO Energy Company (PECO)** (NYSE: PE) is an electric and gas utility serving 1.5 million electric customers in the five-county Philadelphia area and 400,000 natural gas customers in four suburban counties. It is one of the nation's largest nuclear utilities. PECO Energy also owns and operates coal, natural gas, oil, landfill gas and hydro power plants. PECO Energy's Power Team operates a 24-hour energy trading floor with transactions in 47 states and Canada. PECO is also the parent of a consolidated group of companies engaged in various energy and related services. For more information visit their Web site at www.peco.com.
2. **PECO Energy Capital Corp. (PECC)** was formed as a financing vehicle for issuance of mezzanine securities in the form of MIPS, TOPrS and TruPs; it is the 3% general partner in PECO Energy Capital, L.P. (see #3 below).
3. **PECO Energy Capital, L.P. (PECCLP)** [3% General Partner interest held by PECO Energy Capital Corp] a limited partnership the sole purpose of which is to issue mezzanine securities.
4. **PECC Trust 1** is a trust created in relation to issuance of mezzanine securities.
5. **PECC Trust 2** is a trust created in relation to issuance of mezzanine securities.
6. **PECO Energy Transition Trust (PETT)** is an entity used for 1st securitization transaction done in March 1999 for approximately \$4B.
7. **PECO Energy Power Company (PEPCO)** owns real estate and transmission lines located in Pennsylvania. These assets associated with the Conowingo Hydro Project, a FERC licensed hydroelectric generating facility.
8. **Susquehanna Power Company (SPCO)** owns assets comprised of a dam and adjacent land and transmission lines located in Maryland. These assets are associated with the Conowingo Hydro Project, a FERC licensed hydroelectric generating facility.
9. **The Proprietors of the Susquehanna Canal (PSC)** an inactive entity, incorporated in 1783, and acquired in connection with the development of the Conowingo Hydro Project.
10. **Susquehanna Electric Company (SECO)** is the operator of the Conowingo Hydro Project. It engages in wholesale bulk power sales to PECO Energy Company.
11. **AmerGen, LLC** [a 50% LLC interest] is a joint venture with British Energy to acquire nuclear and complementary electric generating assets. This entity has announced the purchase of 5 nuclear power stations which are the subject of review proceedings with various federal and state regulatory bodies: Pennsylvania's Three Mile Island Unit , New York's Nine Mile Point, Illinois' Clinton plant, New Jersey's Oyster Creek and Vermont's Vernon/Vermont Yankee plant.
12. **Horizon Energy Company** (fka PECO Gas Supply Company, dba Exelon Energy) is an unregulated affiliate of PECO Energy created to sell competitively-priced electricity and natural gas in deregulating markets including Pennsylvania, New Jersey and Massachusetts. Offices in Wayne, Pennsylvania, Pittsburgh, Boston and Mount Laurel, New Jersey. As the largest energy supplier in the state of Pennsylvania, Exelon Energy has served residential, small business and industrial customers since 1996. Service under the Exelon brand began in June 1998.
13. **East Coast Natural Gas Cooperative LLP (ECNGC)** [a 16.66% LLP interest] was formed to facilitate the coordinated use of certain natural gas capacity, storage, transportation and supply assets in order to improve service reliability and efficiency.
14. **PECO Wireless, LLC (PEWI)** this wholly owned LLC is the successor to PECO Wireless, Inc. which was merged into it 1/1/98. This is a special purpose entity formed to hold an interest in the AT&T Wireless PCS of Philadelphia, LLC, a joint venture with AT&T.
15. **AT&T Wireless PCS of Philadelphia, LLC (PPC)** [49% LLC interest held by PECO Wireless, LLC], joint venture with AT&T formed to offer personal communications services in the Philadelphia Major Trading Area (MTA); an FCC license holder.
16. **PECO Hyperion Communications (PHT)** [a 50% general partner interest held by PECO Energy Company] is a competitive local exchange carrier (CLEC) that provides services such as local dial tone, long distance, Internet service and point-to-point (voice and data)

communications for businesses and institutions in eastern Pennsylvania. The company is a joint venture with Adelphia Business Solutions (Nasdaq:HYPT), a subsidiary of Adelphia Communications (Nasdaq: ADLAC), one of the largest cable television operators in the United States. For more information visit their Web site at www.pecohyperion.com.

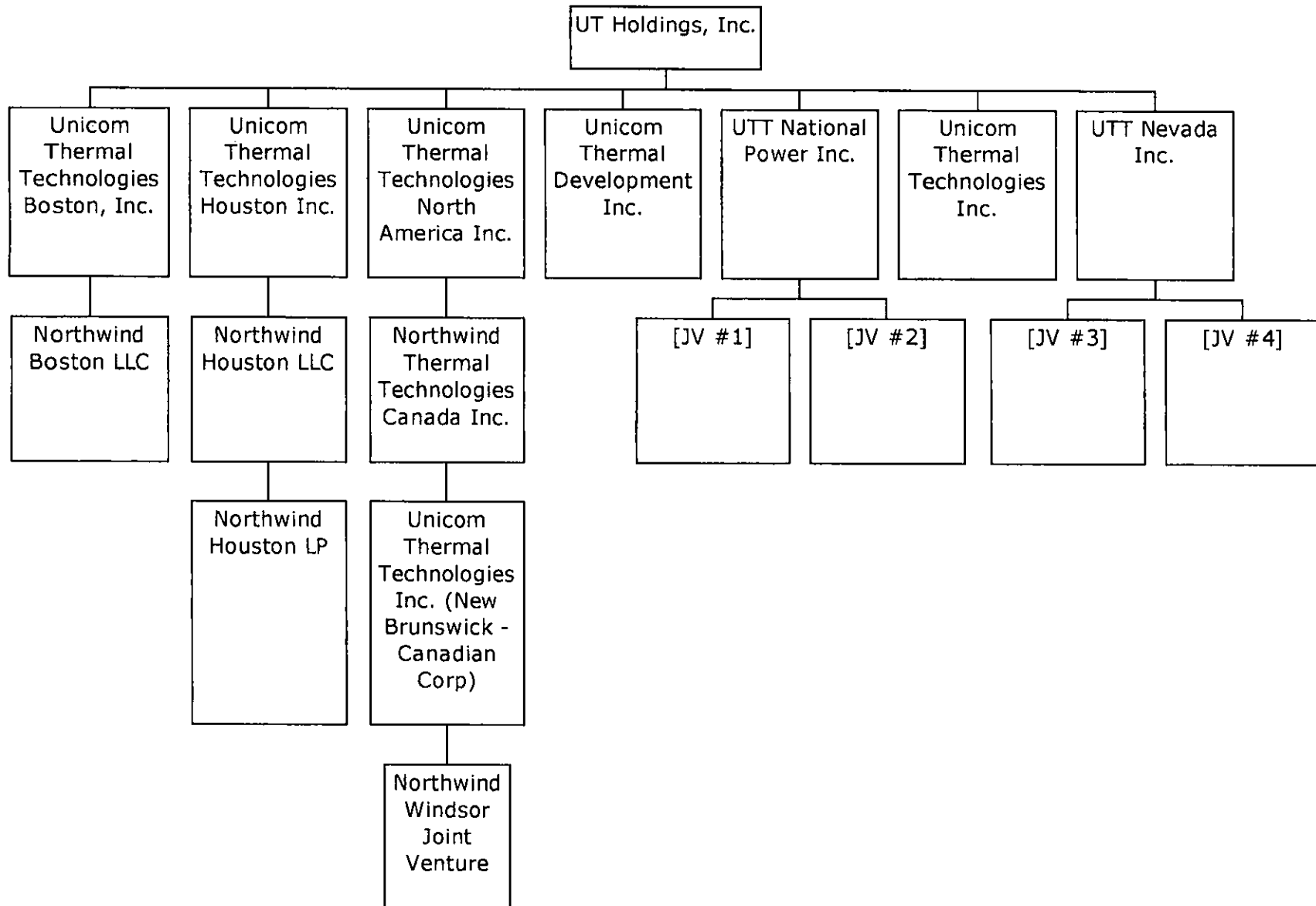
17. **Eastern Pennsylvania Development Company (EPDC)** is a subsidiary holding company formed to hold unregulated real estate and complementary operations.
18. **Adwin Realty Company (ARCO)** is a real estate development and management company.
19. **Buttonwoods Associates, Inc. (BTWD)** is a real estate development and management company.
20. **Route 213 Enterprises, Inc. (RT213)** is a real estate development and management company.
21. **Energy Performance Services, Inc. (EPS)** (fka Heatac Energy dba Exelon Energy Services) specializes in the development, financing, implementation and construction of energy efficiency projects for large industrial, institutional, commercial and governmental facilities throughout the Northeastern United States. Exelon Energy Services integrates reliable energy supply with efficiency improvements, saving money as well as energy for its clients. Its primary mission is to implement cost-effective energy projects, providing the best independent solution for each facility. Exelon Energy Services secures project financing and functions as a design-build contractor and operator, using its onsite project managers to supervise the engineering, local installation and start-up of the project.
22. **Adwin Equipment Company (AECO)** leases equipment for co-generation and related activities.
23. **Adwin (Schuylkill) Cogeneration, Inc. (ASCI)** is currently inactive; it was formed as a special purpose entity to hold an interest in the Grays Ferry Co-generation Project partnership.
24. **Energy Trading Company (ETC)** is a holder of minority interests in: (1) **WorldWide Web NetworX Corporation (NASDAQ: WWWX)** (74,00 shares, <1% worth ~\$200,000 @ 10/29/99), an Internet company and (2) **Entrade, Inc. (NYSE: ETA)**, (200,00 shares, ~1.5% worth ~\$3,200,000 @ 10/29/99) is a business-to-business Internet e-commerce solution provider of marketing, procurement, inventory management, asset management and asset recovery functions; it previously held a 50% ownership interest in BarterOne LLC, an entity formed to develop and market electronic commerce software to facilitate barter trading via the Internet.
25. **Exelon Corporation (EXELON)** is currently inactive; formed as an energy services company providing operation, management and consulting services for owners and operators of electric or energy generation equipment and plants.
26. **Exelon Capital Partners (ECAP)** is a venture capital fund established to leverage the core businesses of utility infrastructure services and communications and PECO Energy's other resources through investment in new businesses. Owns a 21% interest in a privately held telecommunications company called **Extant**. For more information visit the Exelon Capital Partners Web site at www.exeloncapitalpartners.com.
27. **Exelon Infrastructure Services, Inc. (EIS)** was formed to be the subsidiary holding company of a multi-company infrastructure services unit which specializes in the design, construction, operation and maintenance of distribution networks including electric, gas, water, cable and telecommunications; views infrastructure management as a total, integrated process - a unique, yet fundamentally simple approach; provides all of the service an existing network needs, from basic corrective maintenance through comprehensive infrastructure management. For new construction or expansion projects, Exelon performs planning, design and construction from start to finish. This unit is owned ~95% by PECO.
28. **Exelon Infrastructure Services of PA, Inc. (EISPA)** was formed as an entity into which PECO Energy Company's unregulated infrastructure business will be contributed.
29. **NEWHOLDCO Corporation** (fka PECO Energy Corporation) formed to become the public parent holding company of the merged PECO and Unicom entities.
30. **ATNP Finance Company (ATNP)** was formed to manage the net securitization proceeds to maximize the return thereon.

31. **PEC Financial Services, LLC** (PEC) was formed to manage the net securitization proceeds to maximize the return thereon.
32. **Chowns Communications, Inc.** (CCI) is a utility contractor providing primarily telecommunications services. The majority of CCI's revenues are derived from conduit installation projects with Bell Atlantic. CCI operates throughout Pennsylvania and Delaware and employs 180 people.
33. **Fischbach and Moore Electric, Inc.** (FMEL) is an electrical contracting firm known for its construction of complex electrical projects relating to infrastructure for commercial and industrial buildings, and in transit and traffic management systems for various government and private entities. Other important markets include telecommunications and utilities. It operates in nine states with 750 employees.
34. **MRM Technical Group, Inc.** (MRM) is a gas contracting firm comprised of six subsidiary construction companies and several non-construction subsidiaries. The construction companies are Mueller Pipeliners (New Berlin, WI), Gas Distribution Contractors (Aurora, MO), Mid-Atlantic Pipeliners (Newark, DE), Mueller Energy Services (Lorain, OH), Mueller Distribution Contractors (Sanford, FL) and Aconite (St. Paul, MN). MRM operates in 23 states with 1,800 employees.
35. **Syracuse Merit Electric, Inc.** (SME) provides industrial and commercial electrical contracting services including on-site electric facility, inside commercial facility electrical system and data system design and installation. SME operates in 8 states and employs 200 people.
36. **NEWCOTRA, Inc.** (TRA) is a corporate shell formed to hold an acquired infrastructure services company, Fischbach and Moore, Inc. (FAMI).
37. **Trinity Industries, Inc.** (TII) operates as an underground utility contractor in the southern New Jersey area. Most of TII's work is derived from contracts with South Jersey Gas Company, installing natural gas pipeline mains and laterals to the utility's customers. TII employs 100 people.
38. **OSP Consultants, Inc.** (OSP) performs engineering and design services, construction related services, craft services (cable splicing, installation and repair), project management and administrative functions on telecommunications infrastructure projects. OSP performs work for regulated, non-regulated and governmental communications companies, carriers, system operators, equipment manufacturers, power and cable TV companies, systems integrators and data applications companies; as well as a variety of other businesses involved in telecommunications-related activities. OSP operates in 33 states and several countries and employs over 2,200 people.
39. **Fischbach and Moore, Inc.** (FAMI) is an electrical contracting firm known for its construction of complex electrical projects relating to infrastructure for commercial and industrial buildings, and in transit and traffic management systems for various government and private entities. Other important markets include telecommunications and utilities.

Unicom Current Structure



Unicom Current Structure (part 2)



Unicom's Organizational Structure

1. **Unicom Corporation** (NYSE: Unicom) is a parent holding company of a group which includes Commonwealth Edison, an electric utility serving northern Illinois and Unicom Enterprises, an entity engaged in various unregulated energy service activities. Unicom Corporation had no operations, property or payroll. For more information visit their Web site at www.ucm.com.
2. **Unicom Enterprises Inc.** is devoted to energy service activities. It is a subsidiary holding company for unregulated ventures with no property or payroll.
3. **Unicom Resources Inc.** focuses on the development of power projects and other business ventures. It is a shell company formed for a specific purpose which has little or no activity.
4. **Commonwealth Edison Company** is engaged principally in the production (nuclear generation), purchase, transmission, distribution, and sale of electricity to both wholesale and retail customers in the communities of northern Illinois for over a century. The service area covers approximately one-fifth of the state of Illinois and includes the city of Chicago.
5. **Commonwealth Edison of Indiana, Inc.** owns electric transmission assets located in Indiana.
6. **Cotter Corporation** is a uranium mining operation located in Colorado.
7. **Concomber Ltd.** is a captive insurance company used predominantly for worker's compensation coverage.
8. **ComEd Financing I** is a finance company for the purchase of nuclear fuel.
9. **ComEd Funding LLC** is an entity used for 1st securitization transaction done late in 1998 for approximately \$3.5B.
 - a) **ComEd Transitional Funding Trust** is the servicer of the securitization bonds .
10. **Edison Development Company** is a real estate company which handles sales and purchases of homes with respect to employee relocations.
11. **Edison Development Canada, Inc.** is a land development company.
12. **Commonwealth Research Corporation** is a special purpose entity used to bid on and perform work pursuant to government contracts.
13. **ComEd Financing II** is a entity which is party to the nuclear fuel sale/leaseback transaction.
14. **Unicom Technology Development Inc.** pursues advanced technologies and other research and development opportunities for commercial application in the power industry.
15. **Unicom Power Marketing Inc.** is a shell company formed to operate a wholesale power marketing business. It will also market financial hedging instruments and energy services to wholesale customers.
16. **Unicom Investment Inc.** is an entity formed to facilitate sale of fossil assets; ComEd (#4 above) will sell fossil assets to this entity in exchange for a note; this entity will then sell the assets to the third party buyer, Edison Mission Energy.
17. **Unicom Energy Services Inc.** operates a national energy services business. It seeks to provide any energy-related service requested by any energy using entity.- energy experts focused on providing valuable energy services, i.e., help people acquire and use energy more efficiently with greater convenience; serves customers throughout the Midwest from offices in Illinois, Indiana, Michigan, Minnesota, and Missouri.

- a) [Does this entity still have a 50% LLC interest in UL&S, LLC with Landis and Staefa, Inc.?)
18. **Unicom Gas Services LLC** [a 50% owned LLC] a joint venture with Sonat Marketing Services, LLC which is engaged in gas transactions.
 19. **UT Holdings Inc.** is the parent holding company of subsidiaries which provide district cooling services and other energy related services in North America. District energy solutions are provided from centrally-located cooling plants, provide efficient, environmentally-friendly cooling to businesses in urban, campus and facilities-based locations; employs exclusive Northwind technology which uses ice instead of chlorofluorocarbons (CFCs) to provide cooling to buildings within the "district." Operates also through partnership with companies throughout North America. Sites include Chicago, Boston, Houston, and Windsor, Ontario.
 20. **Unicom Power Holding Inc.** - recently formed for ?
 21. **Unicom Energy Inc.** - recently formed for ?

PECO ENERGY COMPANY

Plan of Restructuring

General

The purpose of this Plan of Restructuring is to restructure PECO Energy Company and its existing subsidiaries (the "Restructuring") so that, after the Restructuring is completed, the existing holders of common stock of PECO Energy Company will be shareholders of a new holding company ("Newholdco") and Newholdco will, directly or indirectly, own all of the following four subsidiary groups:

1. Transmission and Distribution Subsidiaries (providing retail transmission and distribution of electric and gas energy in Southeastern Pennsylvania;
2. Generation Subsidiaries (nuclear, fossil and hydro generating assets and the Power Team (wholesale marketing organization));
3. Ventures Subsidiaries (telecommunications, infrastructure services, unregulated retail gas and electric sales activities and other non-regulated activities); and
4. Service Subsidiaries (providing administrative, information technology and general services to other entities).

Herein, each corporation or other entity owned directly or indirectly by Newholdco after the implementation of the Restructuring is referred to as a "Subsidiary".

To the extent any of the four types of Subsidiaries described above should be "second" or "third" tier Subsidiaries, as opposed to "first tier" Subsidiaries which are directly owned by Newholdco, this can be accomplished either through the Plan of Division (in which case two new corporations would be created for each category of Subsidiary, one of which would be wholly-owned by the other) or through the creation of one or more intermediate holding companies after the accomplishment of the Plan of Division, as contemplated by Section 13 of the Steps in Plan of Restructuring described below.

Relationship of Restructuring to Unicom Transaction

It is the objective to integrate the "Restructuring" with the merger transaction with UNICOM Corporation. It is recognized that, as part of the UNICOM transaction as reflected in the Agreement and Plan of Exchange and Merger dated September 22, 1999 (the "Merger Agreement"), there is to be a share exchange (the "First Step Exchange," as

defined in the Merger Agreement) pursuant to which Newholdco will become the sole shareholder of common stock of PECO Energy Company, followed by the merger (the "UNICOM Merger") of UNICOM Corporation with and into Newholdco. As a result of the UNICOM Merger, Newholdco will come to own stock of various corporations that were formally subsidiaries of UNICOM Corporation (for purposes hereof, any subsidiaries formally owned by UNICOM are sometimes referred to as "UNICOM Subsidiaries"). The Plan of Restructuring, as described below, is intended to be effective whether or not the UNICOM Merger occurs. To the extent the UNICOM Merger occurs, then certain provisions of the following Plan of Restructuring will be applicable as specifically noted; but, if the UNICOM Merger does not occur, such provisions would be without effect, but the basic elements of the Plan of Restructuring will remain intact and be implemented.

Upon the occurrence of both the Plan of Restructuring and the UNICOM Merger, the organization chart of Newholdco will be as shown on Exhibit A attached hereto (the "Simplified Organization Chart").

Steps in Plan of Restructuring

The Restructuring shall be accomplished pursuant to this Plan of Restructuring as follows:

1. Newholdco has been formed as a wholly-owned subsidiary of PECO Energy Company.
2. Pursuant to Section 1931 of the Pennsylvania Business Corporation Law of 1988, as amended (the "PBCL"), and the Merger Agreement, and after approval by the common shareholders of PECO Energy Company, there will be a First Step Exchange (as defined in the Merger Agreement) pursuant to which Newholdco will become the sole holder of all outstanding common stock of PECO Energy Company and all of the existing holders of common stock of PECO Energy Company will become common shareholders of Newholdco. The Board of Directors of Newholdco will be constituted as provided in the Merger Agreement and the Board of Directors of PECO Energy Company, after the effective time of the First Step Exchange, shall consist of [to be supplied].
3. To the extent the Merger Agreement is terminated, it is still the objective of PECO Energy Company to create a holding company structure pursuant to a share exchange between Newholdco and PECO Energy Company in accordance with Section 1931 of the PBCL. Accordingly, if the UNICOM Merger is abandoned because the Merger Agreement is terminated in

accordance with its terms, approval by the Board of Directors of PECO Energy Company of this Plan of Restructuring will be deemed both (x) reconfirmation and reapproval of the simplified plan of share exchange that has previously been approved by the Board of Directors of PECO Energy Company in the form attached hereto as Exhibit B, with such changes thereto and with such schedules attached thereto as the Chairman, President and Chief Executive Officer of PECO Energy Company (the "Authorized Officer") may approve (the "Simplified Plan of Share Exchange") and (y) authorization to proceed to take all necessary steps, including the obtaining of approval of the Simplified Plan of Share Exchange from the common shareholders of PECO Energy Company, to implement such Simplified Plan of Share Exchange as part of this Plan of Restructuring. If the Simplified Plan of Share Exchange is implemented, the Board of Directors of Newholdco will be the same as the Board of Directors of PECO Energy Company immediately prior to the effective time of the Simplified Plan of Share Exchange, and the Board of Directors of PECO Energy Company, after the effective time of the Simplified Plan of Share Exchange, shall consist of [to be supplied].

4. The existing preferred stock of PECO Energy Company will remain outstanding and the holders thereof will be unaffected by the creation of Newholdco and the implementation of either the First Step Exchange or the Simplified Plan of Share Exchange. Similarly, all existing debt of PECO Energy Company will remain outstanding and continue as a direct obligation of PECO Energy Company following the First Step Exchange or the Simplified Plan of Share Exchange. As discussed below, the existing debt of PECO Energy Company will be reallocated, both pursuant to the Plan of Division and otherwise as described in Sections 9 and 12, below.
5. Once Newholdco becomes the sole holder of common stock of PECO Energy Company pursuant to either First Step Exchange or the Simplified Plan of Share Exchange, PECO Energy Company will adopt a "Plan of Division" under Subchapter D of Chapter 19 of the PBCL in substantially the form attached hereto as Exhibit C pursuant to which PECO Energy Company will continue as the surviving corporation (and the Transmission and Distribution Subsidiary) and there will be three (or more if there are to be intervening Subsidiaries as discussed above under "General") new Pennsylvania corporations: Generation Subsidiary, Ventures Subsidiary and Services Subsidiary, each of which will be wholly-owned by Newholdco after completion of the restructuring. It is assumed that the adoption and implementation of the Plan of Division will occur promptly after the

effectiveness of the UNICOM Merger or the Simplified Plan of Share Exchange, as the case may be.

6. As contemplated by the Merger Agreement, the First Step Exchange is to occur immediately before the UNICOM Merger is effective. If the Merger Agreement is terminated, then the Plan of Division is to be implemented after the Simplified Plan of Share Exchange is effective.
7. Under the Plan of Division, specific assets will be transferred, by operation of law, to the Generation Subsidiary, to the Ventures Subsidiary and to the Services Subsidiary, based on the business function of each Subsidiary, with the actual "tiering" of each such Subsidiary to be determined by the Authorized Officer. All of the transmission and distribution assets, as well as any residual assets not otherwise specifically transferred to a new Subsidiary, will remain with PECO Energy Company, which will become the primary Transmission and Distribution Subsidiary. The outstanding capital stock of existing Subsidiaries of PECO Energy Company will be among the assets to be transferred to each of the new Subsidiaries or retained by PECO Energy Company, depending on the nature of the activities of such second-tier or third-tier subsidiaries.
8. Pursuant to the Plan of Division, new Generation, Ventures and Services Subsidiaries which are formed may, at the outset, and pursuant to the specific terms of the Plan of Division, either be directly owned by PECO Energy Company or by Newholdco. If such Subsidiaries are initially directly owned by PECO Energy Company, the stock in such Subsidiaries will be distributed by PECO Energy Company to Newholdco following the division so that such Subsidiaries become wholly-owned by Newholdco. The determination of whether such Subsidiaries will be initially owned by PECO Energy Company or Newholdco will be determined by the Authorized Officer based on advice of tax counsel to PECO Energy Company.
9. With respect to the outstanding debt obligations of PECO Energy Company, the Plan of Division may provide for the allocation of such debt obligations to the various Subsidiaries as the Authorized Officer may determine.
10. In addition to the use of the Plan of Division, other new Subsidiaries of Newholdco may also be formed to which certain remaining assets and liabilities of PECO Energy Company will be transferred by instruments of assignment and transfer. The decision as to which assets will be transferred

pursuant to the Plan of Division and which assets will be transferred by appropriate instruments of assignment and transfer will be determined by the Authorized Officer.

11. The specific assets and liabilities (including debt obligations referred to in Section 9, above) which will be transferred to each new Subsidiary or which will be retained by PECO Energy Company shall be determined by the Authorized Officer.
12. Following implementation of the Plan of Division, Newholdco (either directly or through a newly-formed finance Subsidiary) will establish its own short-term debt facilities, including the commercial paper program, and, with the proceeds thereof, the existing short-term debt obligations of PECO Energy Company will be eliminated.
13. As a result of the steps described above, Newholdco will be the direct or indirect owner of four principal groups of Subsidiaries: the Transmission and Distribution Subsidiaries, the Generation Subsidiaries, the Ventures Subsidiaries and the Service Subsidiaries. To the extent that it is appropriate to form intermediate holding companies as Subsidiaries of Newholdco, it will be necessary to form Subsidiaries which will be directly owned by Newholdco and to which all of the common equity stock of one or more of the Transmission and Distribution, Generation, Ventures or Service Subsidiaries will be transferred.
14. If the UNICOM Merger has occurred, there will be a need to integrate the UNICOM Subsidiaries with the Subsidiaries of Newholdco which will exist independent of the UNICOM Merger. In this regard, it may be necessary (x) to merge one or more Subsidiaries (including UNICOM Subsidiaries) and (y) to transfer stock ownership of various Subsidiaries (including UNICOM Subsidiaries) to other Subsidiaries (including UNICOM Subsidiaries). This would all be done to achieve the results reflected on the Simplified Organization Chart and be subject to both regulatory approval and approval by the Authorized Officer.

The accomplishment of this Plan of Restructuring shall be subject to the following:

- (a) the receipt of all necessary regulatory approvals;
- (b) the receipt of such tax rulings and tax opinions as the Authorized Officer may determine to be necessary or desirable in connection with the Plan of Restructuring;

- (c) listing of shares of Newholdco on the New York Stock Exchange and such other exchanges on which shares of PECO Energy Company are currently traded; and
- (d) the receipt of such shareholder approval as may be necessary in connection with the adoption of the Merger Agreement, the Simplified Plan of Share Exchange (if the Merger Agreement is terminated), and the Plan of Division.

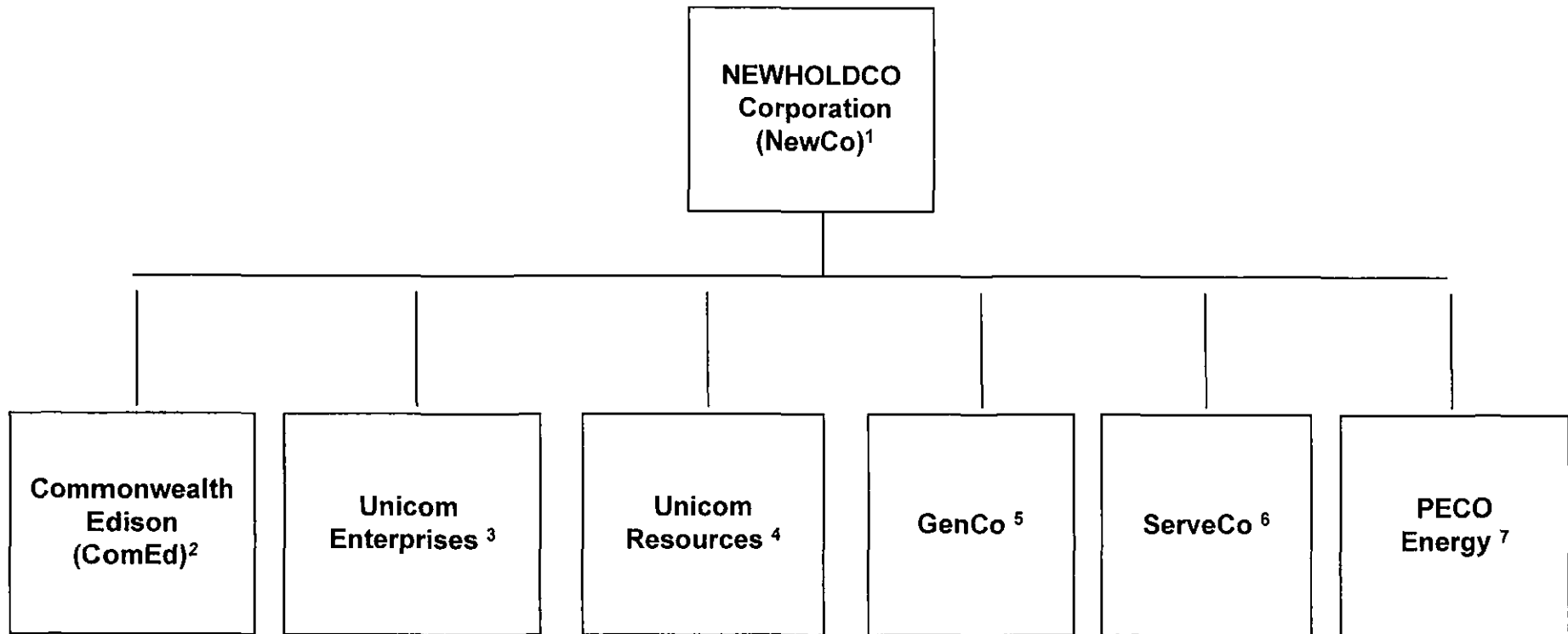
Exhibit D

**Agreement and Plan of Exchange and Merger is bound separately as
Volume III**

EXHIBIT E1

Organizational Chart

Expected First Tier Subsidiaries



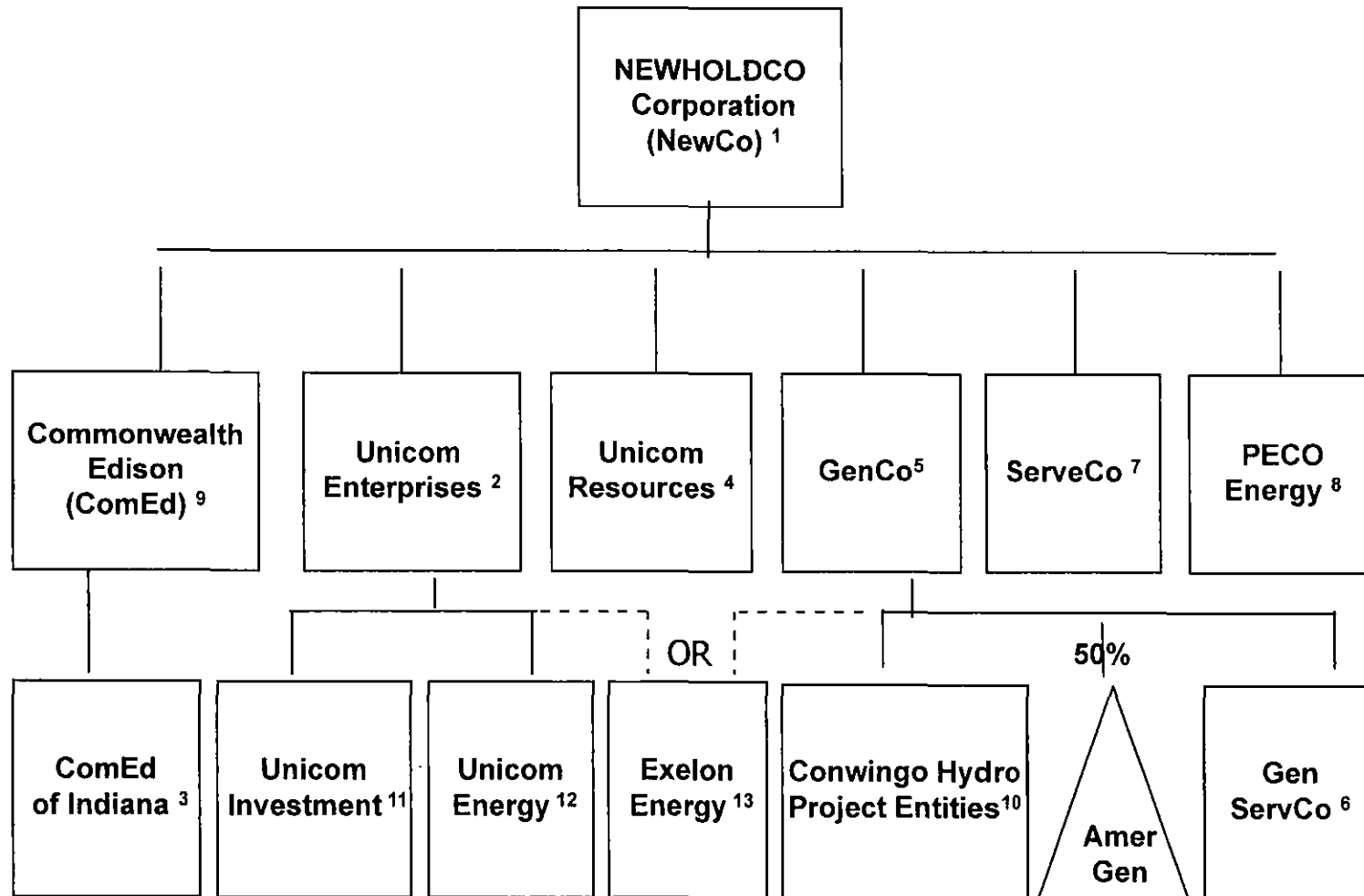
Organizational Chart

Expected First Tier Subsidiaries

Footnotes

1. Entity is a PA corporation.
2. Entity is currently a vertically integrated electric utility which includes T&D and nuclear generating assets. Before 12/31/99, it is expected to dispose of its fossil assets in a transaction separate from the merger. The nuclear generating assets of this entity may be transferred to the GenCo. This entity may continue to hold some or all of the subsidiaries it currently has.
3. Entity has several subsidiary or joint venture operations including Unicom Investment, the entity which will be used to facilitate the sale of ComEd's fossil assets to the third party buyer and Unicom Energy, an alternative retail electric supplier (ARES). This entity may eventually hold interest in the current "unregulated" ventures of PECO Energy.
4. Entity is a current first tier subsidiary of Unicom Corporation which conducts no activity and has no subsidiary operations.
5. Entity or entities which will own the nuclear and fossil generating assets of PECO and will house the Power Team (wholesale marketing organization) and may include the nuclear generating units of ComEd. Group will also include the Conowingo Project entities and the 50% interest in AmerGen Energy Company, LLC.
6. Entity will be newly formed as a Service Company generally providing administrative and general services to all entities within the group.
7. Entity is the current publicly traded parent company of the PECO group. It is currently a vertically integrated electric and gas utility which includes T&D, fossil and nuclear generating assets, wholesale power marketing and non-regulated activities. In conjunction with the merger, this entity will disaggregate some operations and focus its operations on the SePA territory T&D business. This entity may continue to hold some of its current subsidiaries.

Simplified Organizational Chart



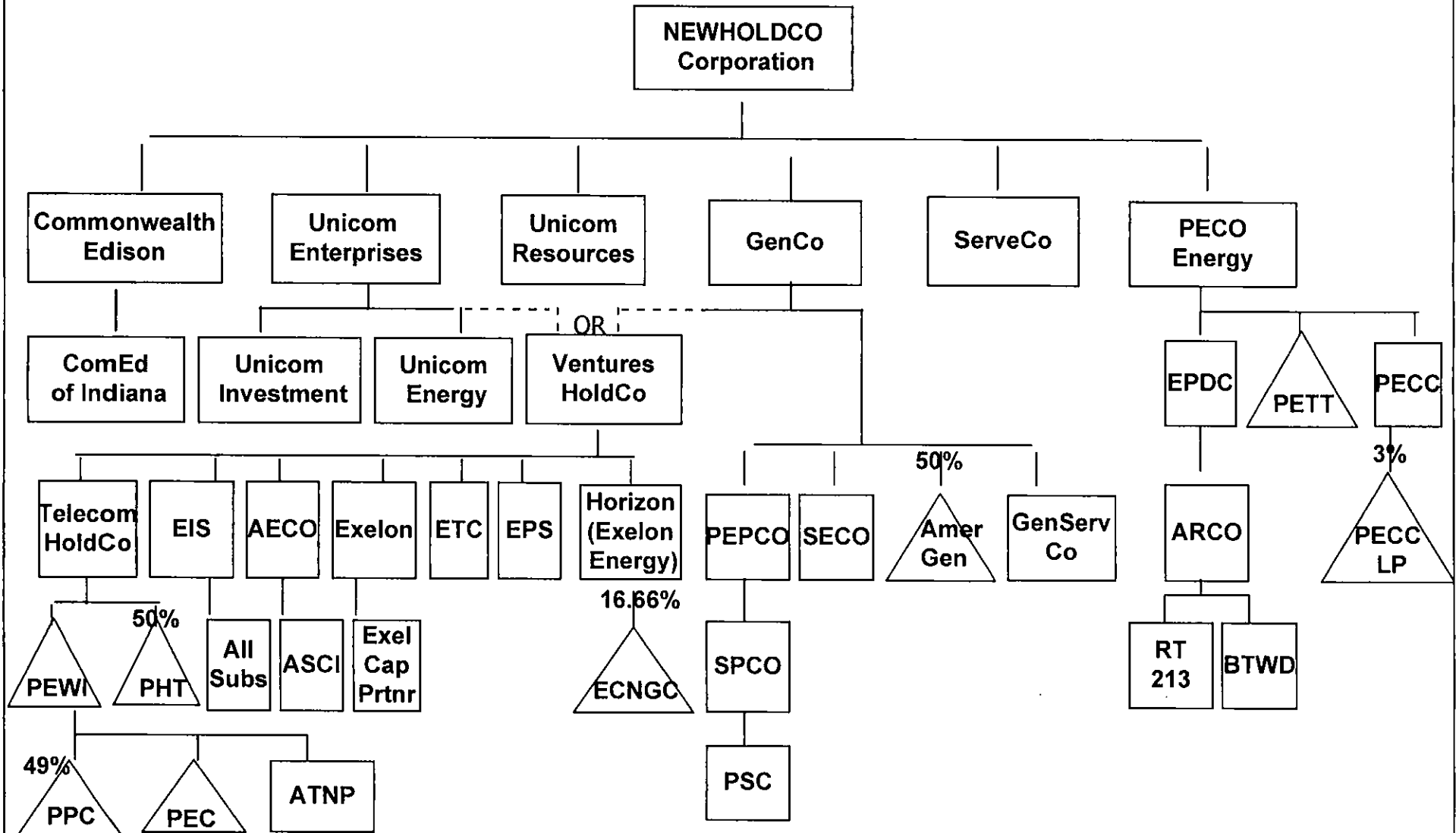
Simplified Organizational Chart

Footnotes

1. Entity is a PA corporation.
2. Entity has several other subsidiary or joint venture operations including Unicom Investment, the entity which will be used to facilitate the sale of ComEd's fossil assets to the third party buyer and Unicom Energy, an alternative retail electric supplier (ARES). This entity may eventually hold interest in the current "unregulated" ventures of PECO Energy.
3. Entity owns electric transmission assets located in Indiana.
4. Entity is a current first tier subsidiary of Unicom Corporation which conducts no activity and has no subsidiary operations.
5. Entity or entities which will own the nuclear and fossil generating assets of PECO and will house the Power Team (wholesale marketing organization) and may include the nuclear generating assets of ComEd. Exelon Energy will reside here or in Unicom Enterprises; if it resides here, a separate SePA territory subsidiary would be necessary. May also include the other "unregulated ventures" of PECO Energy.
6. Entity which will house all employees who work for GenCo.
7. Entity will be a newly formed Service Company generally providing administrative and general services to all entities within the group.
8. Entity is the current publicly traded parent company of the PECO group. It is currently a vertically integrated electric and gas utility which includes T&D, fossil and nuclear generating assets, wholesale power marketing and non-regulated activities. In conjunction with merger this entity will disaggregate some operations and focus its operations on the SePA territory T&D business. This entity may continue to hold some of its current subsidiaries.
9. Entity is currently a vertically integrated electric utility which includes T&D and nuclear generating assets. Before 12/31/99, it is expected to dispose of its fossil assets in a transaction separate from the merger. The nuclear generating assets of this entity may be transferred to GenCo. This entity may continue to hold some or all of its current subsidiaries.
10. Box represents 4 corporate entities which are subsidiaries of PECO Energy, 3 of which are licensed owner-operators of the Conowingo Hydro Project. The ownership of these entities will change to GenCo, but no other change will occur.
11. Entity will be used to facilitate the sale of ComEd's fossil assets to the third party buyer.
12. Entity is an alternative retail electric supplier (ARES).
13. Entity currently engages in the unregulated retail gas and electric business. Exelon Energy will reside here or in GenCo.

EXHIBIT E3

PECO Energy Post-Restructuring and Merger



11/19/1999 11:07 AM

PECO Energy Company
Description of Generation Assets Transferred
as of June 30, 1999

The assets and liabilities transferred to the GenCo. are consistent with those described on page 2 of Exhibit F of this filing with a few minor changes. First, the net plant transferred will include the generation step-up transformers. The transformers are currently included in transmission plant, not generation plant. A second modification is related to common & general plant. A detailed review of common and general plant was performed and plant that is directly assignable to the GenCo. was transferred to the GenCo., whereas the allocable general and common plant, primarily software, will most likely be transferred to either NewCo. or ServeCo. The descriptions as set forth in PECO Energy's restructuring settlement state that net plant includes the plant from Susquehanna Electric Company, Susquehanna Power Company, and PECO Energy Power Company whereas Exhibit F to this filing include these amounts in Investments in Associated Companies.

In addition to the above referenced assets and liabilities, PECO Energy is transferring its wholesale sales and purchased power contracts to the GenCo.

PECO GENERATION
ASSETS AND LIABILITY ACCOUNTS FOR TRANSFER

Appendix I

<u>DESCRIPTION</u>	<u>FERC</u>
Net Plant and CWIP (a)	Fossil, nuclear, hydro & other generating facilities, net of accumulated depreciation including allocated common and general plant 01010-01110
Non-utility Plant	Land associated with generating facilities 01210-01220
Nuclear Fuel (b)	Fuel assemblies from processed ore to spent fuel 01200
Other Investments	Emission allowances and stock warrants 01240
Decommissioning Funds	Nuclear decommissioning trust assets 01260-01280
Working Funds	Funds deposited for operation of jointly owned generating facilities 01350
A/R	Wholesale power receivable 01430
Inventory (b)	Fossil fuels and generating material and operating supplies 01510-01640
Prepayments	Prepaid insurance and property taxes for generating plant 01650
Regulatory Assets	DOE enrichment facility decommissioning receivable 01823
Preliminary Survey	Preliminary engineering costs on proposed generating construction projects 01830-21830
Misc. Deferred Debits	Misc. generating property items not classified as plant 01860
R&D	R&D charges for generation 01880
Accrued Deferred Income Taxes	Net accrued deferred income tax liabilities for generating plant 01900,02550,02810,02820,02830
Debt	Debt incurred to acquire equipment 02210-02260
Obligations Under Cap Lease-NC	Non-current portion of nuclear fuel lease 02270
Accrued Provision for Pension & Benefits	Non-pension post retirement benefit obligation (generation portion) 02283
Accrued Misc. Operating Provisions	DOE enrichment facility decommissioning obligation 02284
Accounts Payable	Amounts owed for currently payable invoices (generation portion) 02320
Taxes Accrued	Current amounts due for income taxes (generation portion) 02360
Interest Accrued	Interest incurred but not paid on debt to acquire equipment (generation plant) 02370
Tax Collections Payable	Withholding taxes, sales and use taxes, etc. (generation portion) 02410
Misc. Current & Accrued Liabilities	Current generation obligations which have not been invoiced 02420
Obligations Under Cap Lease-Current	Current portion of nuclear fuel lease 02430
Misc. Deferred Credits	Non-current obligations including environmental accruals 02530
Emission Allowances	Deferred gains on sales of emission allowances 02540

Footnotes:

- (a) Including PECO Subsidiaries: Susquehanna Power Company, PECO Energy Power Company and Susquehanna Electric Company.
 (b) Including all current contracts for fossil and nuclear fuel.

PECO Energy Company
Assets and Liability Accounts to be Transferred to Generation Company
Balances As of 6/30/99
(\$ In Thousands)

<u>FERC Accounts</u>	<u>Description</u>	<u>Generation Company</u>
<u>Assets</u>		
01010 to 01110	Net Plant & CWIP	637,432
0120	Nuclear Fuel	296,703
0121 to 0122	Non-Utility Plant	22,180
0123	Investments in Associated Companies	77,365
0124	Investments	4,792
0128	Decommissioning Funds	405,012
0131	Cash	
0134 to 0135	Special Deposits & Working Funds	33,891
01410 to 0144	Notes & Accounts Receivable	182,543
0146	Accounts Receivable Associated Companies	10,009
0151, 0152 & 0158	Fuel Inventory	28,494
0154 & 0163	Material & Supplies Inventory	31,475
0165	Prepayments	4,363
0174	Miscellaneous Current Assets	
01823	Regulatory Asset - DOE Enrichment Facility	48,135
0183	Preliminary Survey	1,893
0184 to 01860	Miscellaneous Deferred Debits	7,021
0188	R&D Expenditures	(1,302)
<u>Liabilities & Equity</u>		
0190,0255,0281,0282 & 0283	Deferred Income Taxes	(127,525)
0221, 0224,0225 &0226	Debt	174,778
0231	Notes Payable	
0223	Notes with Associated Companies	
02283	Accrued Post Retirement Benefits	198,144
02284	Accumulated D&D Funds	40,842
0232	Accounts Payable	259,789
0234	Intercompany Payables	17,797
0238	Dividends Payable	
02370	Interest Accrued	1,182
0242	Miscellaneous Current & Accrued Liabilities	132,982
0253	Miscellaneous Deferred Credits	209,041
0254	Other Liabilities	333

PECO Energy Company
Description of Assets to be Transferred to NewCo./ServeCo. and VenturesCo.
as of June 30, 1999

NewCo./ServeCo.

The assets transferred to NewCo./ServeCo. consist of items such as the software for the general ledger system, the Time & Labor system for human resources, accounts payable software systems, office equipment, and LAN/WAN infrastructure investment. Also transferred to NewCo. would be assets such as the investment in unregulated businesses not going to the ventures company.

VenturesCo.

The assets transferred to VenturesCo. consist of investments in telecommunications businesses and investments in Horizon Energy. Additionally any current and accrued assets and liabilities associated with these businesses would be transferred.

PECO Energy Company
Assets and Liability Accounts to be Transferred to ServCo./NewCo.
Balances As of 6/30/99
 (\$ In Thousands)

<u>FERC Accounts</u>	<u>Description</u>	<u>VenturesCo.</u>	<u>ServCo. NewCo.</u>
<u>Assets</u>			
01010 to 01110	Net Plant & CWIP	14,283	84,040
0120	Nuclear Fuel		
0121 to 0122	Non-Utility Plant	482	245
0123	Investments in Associated Companies	136,829	21,382
0124	Investments	4,000	22,698
0128	Decommissioning Funds		
0131	Cash		316,820
0134 to 0135	Special Deposits & Working Funds		(784)
01410 to 0144	Notes & Accounts Receivable	5,936	17,864
0146	Accounts Receivable Associated Companies	103,328	203
0151, 0152 & 0158	Fuel Inventory		
0154 & 0163	Material & Supplies Inventory		(1,423)
0165	Prepayments	31	5,321
0174	Miscellaneous Current Assets		2,876
01823	Regulatory Asset - DOE Enrichment Facility		
0183	Preliminary Survey		999
0184 to 01860	Miscellaneous Deferred Debits	2,814	(5,127)
0188	R&D Expenditures		
<u>Liabilities & Equity</u>			
0190, 0255, 0281, 0282 & 0283	Deferred Income Taxes	(2,250)	(14,624)
0201	Common Stock		3,616,660
0211, 0214, 0216 & 0217	Paid in Capital	(5,643)	(1,913,751)
0221, 0224, 0225 & 0226	Debt		
0231	Notes Payable		226,000
0223	Notes with Associated Companies		1,488,250
02283	Accrued Post Retirement Benefits	12,390	44,374
02284	Accumulated D&D Funds		
0232	Accounts Payable	7,188	73,228
0234	Intercompany Payables	11,727	(15,415)
0238	Dividends Payable		18,382
02370	Interest Accrued		4,352
0242	Miscellaneous Current & Accrued Liabilities	18,218	21,740
0253	Miscellaneous Deferred Credits	1,230	21,714
0254	Other Liabilities		

EXHIBIT H1

Exhibit __

GENERAL SERVICES AGREEMENT

BETWEEN

_____ SERVICES COMPANY

AND

PECO ENERGY COMPANY, COMMONWEALTH EDISON COMPANY,
COMMONWEALTH EDISON COMPANY OF INDIANA, INC., _____

[ADD NAMES OF ADDITIONAL ENTITIES HERE]

THIS AGREEMENT, made and entered into this __ day of _____, 1999, by and between the following Parties: _____ SERVICES COMPANY (hereinafter sometimes referred to as "Service Company"), a _____ corporation; and **[INSERT NAME OF REGISTERED HOLDING COMPANY HERE]**, a _____ corporation; PECO ENERGY COMPANY ("PECO"), a Pennsylvania Corporation; COMMONWEALTH EDISON COMPANY (ComEd), an Illinois corporation; COMMONWEALTH EDISON COMPANY OF INDIANA, INC., an _____ corporation; **[ADD ADDITIONAL PARTIES TO THE SERVICE AGREEMENT HERE]**, (hereinafter sometimes referred to collectively as "Client Companies");

WITNESSETH:

WHEREAS, Client Companies, including **[INSERT NAME OF REGISTERED HOLDING COMPANY]**, which has filed for registration under the terms of the Public Utility Holding Company Act of 1935 (the "Act") and its other subsidiaries, desire to enter into this agreement providing for the performance by Service Company for the Client Companies of certain services more particularly set forth herein; and

WHEREAS, Service Company is organized, staffed and equipped and has filed with the Securities and Exchange Commission ("the SEC") to be a subsidiary service company under Section 13 of the Act to render to **[INSERT NAME OF REGISTERED HOLDING COMPANY HERE]**, and other subsidiaries of **[INSERT NAME OF REGISTERED HOLDING COMPANY HERE]**, certain services as herein provided; and

WHEREAS, to maximize efficiency, and to achieve merger related savings, the Client Companies desire to avail themselves of the advisory, professional, technical and other services of persons employed or to be retained by Service Company, and to compensate Service Company appropriately for such services,

NOW, THEREFORE, in consideration of the premises and of the mutual agreements herein, the parties hereto agree as follows:

Section 1. Agreement to Furnish Services

Service Company agrees to furnish to Client Companies and their subsidiaries, if any, upon the terms and conditions herein provided, the services hereinafter referred to and described in Section 2, at such times, for such period and in such manner as Client Companies may from time

to time request. Service Company will keep itself and its personnel available and competent to render to Client Companies such services so long as it is authorized so to do by the appropriate federal and state regulatory agencies. In supplying such services, Service Company may arrange, where it deems appropriate, for the services of such experts, consultants, advisers, and other persons with necessary qualifications as are required for or pertinent to the provision of such services.

Section 2. Services to be Performed

The services expected to be provided by Service Company hereunder may, upon request by a Client Company, include the services as set out in Schedule 1, attached hereto and made a part hereof.

In addition to the Services set out in Schedule 1, Service Company shall render such additional general or special services, whether or not now contemplated, as Client Companies may request from time to time and Service Company determines it is able to perform.

Notwithstanding the foregoing paragraph, no change in the organization of the Service Company, the type and character of the companies to be serviced, the methods of allocating costs to associate companies, or in the broad general categories of services to be rendered subject to Section 13 of the Act, or any rule, regulation or order thereunder, shall be made unless and until the Service Company, shall first have given the SEC written notice of the proposed change not less than 60 days prior to the proposed effectiveness of any such change. If, upon the receipt of any such notice, the SEC shall notify the Service Company within the 60-day period that a

question exists as to whether the proposed change is consistent with the provisions of Section 13 of the Act, or of any rule, regulation or order thereunder, then the proposed change shall not become effective unless and until the Service Company shall have filed with the SEC an appropriate declaration regarding such proposed change and the SEC shall have permitted such declaration to become effective.

Section 3. New Subsidiaries

New direct or indirect subsidiaries of **[INSERT NAME OF REGISTERED HOLDING COMPANY HERE]**, which may come into existence after the effective date of this Service Agreement, may become additional client companies of Service Company and subject to this service agreement with Service Company. The parties hereto shall make such changes in the scope and character of the services to be rendered and the method of assigning, distributing or allocating costs of such services as may become necessary to achieve a fair and equitable assignment, distribution, or allocation of Service Company costs among all associate companies including the new subsidiaries.

Section 4. Compensation of Service Company

As compensation for the services to be rendered hereunder, Client Companies listed in Attachment A hereto, as amended from time to time, shall pay to Service Company all costs which reasonably can be identified and related to particular services performed by Service Company for or on its behalf. Client Companies listed in Attachment B hereto, as amended from

time to time, shall pay to Service Company charges for services that are to be no less than cost (except as may otherwise be permitted by the SEC), insofar as costs can reasonably be identified and related by Service Company to its performance of particular services for or on behalf of Client Company.

The methods for assigning or allocating Service Company costs to Client Company, as well as to other associate companies, are set forth in Schedules 1 and 2 attached hereto.

Attachments A and B and Schedules 1 and 2 are each expressly incorporated herein and made a part hereof.

Section 5. Securities and Exchange Commission Rules

It is the intent of the Parties that the determination of the costs as used in this Agreement shall be consistent with, and in compliance with the rules and regulations of the SEC, as they now read or hereafter may be modified by the Commission.

Section 6. Service Requests

The services described herein or contemplated to be performed hereunder shall be directly assigned, distributed or allocated by activity, project, program, work order or other appropriate basis.

Section 7. Payment

Payment shall be by making remittance of the amount billed or by making

appropriate accounting entries on the books of the companies.

Invoices shall be prepared on a monthly basis.

Section 8. [INSERT NAME OF REGISTERED HOLDING COMPANY HERE]

Except as authorized by rule, regulation, or order of the Securities and Exchange Commission, nothing in this Agreement shall be read to permit **[INSERT NAME OF REGISTERED HOLDING COMPANY HERE]**, or any person employed by or acting for **[INSERT NAME OF REGISTERED HOLDING COMPANY HERE]**, to provide services for other Parties, or any companies associated with said Parties.

Section 9. Effective Date and Termination

This Agreement is executed subject to the consent and approval of all applicable regulatory agencies, and if so approved in its entirety, shall become effective as of the date the merger between PECO and Unicom is consummated, and shall remain in effect from said date unless terminated by mutual agreement or by any Party giving at least sixty days' written notice to the other Parties prior to the beginning of any calendar year, each Party fully reserving the right to so terminate the Agreement.

This Agreement may also be terminated to the extent that performance may conflict with any rule, regulation or order of the SEC adopted before or after the making of this Agreement.

Section 10. Access to Records

For the seven years following a transaction under this Agreement, the Client Company may request access to and inspect the accounts and records of the Service Company, provided that the scope of access and inspection is limited to accounts and records that are related to such transaction.

Section 11. Assignment

This Agreement and the rights hereunder may not be assigned without the mutual written consent of all Parties hereto.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed and attested by their authorized officers as of the day and year first above written.

_____ SERVICES COMPANY

By _____

Title _____

ATTEST:

By _____

Title _____

[INSERT NAME OF REGISTERED HOLDING COMPANY HERE]

By _____

Title _____

ATTEST:

By _____

Title _____

PECO ENERGY COMPANY

By _____

Title _____

ATTEST:

By _____

Title _____

COMMONWEALTH EDISON COMPANY

By _____

Title _____

ATTEST:

By _____

Title _____

**[INSERT NAMES OF AND SIGNATURE BLOCKS FOR ADDITIONAL
PARTIES AS NEEDED]**

Service Agreement Schedule 1

Allocation Ratios:

General:

Identifiable costs for all of the services listed in Schedule 1 will be directly charged to Client Companies, whenever possible. For costs that cannot be directly assigned or distributed, the expected allocation ratios are shown below.

Revenue Related Ratios:

Revenues
Sales - Units sold and/or transported
Number of Customers

Expenditure Related Ratios:

Total Expenditures
Operations and Maintenance Expenditures
Construction Expenditures

Labor/Payroll Related Ratios:

Labor / Payroll
Number of Employees

Units Related Ratios:

Usage (for example: CPU's, square feet , number of vendor invoice payments)
Consumption (for example: tons of coal, gallons of oil, MMBTU's)
Capacity (for example: nameplate generating capacity, peak load, gas throughput)
Other units related

Assets Related Ratios:

Total Assets
Current Assets
Gross Plant

Composite Ratios:

Total Average Assets and 12 months ended Gross Payroll
Other composite ratios

Service Agreement Schedule 2

Services including but not limited to:

General:

Identifiable costs for all of the services listed below will be directly charged to Client Companies, whenever possible. For costs that cannot be directly assigned or distributed, the expected allocation ratios are reflected below and discussed in more detail in Schedule 2.

Administrative & management services including but not limited to:

- accounting
 - bookkeeping
 - billing
 - accounts receivable
 - accounts payable
 - financial reporting
- audit
- executive
- finance
- insurance
- information systems services
- investment advisory services
- legal
- library
- record keeping
- secretarial & other general office support
- real estate management
- security holder services
- tax
- treasury
- other administration & management services

Expected allocation ratios: Revenue Related, Expenditure Related, Labor/Payroll Related, Units Related, Assets Related, Composite

Personnel services including but not limited to:

- recruiting
- training & evaluation services
- payroll processing
- employee benefits administration & processing
- labor negotiations & management
- other personnel services

Expected allocation ratios: Labor/Payroll Related, Units Related, Composite

Purchasing services including but not limited to:

- preparation & analysis of product specifications
- requests for proposals & similar solicitations
- vendor & vendor-product evaluations
- purchase order processing
- receipt, handling, warehousing and disbursement of purchased items
- contract negotiation & administration
- inventory management & disbursement
- other purchasing services

Expected allocation ratios: Expenditure Related, Labor/Payroll Related, Units Related, Assets Related, Composite

Facilities management services including but not limited to:

- office space
- warehouse & storage space
- transportation facilities (including dock & port, rail sidings and truck facilities)
- repair facilities
- manufacturing & production facilities
- fixtures, office furniture & equipment

Expected allocation ratios: Expenditure Related, Labor/Payroll Related, Units Related, Composite

Computer services including but not limited to:

- computer equipment & networks
- peripheral devices
- storage media
- software

Expected allocation ratios: Expenditure Related, Labor/Payroll Related, Units Related, Assets Related, Composite

Communications services including but not limited to:

- communications equipment
- audio & video equipment
- radio equipment
- telecommunications equipment & networks
- transmission & switching capability

Expected allocation ratios: Expenditure Related, Labor/Payroll Related, Units Related, Assets Related, Composite

Machinery management services including but not limited to:
equipment
tools
parts & supplies

Expected allocation ratios: Expenditure Related, Labor/Payroll Related, Units Related,
Composite

Vehicle management services including but not limited to:
automobiles
trucks
vans
trailers
railcars
marine vessels
aircraft
transport equipment
material handling equipment
construction equipment

Expected allocation ratios: Expenditure Related, Labor/Payroll Related, Units Related,
Composite

Operational services including but not limited to:
drafting & technical specification development & evaluation
consulting
engineering
environmental
nuclear
construction
design
resource planning
economic & strategic analysis
research
testing
training
customer solicitation
support & other marketing related services
public & governmental relations
other operational services

Expected allocation ratios: Revenue Related, Expenditure Related, Labor/Payroll Related,
Units Related, Assets Related, Composite

EXHIBIT H2

MUTUAL SERVICES AGREEMENT

BETWEEN

PECO ENERGY COMPANY

AND

[INSERT NAMES OF AFFILIATES HERE]

THIS AGREEMENT, made and entered into this ___ day of _____, 1999, by and between the following: _____ PECO ENERGY COMPANY ("PECO"), a Pennsylvania Corporation; and **[INSERT NAMES OF AFFILIATES HERE]**, (hereinafter "Affiliates," PECO and its Affiliates are collectively referred to as "Parties.")

WITNESSETH:

WHEREAS, the Parties desire to enter into this Agreement providing for the performance of certain services as more particularly set forth herein; and

WHEREAS, to maximize efficiency, and to achieve cost savings, the Parties desire to avail themselves of the benefits of having services provided by the least cost provider thereof whenever possible, and to compensate such provider appropriately for such services;

NOW, THEREFORE, in consideration of these premises and of the mutual

agreements set forth herein, the Parties agree as follows:

Section 1. Definitions

Commission — the Pennsylvania Public Utility Commission.

Providing Company — one or more Parties to this Agreement that have agreed to provide requested services to another Party in accordance with the terms of this Agreement.

Requesting Company — one or more Parties to this Agreement that are requesting services to be provided by another Party in accordance with the terms of this Agreement.

Section 2. Agreement to Provide Services

PECO and Affiliates agree to provide, upon the terms and conditions set forth herein, services including but not limited to those services hereinafter referred to and described in Section 3, at such times, for such period and in such manner as Requesting Company may from time to time request and Providing Company concludes it is able and willing to provide. Providing Company will keep itself and its personnel available and competent to render to Requesting Company such services so long as it is authorized so to do by the appropriate federal and state regulatory agencies. In providing such services, Providing Company may arrange, as it deems appropriate, for the services of such experts, consultants, advisers, and other persons with necessary qualifications as are required for or pertinent to the provision of the requested services.

Section 3. Services to be Provided

The services expected to be provided by Providing Company hereunder may include, but are not limited to, the services set out in Schedule 1, attached hereto and made a part hereof. In addition to those identified in Schedule 1, a Providing Company shall render such additional general or special services, whether or not now contemplated, as Requesting Company may request from time to time and Providing Company determines it is able and willing to perform.

Section 4. New Affiliates

New direct or indirect affiliates of PECO, which may come into existence after the effective date of this Mutual Service Agreement, may become parties to this Agreement. The Parties hereto shall make such changes in the scope and character of the services to be provided and the method of assigning, distributing or allocating costs of such services as may become necessary to achieve a fair and equitable assignment, distribution, or allocation of costs among all Requesting Companies, including the new affiliates.

Section 5. Compensation of Providing Company

As compensation for the services to be provided hereunder, a Requesting Company shall generally pay to Providing Company charges for services that are no more than the cost thereof (except as otherwise directed or permitted by an appropriate regulatory authority), insofar as costs can reasonably be identified and related to the particular services in question or otherwise fairly and equitably allocated to such services. To the extent that PECO or its affiliated Electric Generation Supplier are participants in a particular transaction, the Requesting Company shall pay

to Providing Company charges for services that comply with the Commission's decisions, rules and regulations, including the Commission-approved settlement of Docket Nos. R-00973953 and P-00971265 and Appendices G and H thereto.

Section 6. Service Requests

The services described herein or contemplated to be provided hereunder shall be directly assigned, distributed or allocated by activity, project, program, work order or other appropriate basis.

Section 7. Payment

Payment shall be by making remittance of the amount billed or by making appropriate accounting entries on the books of the companies involved. Invoices shall be prepared on a monthly basis for services provided hereunder.

Section 8. Effective Date and Termination

This Agreement is executed subject to the Commission's consent and approval, and if so approved in its entirety, shall become effective as of the date of approval and shall remain in effect from said date unless terminated by the Commission or by mutual agreement. Any Party may withdraw from this Agreement by giving at least sixty days written notice to the other Parties prior to withdrawal.

Section 9. Access to Records

For the seven years following a transaction under this Agreement, the Requesting Company may request access to and inspect the accounts and records of the Providing Company, provided that the scope of access and inspection is limited to accounts and records that are related to such transaction.

Section 10. Assignment

This Agreement and the rights hereunder may not be assigned without the mutual written consent of all Parties hereto.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed and attested by their authorized officers as of the day and year first above written.

PECO ENERGY COMPANY

By _____

Title _____

ATTEST:

By _____

Title _____

[INSERT NAME OF AFFILIATE HERE]

By _____

Title _____

ATTEST:

By _____

Title _____

**[INSERT NAMES OF AND SIGNATURE BLOCKS FOR ADDITIONAL
PARTIES AS NEEDED]**

Service Agreement Schedule 1

Allocation Ratios:

General:

Identifiable costs for all of the services listed in Schedule 1 will be directly charged to Client Companies, whenever possible. For costs that cannot be directly assigned or distributed, the expected allocation ratios are shown below.

Revenue Related Ratios:

Revenues
Sales - Units sold and/or transported
Number of Customers

Expenditure Related Ratios:

Total Expenditures
Operations and Maintenance Expenditures
Construction Expenditures

Labor/Payroll Related Ratios:

Labor / Payroll
Number of Employees

Units Related Ratios:

Usage (for example: CPU's, square feet , number of vendor invoice payments)
Consumption (for example: tons of coal, gallons of oil, MMBTU's)
Capacity (for example: nameplate generating capacity, peak load, gas throughput)
Other units related

Assets Related Ratios:

Total Assets
Current Assets
Gross Plant

Composite Ratios:

Total Average Assets and 12 months ended Gross Payroll
Other composite ratios

Service Agreement Schedule 2

Services including but not limited to:

General:

Identifiable costs for all of the services listed below will be directly charged to Client Companies, whenever possible. For costs that cannot be directly assigned or distributed, the expected allocation ratios are reflected below and discussed in more detail in Schedule 2.

Administrative & management services including but not limited to:

- accounting
 - bookkeeping
 - billing
 - accounts receivable
 - accounts payable
 - financial reporting
- audit
- executive
- finance
- insurance
- information systems services
- investment advisory services
- legal
- library
- record keeping
- secretarial & other general office support
- real estate management
- security holder services
- tax
- treasury
- other administration & management services

Expected allocation ratios: Revenue Related, Expenditure Related, Labor/Payroll Related, Units Related, Assets Related, Composite

Personnel services including but not limited to:

- recruiting
- training & evaluation services
- payroll processing
- employee benefits administration & processing
- labor negotiations & management
- other personnel services

Expected allocation ratios: Labor/Payroll Related, Units Related, Composite

Purchasing services including but not limited to:

- preparation & analysis of product specifications
- requests for proposals & similar solicitations
- vendor & vendor-product evaluations
- purchase order processing
- receipt, handling, warehousing and disbursement of purchased items
- contract negotiation & administration
- inventory management & disbursement
- other purchasing services

Expected allocation ratios: Expenditure Related, Labor/Payroll Related, Units Related, Assets Related, Composite

Facilities management services including but not limited to:

- office space
- warehouse & storage space
- transportation facilities (including dock & port, rail sidings and truck facilities)
- repair facilities
- manufacturing & production facilities
- fixtures, office furniture & equipment

Expected allocation ratios: Expenditure Related, Labor/Payroll Related, Units Related, Composite

Computer services including but not limited to:

- computer equipment & networks
- peripheral devices
- storage media
- software

Expected allocation ratios: Expenditure Related, Labor/Payroll Related, Units Related, Assets Related, Composite

Communications services including but not limited to:

- communications equipment
- audio & video equipment
- radio equipment
- telecommunications equipment & networks
- transmission & switching capability

Expected allocation ratios: Expenditure Related, Labor/Payroll Related, Units Related, Assets Related, Composite

Machinery management services including but not limited to:

- equipment
- tools
- parts & supplies

Expected allocation ratios: Expenditure Related, Labor/Payroll Related, Units Related, Composite

Vehicle management services including but not limited to:

- automobiles
- trucks
- vans
- trailers
- railcars
- marine vessels
- aircraft
- transport equipment
- material handling equipment
- construction equipment

Expected allocation ratios: Expenditure Related, Labor/Payroll Related, Units Related, Composite

Operational services including but not limited to:

- drafting & technical specification development & evaluation
- consulting
- engineering
- environmental
- nuclear
- construction
- design
- resource planning
- economic & strategic analysis
- research
- testing
- training
- customer solicitation
- support & other marketing related services
- public & governmental relations
- other operational services

Expected allocation ratios: Revenue Related, Expenditure Related, Labor/Payroll Related,
Units Related, Assets Related, Composite

EXHIBIT H3

**Form of Power Purchase Agreement
between
Generating Operating Company and PECO Energy Company**

THIS AGREEMENT (hereinafter, the "Agreement") is made and entered into this _____ day of _____, 2000 by and between the Generation Operating Company, (hereinafter referred to as "Gen OpCo" or "Supplier") and PECO Energy Company (hereinafter referred to as "PECO Energy" or "Buyer") (hereinafter referred to as, respectively Gen OpCo individually as "Party" and collectively as "Parties"). Pursuant to the terms and conditions set forth in this Agreement, the Parties desire to memorialize Gen OpCo's obligations to sell and PECO Energy's obligations to purchase energy and capacity.

WHEREAS, PECO Energy is seeking approval from various regulatory agencies, including the Pennsylvania Public Utility Commission, the Federal Energy Regulatory Commission ("FERC"), the Nuclear Regulatory Commission, and the Securities and Exchange Commission ("SEC"), to restructure the current PECO Energy into a set of corporate affiliates held by a holding company that will be registered with the SEC under the Public Utility Holding Act of 1935 (the "PECO Restructuring"); and

WHEREAS, Gen OpCo will be one of those corporate affiliates, and will have responsibility for operating the generation and generation-related assets and rights of the current PECO Energy, and for selling the capacity and energy associated with these assets and rights; and

WHEREAS, the surviving PECO Energy (primarily comprised of the former PECO Energy Distribution or "PED" business unit) will be one of those corporate affiliates, and will have responsibility for operating the transmission and distribution systems of the current PECO Energy, and for fulfilling the role of the provider-of-last resort of capacity and energy for retail customers who do not choose to obtain service from a competitive supplier of energy and capacity,

NOW THEREFORE, in consideration of the premises, the mutual agreements set forth herein and other good and valuable consideration, and intending to be legally bound hereby, the Parties agree as follows:

1. Full Requirements Retail Product

During the Term, Gen OpCo will provide and sell to PECO Energy, and PECO Energy will accept and purchase, Full Retail Requirements ("FRR") - Load Following Energy and Capacity from Gen OpCo to supply PECO Energy's retail loads within the PECO Energy's Electric Distribution Company (EDC) service territory.

DRAFT

2. Term and Condition Precedent

FRR deliveries to Buyer under this Transaction Agreement shall commence as of the effective date and time of closing of the PECO Restructuring, and continue through hour ending 24 on that day in January, 2001 that is the last meter read date for the billing month of December, 2000. A condition precedent to the obligations of the Parties under this Agreement is that all required regulatory approvals are received.

3. Energy and Capacity Amounts

Gen OpCo will provide PECO Energy with energy, in amounts required to serve 100 % of PECO Energy's aggregated retail load (grossed up for losses) for the Term subject to conditions set forth herein. Gen OpCo shall also provide PECO Energy with Unforced Capacity Credits, and/or Network Resource equivalents for the Term in amounts required to meet 100% of PECO Energy's Unforced Capacity obligation as determined by the Office of Interconnection of the PJM Interconnection, L.L.C. ("PJM"), less a daily amount of 100 MW.

4. Energy

4.1 Energy Amount

Gen OpCo will deliver energy to PECO Energy in an amount necessary to meet PECO Energy's hourly load obligations ("Scheduled Energy Amount"). The Scheduled Energy Amount for each hour will be determined by subtracting from the "day after" calculated Total PECO Zone Load, the aggregate of competitive Electric Generation Suppliers' "Net Load Schedules" for retail customers located in the PECO Energy's service territory (as determined in accordance with Section 7 of PECO Energy's Electric Generation Supplier Coordination Tariff, on file with the PaPUC, Tariff Electric PaPUC No. 1S).

The Scheduled Energy Amount will be delivered at the Delivery Point, as specified in Section 7 of this Agreement.

4.2 Capacity Amount

Gen OpCo will deliver Capacity to PECO Energy in an amount ("Scheduled Capacity Amount") necessary to meet PECO Energy's daily Unforced Capacity obligation as determined by PJM less 100 MW.

4.3 Forecasting and Scheduling Requirements

DRAFT

PECO Energy will provide to Gen OpCo, upon request, all information needed by Gen OpCo to calculate or verify the PECO Energy's Scheduled Energy Amount for each hour. Such information includes, but is not limited to, the "day after" calculated hourly loads for the PECO Zone and the aggregated Net Load Schedules of the competitive EGS-supplied load in the PECO Zone.

PECO Energy and Gen OpCo will be responsible for scheduling and confirming the PECO Energy's Net Load Schedule and Net Capacity Schedule with PJM in accordance with established PJM procedures. In the event that a Party fails to fulfill this daily responsibility, that Party will make the other whole with respect to the net cost of the error.

5. Imbalances

5.1 Applicable Definitions.

For purposes of this Section of this Agreement, the following terms will have the following meanings:

"Scheduled Energy" means the aggregate amount of energy scheduled by Buyer to meet its hourly load obligations as defined in Section 4.1 of this Agreement.

"Delivered Energy" means the quantity of energy actually delivered to the transmission system for the purposes of serving Buyer's hourly load obligations..

"Actual Energy" means the quantity of energy actually used or consumed by the monthly metered and hourly metered customers of Buyer. The calculation of actual energy typically occurs after the monthly reading of customers' meters.

5.2 PJM Reconciliation Service, as provided for in Section ___ of the PECO Energy's Electric Generation Supplier Coordination Tariff

Buyer will be responsible for charges incurred for PJM Reconciliation Service, which result from the difference between Delivered Energy and Actual Energy.

5.3 PJM Energy Imbalance Service

Seller will be responsible for charges incurred for PJM's Energy Imbalance Service, as set forth in PJM's FERC-filed Open Access Transmission Services Tariff, which charges are incurred as a result of differences between Scheduled Energy and Delivered Energy.

DRAFT

6. Transmission

6.1 Transmission Services

Network Transmission Service, and other transmission service products as necessary, will be procured by PECO Energy from PJM in amounts necessary to serve the PECO Energy's customer.

6.2 Fixed Transmission Rights

Buyer will assign to Gen OpCo under PJM's procedures for doing so any Fixed Transmission Rights ("FTRs") obtained using PECO Energy customer load and Gen OpCo capacity network resources. Accordingly, Gen OpCo will be responsible for all congestion costs, and be entitled to all congestion-related benefits, associated with its provision of FTR to Buyer at the Delivery Point.

6.3 Network Resource Designation

Gen OpCo will designate network resources to serve PECO Energy's load to enable use of PJM's Network Transmission Service to serve the PECO Energy's load. Notwithstanding, the specific units designated by Gen OpCo may or may not be used, at Gen OpCo's sole discretion, to serve PECO Energy's load.

7. Delivery Point

The Delivery Point will be the "PECO Zone" load bus.

8. Gross Receipts Tax

Buyer will be responsible for collecting Pennsylvania Gross Receipts Tax from its customers and remitting revenue to the Commonwealth of Pennsylvania.

9. Other PJM Charges

Buyer will be responsible for all other existing and future PJM costs charged to Load-Serving Entities that are not covered by the other Sections of this Agreement.

10. Quantities, Pricing and Charges

PECO Energy will pay to Gen OpCo each month the "Energy Charge" and the "Capacity Charge" determined in accordance with this Section 10 of this Agreement. Payment will be in the form of an accounting Journal Entry initiated by Gen OpCo, and approved by

DRAFT

PECO Energy after both Parties reconcile and agree on monthly quantities and the resulting Energy Charge and Capacity Charge.

10.1 Energy Charge

PECO Energy will pay Gen OpCo for the total Scheduled Energy Amount delivered to PECO Energy in the subject month. PECO Energy's monthly Energy Charge will be calculated for the Scheduled Energy Amount as follows:

TO BE DETERMINED

10.2 Capacity Charge

PECO Energy will pay Gen OpCo for the Scheduled Capacity Amount delivered to PECO Energy each month. PECO Energy's monthly Capacity Charge will be calculated for the Scheduled Capacity Amount as follows:

TO BE DETERMINED

11. Authority

This sale is made under the authority of Gen OpCo's market based rates tariff on file with the FERC and shall be governed by the terms and conditions of said tariff to the extent not inconsistent with this Agreement.

IN WITNESS WHEREOF, and intending to be legally bound, the Parties have executed this Agreement by the undersigned duly authorized representatives as of the date of this Agreement.

Gen OpCo

PECO Energy Company

By: _____
Name: _____

By: _____

PECO Energy Company
 Electric Plant in Service
 December 31, 1998

Exhibit I

Intangible Plant			
Account	Original Cost	Reserve	Net Plant
302	\$ 162,934	\$ -	\$ 162,934
303	\$ 16,063,366	\$ 4,722,018	\$ 11,341,348
Total	\$ 16,226,300	\$ 4,722,018	\$ 11,504,282

Steam Production			
Account	Original Cost	Reserve	Net Plant
310	\$ 5,506,904		\$ 5,506,904
311	\$ 241,751,815	\$ 168,425,008	\$ 73,326,807
312	\$ 807,823,588	\$ 484,529,739	\$ 323,293,849
314	\$ 227,122,214	\$ 147,379,022	\$ 79,743,192
315	\$ 91,438,093	\$ 71,655,286	\$ 19,782,807
316	\$ 19,784,258	\$ 12,631,332	\$ 7,152,926
317	\$ (576,248,733)	\$ (435,036,132)	\$ (141,212,601)
Total	\$ 817,178,139	\$ 449,584,255	\$ 367,593,884

Nuclear Production			
Account	Original Cost	Reserve	Net Plant
320	\$ 15,492,386		\$ 15,492,386
321	\$ 1,996,283,794	\$ 617,904,030	\$ 1,378,379,764
322	\$ 4,666,088,089	\$ 1,532,581,080	\$ 3,133,507,009
323	\$ 947,238,653	\$ 313,448,010	\$ 633,790,643
324	\$ 1,143,915,417	\$ 352,010,451	\$ 791,904,966
325	\$ 419,302,256	\$ 126,790,957	\$ 292,511,299
326	\$ (8,171,198,267)	\$ (2,575,954,567)	\$ (5,595,243,700)
Total	\$ 1,017,122,328	\$ 366,779,961	\$ 650,342,367

Hydraulic Production			
Account	Original Cost	Reserve	Net Plant
330	\$ 1,420,823		\$ 1,420,823
331	\$ 17,607,135	\$ 9,126,623	\$ 8,480,512
332	\$ 34,439,961	\$ 17,712,791	\$ 16,727,170
333	\$ 72,986,183	\$ 14,659,239	\$ 58,326,944
334	\$ 13,813,714	\$ 5,779,059	\$ 8,034,655
335	\$ 6,490,451	\$ 2,100,967	\$ 4,389,484
336	\$ 1,129,395	\$ 723,253	\$ 406,142
Total	\$ 147,887,662	\$ 50,101,932	\$ 97,785,730

Other Production			
Account	Original Cost	Reserve	Net Plant
340	\$ 824,945		\$ 824,945
341	\$ 6,486,922	\$ 6,429,243	\$ 57,679
342	\$ 24,184,473	\$ 23,566,948	\$ 617,525
344	\$ 105,879,807	\$ 96,940,818	\$ 8,938,989

PECO Energy Company
Electric Plant in Service
December 31, 1998

345	\$	13,232,478	\$	12,964,546	\$	267,932
346	\$	2,732,568	\$	2,522,650	\$	209,918
347	\$	(2,273,075)	\$	(2,231,774)	\$	(41,301)
Total	\$	151,068,118	\$	140,192,431	\$	10,875,687

Disallowances

Account	Original Cost	Reserve	Net Plant
399	\$ (527,419,707)	\$ (188,650,439)	\$ (338,769,268)
Total	\$ (527,419,707)	\$ (188,650,439)	\$ (338,769,268)
Total Generation	\$ 1,605,836,540	\$ 818,008,140	\$ 787,828,400

Transmission Plant

Account	Original Cost	Reserve	Net Plant
350.1	\$ 35,204,710		\$ 35,204,710
350.2	\$ 23,752,025		\$ 23,752,025
352	\$ 21,466,692	\$ 11,806,033	\$ 9,660,659
353	\$ 334,221,778	\$ 144,341,066	\$ 189,880,712
354	\$ 229,467,149	\$ 101,259,481	\$ 128,207,668
355	\$ 4,998,856	\$ 500,422	\$ 4,498,434
356	\$ 121,221,327	\$ 54,381,599	\$ 66,839,728
357	\$ 6,031,001	\$ 3,509,558	\$ 2,521,443
358	\$ 74,615,419	\$ 33,323,048	\$ 41,292,371
359	\$ 2,054,612	\$ 1,717,700	\$ 336,912
Total	\$ 853,033,569	\$ 350,838,907	\$ 502,194,662

Distribution Plant

Account	Original Cost	Reserve	Net Plant
360.1	\$ 15,504,433		\$ 15,504,433
360.2	\$ 20,141,977		\$ 20,141,977
361	\$ 49,996,922	\$ 26,243,201	\$ 23,753,721
362	\$ 548,061,330	\$ 237,462,528	\$ 310,598,802
364	\$ 285,065,249	\$ 80,353,572	\$ 204,711,677
365	\$ 472,838,325	\$ 132,722,849	\$ 340,115,476
366	\$ 212,089,188	\$ 92,494,622	\$ 119,594,566
367	\$ 466,693,005	\$ 117,697,651	\$ 348,995,354
368	\$ 307,674,640	\$ 90,607,871	\$ 217,066,769
369.1	\$ 59,607,576	\$ 27,874,133	\$ 31,733,443
369.2	\$ 187,151,666	\$ 44,907,057	\$ 142,244,609
370	\$ 205,090,640	\$ 62,445,297	\$ 142,645,343
370.2	\$ 112,168	\$ 44,970	\$ 67,198
371	\$ 1,298,363	\$ 280,933	\$ 1,017,430
373	\$ 27,655,491	\$ 5,809,713	\$ 21,845,778
373.1	\$ 512,050	\$ (64,075)	\$ 576,125
373.2	\$ 1,487,779	\$ (5,520,780)	\$ 7,008,559
373.3	\$ 3,360,569	\$ 2,174,634	\$ 1,185,935
Total	\$ 2,864,341,371	\$ 915,534,176	\$ 1,948,807,195

PECO Energy Company
 Electric Plant in Service
 December 31, 1998

Exhibit I

Account	General Plant		Net Plant
	Original Cost	Reserve	
389.1	\$ 2,244,445		\$ 2,244,445
390	\$ 40,205,113	\$ 11,592,328	\$ 28,612,785
391.1	\$ 4,229,310	\$ 1,464,313	\$ 2,764,997
391.2	\$ 4,887,396	\$ 1,994,529	\$ 2,892,867
391.3	\$ 8,832,210	\$ 5,482,510	\$ 3,349,700
392	\$ 1,053,171	\$ 22,272	\$ 1,030,899
394	\$ 11,101,291	\$ 2,777,142	\$ 8,324,149
395.1	\$ 17,945,600	\$ 5,647,534	\$ 12,298,066
395.2	\$ 1,405,951	\$ 500,966	\$ 904,985
395.3	\$ 551,681	\$ 288,261	\$ 263,420
397	\$ 10,761,513	\$ 2,499,883	\$ 8,261,630
398	\$ 2,934,451	\$ 784,876	\$ 2,149,575
399.4	\$ (56,834,476)	\$ (13,342,032)	\$ (43,492,444)
Total	\$ 49,317,656	\$ 19,712,582	\$ 29,605,074

PECO Energy Company
 Gas Plant in Service
 December 31, 1998

Exhibit I

Intangible Plant			
Account	Original Cost	Reserve	Net Plant
1302	\$ 50,033	\$ -	\$ 50,033
1303	\$ 4,180,745	\$ -	\$ 4,180,745
Total	\$ 4,230,778	\$ -	\$ 4,230,778

Production Plant			
Account	Original Cost	Reserve	Net Plant
1305	\$ 899,964	\$ 519,694	\$ 380,270
1311	\$ 13,429,423	\$ 6,457,290	\$ 6,972,133
total	\$ 14,329,387	\$ 6,976,984	\$ 7,352,403

Storage Plant			
Account	Original Cost	Reserve	Net Plant
1360.1	\$ 15,948		\$ 15,948
1361	\$ 4,534,644	\$ 3,893,618	\$ 641,026
1362	\$ 6,717,939	\$ 6,156,705	\$ 561,234
1363	\$ 415,540	\$ 399,027	\$ 16,513
1363.1	\$ 4,027,450	\$ 2,493,475	\$ 1,533,975
1363.2	\$ 1,598,518	\$ 1,012,712	\$ 585,806
1363.3	\$ 133,137	\$ 128,043	\$ 5,094
1363.5	\$ 4,601,382	\$ 4,347,059	\$ 254,323
total	\$ 22,044,558	\$ 18,430,639	\$ 3,613,919

Distribution Plant			
Account	Original Cost	Reserve	Net Plant
1374.1	\$ 390,331		\$ 390,331
1374.2	\$ 1,562,616		\$ 1,562,616
1375	\$ 12,013,979	\$ 2,462,726	\$ 9,551,253
1376	\$ 3,729,988	\$ 2,472,359	\$ 1,257,629
1376.1	\$ 372,246,152	\$ 73,515,219	\$ 298,730,933
1376.2	\$ 21,661,301	\$ 6,995,419	\$ 14,665,882
1376.3	\$ 184,681,842	\$ 37,179,816	\$ 147,502,026
1377	\$ 24,692	\$ 24,692	\$ -
1378	\$ 10,822,775	\$ 2,725,136	\$ 8,097,639
1379	\$ 10,031,871	\$ 7,319,077	\$ 2,712,794
1379.1	\$ 1,823,017	\$ 696,098	\$ 1,126,919
1380	\$ 40,722	\$ (174,680)	\$ 215,402
1380.1	\$ 40,754,714	\$ 12,188,416	\$ 28,566,298
1380.2	\$ 297,276,074	\$ 82,548,711	\$ 214,727,363
1381	\$ 32,534,032	\$ 10,354,796	\$ 22,179,236
1382	\$ 91,516,931	\$ 20,544,161	\$ 70,972,770
1384	\$ 848	\$ 633	\$ 215
1387	\$ 1,726,264	\$ 310,912	\$ 1,415,352
Total	\$ 1,082,838,149	\$ 259,163,491	\$ 823,674,658

PECO Energy Company
Gas Plant in Service
December 31, 1998

Exhibit I

General Plant			
Account	Original Cost	Reserve	Net Plant
1390	\$ 4,501,870	\$ 1,324,289	\$ 3,177,581
1394	\$ 575,472	\$ 93,739	\$ 481,733
1395	\$ 3,004,124	\$ 571,352	\$ 2,432,772
1398	\$ 58,245	\$ 39,627	\$ 18,618
1399	\$ 414,070	\$ 67,259	\$ 346,811
Total	\$ 8,553,781	\$ 2,096,266	\$ 6,457,515
Total Gas Plant	\$ 1,131,996,653	\$ 286,667,380	\$ 845,329,273

PECO Energy Company
Common Plant in Service
December 31, 1998

Exhibit I

General Plant			
Account	Original Cost	Reserve	Net Plant
4301	\$ 677,136		\$ 677,136
4303	\$ 98,698,460	\$ 38,069,442	\$ 60,629,018
4389	\$ 6,667		\$ 6,667
4389.1	\$ 7,568,744		\$ 7,568,744
4389.2	\$ 5,473		\$ 5,473
4390	\$ 213,475,829	\$ 62,969,537	\$ 150,506,292
4391.1	\$ 4,734,552	\$ 1,685,666	\$ 3,048,886
4391.2	\$ 36,831,881	\$ 9,968,687	\$ 26,863,194
4391.3	\$ 1,918,334	\$ 418,929	\$ 1,499,405
4393	\$ 2,610,490	\$ 413,846	\$ 2,196,644
4394.1	\$ 902,901	\$ 213,097	\$ 689,804
4394.2	\$ 6,347,963	\$ 2,158,672	\$ 4,189,291
4397	\$ 25,507,276	\$ 3,356,339	\$ 22,150,937
4398.1	\$ 1,917,029	\$ 824,501	\$ 1,092,528
4398.2	\$ 23,268	\$ 17,420	\$ 5,848
4399.1	\$ 15,792,609	\$ 1,939,149	\$ 13,853,460
4399.4	\$ (56,014,234)	\$ (13,658,234)	\$ (42,356,000)
Total	\$ 361,004,378	\$ 108,377,051	\$ 252,627,327

Transportation			
Account	Original Cost	Reserve	Net Plant
5392	\$ 38,045,707	\$ 14,463,402	\$ 23,582,305
5394.3	\$ 7,917,111	\$ 2,483,361	\$ 5,433,750
5396.1	\$ 55,286	\$ 55,250	\$ 36
Total	\$ 46,018,104	\$ 17,002,013	\$ 29,016,091

EXHIBIT J1

UNAUDITED PRO FORMA CONDENSED BALANCE SHEET

(In Millions)

AS OF JUNE 30, 1999

	PECO As Filed	PECO Securitization Pro Forma Adjustments(1)	PECO Prior to Merger Pro Forma
	-----	-----	-----
ASSETS			
Utility Plant			
Plant	\$ 7,549	\$ -	\$ 7,549
Accumulated Provision for Depreciation	3,008	-	3,008
	-----	-----	-----
	\$ 4,541	\$ -	\$ 4,541
Nuclear Fuel, net	297	-	297
	-----	-----	-----
	\$ 4,838	\$ -	\$ 4,838
	-----	-----	-----
Current Assets			
Cash and Temporary Cash Investments	\$ 900	\$(652)	\$ 248
Accounts Receivable, net	589	-	589
Inventories, at average cost	172	-	172
Other Current Assets	116	-	116
	-----	-----	-----
	\$ 1,777	\$(652)	\$ 1,125
	-----	-----	-----
Deferred Debits and Other Assets			
Regulatory Assets	\$ 6,046	\$ -	\$ 6,046
Goodwill	-	-	-
Investments and Other Property, net	555	-	555
Other	131	-	131
	-----	-----	-----
	\$ 6,732	\$ -	\$ 6,732
	-----	-----	-----
TOTAL	\$13,347	\$(652)	\$12,695
	=====	=====	=====
CAPITALIZATION AND LIABILITIES			
Capitalization			
Common Stock Equity	\$ 1,688	\$(177)	\$ 1,511
Preferred and Preference Stock	231	(37)	194
Company Obligated Mandatorily Redeemable Preferred Securities	340	(212)	128

Long-Term Debt	6,092	-	6,092
	-----	-----	-----
	\$ 8,351	\$(426)	\$ 7,925
	-----	-----	-----
Current Liabilities			
Notes Payable, Bank	\$ 226	\$(226)	\$ -
Accounts Payable	358	-	358
Other Current Liabilities	700	-	700
	-----	-----	-----
	\$ 1,284	\$(226)	\$ 1,058
	-----	-----	-----
Deferred Credits and Other Liabilities			
Deferred Income Taxes	\$ 2,355	\$ -	\$ 2,355
Unamortized Investment Tax Credits	293	-	293
Other	1,064	-	1,064
	-----	-----	-----
	\$ 3,712	\$ -	\$ 3,712
	-----	-----	-----
TOTAL	\$13,347	\$(652)	\$12,695
	=====	=====	=====

UNAUDITED PRO FORMA COMBINED CONDENSED BALANCE SHEET

(In Millions)

AS OF JUNE 30, 1999

	PECO Prior to Merger Pro Forma	UNICOM Prior to Merger Pro Forma	Merger Pro Forma Adjustments	Merger Pro Forma Balance
	-----	-----	-----	-----
ASSETS				
Utility Plant				
Plant	\$ 7,549	\$ 24,822	\$(13,555) (7)	\$ 18,816
Accumulated Provision for Depreciation	3,008	13,555	(13,555) (7)	3,008
	-----	-----	-----	-----
Nuclear Fuel, net	\$ 4,541	\$ 11,267	\$ -	\$ 15,808
	297	856	-	1,153
	-----	-----	-----	-----
	\$ 4,838	\$ 12,123	\$ -	\$ 16,961
	-----	-----	-----	-----
Current Assets				
Cash and Temporary Cash Investments	\$ 248	\$ 4,684	\$ (850) (5)	\$ 4,082
Accounts Receivable, net	589	1,392	-	1,981
Inventories, at average cost	172	245	-	417
Other Current Assets	116	79	-	195
	-----	-----	-----	-----
	\$ 1,125	\$ 6,400	\$ (850)	\$ 6,675
	-----	-----	-----	-----
Deferred Debits and Other Assets				
Regulatory Assets	\$ 6,046	\$ 1,668	\$ -	\$ 7,714
Goodwill	-	-	3,006 (7)	3,006
Investments and Other Property, net	555	2,763	-	3,318
Other	131	22	-	153
	-----	-----	-----	-----
	\$ 6,732	\$ 4,453	\$ 3,006	\$ 14,191
	-----	-----	-----	-----
TOTAL	\$ 12,695	\$ 22,976	\$ 2,156	\$ 37,827
	=====	=====	=====	=====
CAPITALIZATION AND LIABILITIES				
Capitalization				
Common Stock Equity	\$ 1,511	\$ 4,080	\$ 1,506 (5,7)	\$ 7,097
Preferred and Preference Stock	194	2	-	196
Company Obligated Mandatorily Redeemable Preferred Securities	128	350	-	478

Long-Term Debt	6,092	7,374	-	13,466
	-----	-----	-----	-----
	\$ 7,925	\$ 11,806	\$ 1,506	\$ 21,237
	-----	-----	-----	-----
Current Liabilities				
Notes Payable, Bank	\$ -	\$ 412	\$ 650 (5)	\$ 1,062
Accounts Payable	358	491		849
Other Current Liabilities	700	3,295	-	3,995
	-----	-----	-----	-----
	\$ 1,058	\$ 4,198	\$ 650	\$ 5,906
	-----	-----	-----	-----
Deferred Credits and Other Liabilities				
Deferred Income Taxes	\$ 2,355	\$ 2,380	\$ -	\$ 4,735
Unamortized Investment Tax Credits	293	497	-	790
Nuclear Decommissioning Liab. For Retired Plants	-	1,252	-	1,252
Other	1,064	2,843	-	3,907
	-----	-----	-----	-----
	\$ 3,712	\$ 6,972	\$ -	\$ 10,684
	-----	-----	-----	-----
TOTAL	\$ 12,695	\$ 22,976	\$ 2,156	\$ 37,827
	=====	=====	=====	=====

Notes to Unaudited Pro Forma Combined Condensed Financial Statements

1. Represents the use of the remaining balance of the proceeds from the securitization of stranded costs to repurchase approximately four million shares of PECO Common Stock, PECO obligated mandatorily redeemable preferred securities, preferred stock and short-term debt. This adjustment also reflects the effects of PECO's securitization of its stranded costs on its statements of income as a net increase to interest expense, decrease to interest on PECO's obligated mandatorily redeemable preferred securities and related aggregate tax benefit.

2. Reflects the accounting impacts related to the sale of the fossil generating plants. The sale is expected to produce an after-tax gain of approximately \$1.7 billion, after settling commitments associated with certain coal contracts, recognition of employee-related costs and funding certain environmental initiatives. The gain on the sale will be utilized to recover certain regulatory assets and, as a result, the sale is not expected to have a significant impact on Unicom net income in 1999.

3. Reflects the effects of the sale of ComEd's fossil generating plants. The

increase in energy interchange expense reflects the net incremental energy cost that ComEd would have incurred under transitional power purchase agreements to purchase replacement power in the absence of its own generating capacity. Additionally, "Other, net" reflects interest income related to the unused proceeds from the sale of the fossil generating plants. The Unicom Pro Forma Adjustments include increased regulatory asset amortization because those adjustments on a prior-to-merger, pro forma basis would result in ComEd's earnings exceeding the earnings cap provisions of the Illinois Public Utilities Act.

4. Reflects Unicom's expected obligation to purchase, at prevailing market prices, approximately six million shares of Unicom Common Stock prior to the closing of the Merger Transaction and the 20.1 million shares of Unicom Common Stock that are subject to certain forward purchase contracts and are expected to settle no later than February 2000. In addition, reflects adjustments to net interest expense and preferred and preference stock dividends related to the use of securitization proceeds.

5. Reflects cash consideration paid to PECO and Unicom common shareholders who choose the cash election, subject to proration. The amount of the adjustment assumes a payment of \$750 million at a cash price of \$45.00 per share to PECO shareholders and a payment of \$750 million at a cash price of \$42.75 per share to Unicom shareholders. PECO's pro forma cash balance as of June 30, 1999 was insufficient to fully fund this cash election. Accordingly, for pro forma purposes, it was assumed that PECO would borrow \$650 million from its available revolving credit facility and that this borrowing would be repaid immediately following the Merger Transaction. The amount of actual borrowing, if any, at the time of consummation of the Merger Transaction will depend on PECO's actual cash available at that time.

6. Reflects issuance of Newco shares in exchange for PECO and Unicom Common Stock net of shares which were exchanged for cash or repurchased by PECO and Unicom as follows:

	As of June 30, 1999		

	(Shares in 000's)		
	PECO	Unicom	Newco Pro Forma
	-----	-----	-----
Actual shares outstanding at June 30, 1999	186,603	217,287	--
Shares exchanged for cash or repurchased-			
Notes (1), (4) and (5)	(20,900)	(43,487)	--

	-----	-----	
Remaining shares to be exchanged	165,703	173,800	--
Exchange factor	1.0	.95	
	-----	-----	
Estimated Share consideration	165,703	165,110	330,813

7. A pro forma adjustment has been made to recognize goodwill in connection with the Merger. The goodwill represents the excess of the purchase consideration of \$6.3 billion, including PECO's estimated transaction costs resulting from the Merger, over the assumed value of Unicom's assets and liabilities at June 30, 1999. The adjustment reflects the share consideration equal to approximately 165.1 million shares of Newco Common Stock at a price of \$38.18 based on the average closing price of PECO Common Stock between September 16, 1999 and September 29, 1999. PECO's transaction costs of approximately \$32.5 million represent the estimated costs to be incurred for the Merger that meet the requirements for inclusion in the purchase price. Actual goodwill recorded upon consummation will consider the fair value of Unicom's assets and liabilities at that future date, including the fair value determination of nuclear generating stations, and may differ significantly from the amount recorded in these pro forma statements. The pro forma adjustment also relates to the elimination of accumulated depreciation reflected on Unicom's books in accordance with purchase accounting as prescribed by GAAP. As a result of the increased merger pro forma common stock equity balance, the merger pro forma adjustments include a reversal of the increased regulatory asset amortization related to the Unicom Pro Forma Adjustments discussed in Note 3.

8. Reflects the elimination of purchased power and off-system sales transactions between PECO and Unicom.

9. Reflects amortization of goodwill over a 40-year period.

10. Reflects the reclassification of PECO preferred stock dividends and interest on PECO obligated mandatorily redeemable preferred securities for consistent presentation.

EXHIBIT J-2

PECO Energy Company
Proforma Balance Sheet - Post Merger and Restructuring
As of June 30, 1999
(\$ in Thousands)

ASSETS

Utility Plant

Plant at Original Cost	\$5,209,614
Less Accumulated Provision for Depreciation	1,672,721
	<u>3,536,893</u>
Nuclear Fuel, Net	-
Construction Work In Progress	147,576
Leased Property, Net	475
	<u>3,684,944</u>

Current Assets

Cash and Temporary Cash Investments	523,709
Accounts Receivable, Net	172,522
Inventories, at Average Cost	
Fossil Fuel	34,442
Materials and Supplies	78,577
Deferred Energy Costs - Gas	-
Other	96,548
	<u>905,798</u>

Deferred Debits and Other Assets

Note Receivable from Service Company	1,488,000
Recoverable Transition Charge	5,274,624
Recoverable Deferred Income Taxes	609,230
Non-Pension Postretirement Benefits Costs	87,668
Investments	16,273
Loss on Reacquired Debt	73,938
Other	67,357
	<u>7,617,090</u>

TOTAL

\$12,207,832

CAPITALIZATION AND LIABILITIES

Common Shareholders' Equity

Common Stock (No Par)	-
Other Paid-In Capital	\$1,418,936
Retained Earnings	-
Treasury Stock	-
Preferred Stock	230,172
Minority Interest in Monthly Income Preferred Securities	340,355
Long-Term Debt	5,923,456
	<u>7,912,919</u>

Current Liabilities

Notes Payable, Bank	-
Long-Term Debt Due Within One Year	142,607
Capital Lease Obligations Due Within One Year	12
Accounts Payable	71,637
Taxes Accrued	164,194
Deferred Energy Costs	26,417
Interest Accrued	99,375
Other	61,962
	<u>566,204</u>

Deferred Credits and Other Liabilities

Capital Lease Obligations	462
Deferred Income Taxes	3,027,292
Unamortized Investment Tax Credits	291,956
Pension Obligation	90,098
Non-Pension Postretirement Benefits Obligation	178,984
Other	139,917
	<u>3,728,709</u>

TOTAL

\$12,207,832

EXHIBIT K1

UNAUDITED PRO FORMA CONDENSED STATEMENT OF INCOME
(Millions Except Per Share Data)
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 1999

	PECO As Filed -----	PECO Securitization ProForma Adjustments(1) -----	PECO Prior to Merger ProForma -----
Operating Revenues			
Electric	\$ 2,144	\$ --	\$2,144
Gas	307	--	307
	-----	-----	-----
Total Operating Revenues	\$ 2,451	\$ --	\$2,451
	-----	-----	-----
Operating Expenses			
Fuel and Energy Interchange	\$ 965	\$ --	\$ 965
Operation and Maintenance	628	--	628
Depreciation and Amortization	114	--	114
Goodwill Amortization	--	--	--
Taxes Other Than Income Taxes	121	--	121
	-----	-----	-----
Total Operating Expenses	\$ 1,828	\$ --	\$1,828
	-----	-----	-----
Operating Income	\$ 623	\$ --	\$ 623
	-----	-----	-----
Other Income and Deductions			
Interest Expense	\$ (188)	\$ (15)	\$ (203)
Preferred and Preference Stock Dividends	--	--	--
Other, net	(59)	10	(49)
	-----	-----	-----
Total Other Income and Deductions	\$ (247)	\$ (5)	\$ (252)
	-----	-----	-----
Income Before Income Taxes and Extraordinary Item	\$ 376	\$ (5)	\$ 371
Income Tax Expense	139	(2)	137
	-----	-----	-----
Income Before Extraordinary Item	\$ 237	\$ (3)	\$ 234
	=====	=====	=====

Preferred Stock Dividends	\$ 7	\$ (1)	\$ 6
	=====	=====	=====
Income Before Extraordinary Item per Share	\$ 1.11		
	=====		
Income Before Extraordinary Item per Share-Diluted	\$ 1.10		
	=====		
Average Basic Shares Outstanding	207.6		
	=====		
Average Diluted Shares Outstanding	209.1		
	=====		

UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENT OF INCOME
(Millions Except Per Share Data)
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 1999

	PECO Prior to Merger ProForma	UNICOM Prior to Merger ProForma	Merger ProForma Adjustments	Merger ProForma
	-----	-----	-----	-----
Operating Revenues				
Electric	\$2,144	\$3,224	\$ (30) (8)	\$5,338
Gas	307	--	--	307
	-----	-----	-----	-----
Total Operating Revenues	\$2,451	\$3,224	\$ (30)	\$5,645
	-----	-----	-----	-----
Operating Expenses				
Fuel and Energy Interchange	\$ 965	\$ 728	\$ (30) (8)	\$1,663
Operation and Maintenance	628	1,073	--	1,701
Depreciation and Amortization	114	550	(90) (7)	574
Goodwill Amortization	--	--	38 (9)	38
Taxes Other Than Income Taxes	121	241	--	362
	-----	-----	-----	-----
Total Operating Expenses	\$1,828	\$2,592	\$ (82)	\$4,338
	-----	-----	-----	-----
Operating Income	\$ 623	\$ 632	\$ 52	\$1,307
	-----	-----	-----	-----
Other Income and Deductions				
Interest Expense	\$ (203)	\$ (274)	\$ --	\$ (477)
Preferred and Preference Stock Dividends	--	(30)	(11) (10)	(41)
Other, net	(49)	99	5 (10)	55
	-----	-----	-----	-----
Total Other Income and Deductions	\$ (252)	\$ (205)	\$ (6)	\$ (463)
	-----	-----	-----	-----
Income Before Income Taxes and Extraordinary Item	\$ 371	\$ 427	\$ 46	\$ 844
Income Tax Expense	137	157	35	329
	-----	-----	-----	-----
Income Before Extraordinary Item	\$ 234	\$ 270	\$ 11	\$ 515
	=====	=====	=====	=====
Preferred Stock Dividends	\$ 6	\$ --	\$ (6) (10)	\$ --
	=====	=====	=====	=====

Income Before Extraordinary
Item per Share

\$ 1.56

=====

Income Before Extraordinary
Item per Share - Diluted

\$ 1.55

=====

Average Basic Shares Outstanding

330.8(6)

=====

Average Diluted Shares Outstanding

333.2

=====

UNAUDITED PRO FORMA CONDENSED STATEMENT OF INCOME
(Millions Except Per Share Data)
FOR THE YEAR ENDED DECEMBER 31, 1998

	PECO As Filed	PECO Securitization Pro Forma Adjustments(1)	PECO Prior to Merger Pro Forma
	-----	-----	-----
Operating Revenues			
Electric	\$4,811	\$ -	\$4,811
Gas	399	-	399
	-----	-----	-----
Total Operating Revenues	\$5,210	\$ -	\$5,210
	-----	-----	-----
Operating Expenses			
Fuel and Energy Interchange	\$1,752	\$ -	\$1,752
Operation and Maintenance	1,253	-	1,253
Depreciation and Amortization	643	-	643
Goodwill Amortization	-	-	-
Taxes Other Than Income Taxes	279	-	279
	-----	-----	-----
Total Operating Expenses	\$3,927	\$ -	\$3,927
	-----	-----	-----
Operating Income	\$1,283	\$ -	\$1,283
	-----	-----	-----
Other Income and Deductions			
Interest Expense	\$ (331)	\$ (108)	\$ (439)
Preferred and preference stock dividends	-	-	-
Other, net	(100)	20	(80)
	-----	-----	-----
Total Other Income and Deductions	\$ (431)	\$ (88)	\$ (519)
	-----	-----	-----
Income Before Income Taxes and Extraordinary Item	\$ 852	\$ (88)	\$ 764
Income Tax Expense	320	(35)	285
	-----	-----	-----
Income Before Extraordinary Item	\$ 532	\$ (53)	\$ 479
	=====	=====	=====

Preferred Stock Dividends	\$ 13	\$ (2)	\$ 11
	=====	=====	=====
Income Before Extraordinary Item per Share	\$ 2.33		
	=====		
Income Before Extraordinary Item per Share - Diluted	\$ 2.32		
	=====		
Average Basic Shares Outstanding	223.2		
	=====		
Average Diluted Shares Outstanding	223.9		
	=====		

UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENT OF INCOME
(Millions Except Per Share Data)
FOR THE YEAR ENDED DECEMBER 31, 1998

	PECO Prior to Merger Pro Forma	UNICOM Prior to Merger Pro Forma	Merger Pro Forma Adjustments	Merger Pro Forma
	-----	-----	-----	-----
Operating Revenues				
Electric	\$ 4,811	\$ 7,151	\$ (64) (8)	\$11,898
Gas	399	--	--	399
	-----	-----	-----	-----
Total Operating Revenues	\$ 5,210	\$ 7,151	\$ (64)	\$12,297
	-----	-----	-----	-----
Operating Expenses				
Fuel and Energy Interchange	\$ 1,752	\$ 2,056	\$ (64) (8)	\$ 3,744
Operation and Maintenance	1,253	2,032	--	3,285
Depreciation and Amortization	643	1,083	(184) (7)	1,542
Goodwill Amortization	--	--	75 (9)	75
Taxes Other Than Income Taxes	279	607	--	886
	-----	-----	-----	-----
Total Operating Expenses	\$ 3,927	\$ 5,778	\$ (173)	\$ 9,532
	-----	-----	-----	-----
Operating Income	\$ 1,283	\$ 1,373	\$ 109	\$ 2,765
	-----	-----	-----	-----
Other Income and Deductions				
Interest Expense	\$ (439)	\$ (540)	\$ --	\$ (979)
Preferred and Preference Stock Dividends	--	(37)	(22) (10)	(59)
Other, net	(80)	148	11 (10)	79
	-----	-----	-----	-----
Total Other Income and Deductions	\$ (519)	\$ (429)	\$ (11)	\$ (959)
	-----	-----	-----	-----
Income Before Income Taxes and Extraordinary Item	\$ 764	\$ 944	\$ 98	\$ 1,806
Income Tax Expense	285	364	73	722
	-----	-----	-----	-----
Income Before Extraordinary Item	\$ 479	\$ 580	\$ 25	\$ 1,084
	=====	=====	=====	=====
Preferred Stock Dividends	\$ 11	\$ --	\$ (11) (10)	\$ --
	=====	=====	=====	=====
Income Before Extraordinary Item per Share				\$ 3.28

Income Before Extraordinary
Item per Share - Diluted

=====

\$ 3.26

=====

Average Basic Shares Outstanding

330.8(6)

=====

Average Diluted Shares Outstanding

332.2

=====

EXHIBIT K2

PECO ENERGY COMPANY
 Proforma Statement of Income - Post Merger & Restructuring
 For the six months ended June 30, 1999
 (THOUSANDS OF DOLLARS)

OPERATING REVENUE:	
ELECTRIC	\$ 1,355,928
GAS	290,575
Non-regulated	
TOTAL OPERATING REVENUES	1,646,503
OPERATING EXPENSES:	
FUEL & ENERGY INTERCHANGE	632,764
OPERATING AND MAINTENANCE	252,764
DEPRECIATION	52,704
TAXES OTHER THAN INCOME	92,383
TOTAL OPERATING EXPENSES	1,030,615
OPERATING INCOME	615,888
OTHER INCOME AND DEDUCTIONS	
INTEREST EXPENSE	(203,117)
ALLOWANCE FOR FUNDS USED DURING CONS	2,100
OTHER, NET	1,009
TOTAL OTHER INCOME AND DEDUCTIONS	(200,008)
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	415,880
INCOME TAXES	168,797
INCOME BEFORE EXTRAORDINARY ITEM	247,083
EXTRAORDINARY ITEM, NET OF TAXES	(26,700)
NET INCOME (LOSS)	220,383
PREFERRED STOCK DIVIDENDS	6,552
EARNINGS APPLICABLE TO COMMON STOCK	213,831

PECO Energy Company
Number of Electric Customers
For the month of June 1999

<u>Rate Class</u>	<u>Number of Customers</u>
HT	2,078
EP	3
PD	1,167
GS	145,562
TL	216
RH	157,258
R	1,189,282
RT	15
OP	96,909 *
SLP	10
SLS	386
SLE	451
POL	2,912 *
<hr/>	
TOTAL	1,496,428

PECO Energy Company
Number of Gas Customers
For the month of June 1999

<u>Rate Class</u>	<u>Number of Customers</u>
GR	55,327
GR- W/H	327,710
GC	35,256
OL	25 *
TCS	298
MV-I	37
MV-F	6
L	125
IS	262
CGS	18
TSI	261
TSF	438
<hr/>	
TOTAL	419,738

* do not include in customer totals (duplication).

EXHIBIT M

**PECO Energy
1998 Annual Report**

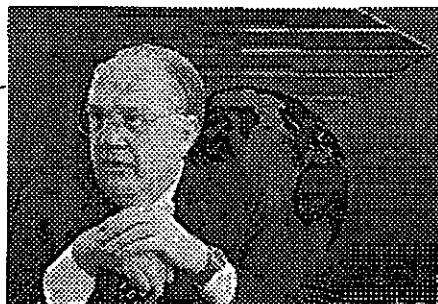


Powering Up

The power of Performance

To My Fellow Shareholders:

What a difference a year makes! When I wrote my letter to you a year ago, our company was in one of its greatest periods of uncertainty. We were facing what could have been a protracted legal challenge to an unfavorable regulatory order; Wall Street's confidence in our competitive future was weakened, and our financial results for 1997 were most disappointing. Today, that picture has dramatically changed for the better, and I am proud to report to you that 1998 was a year of powerful performance for PECO Energy.



Among our most significant accomplishments in 1998:

- Earnings per share were \$2.66 before special items, an increase of 46% over 1997 performance.
- PECO Energy's common stock delivered a total annual return of 78%.
- We negotiated a fair and balanced electric deregulation plan.
- Our power marketing group, Power Team, increased sales volume 13%.
- Our unregulated energy supply business, Exelon Energy, became the most successful player in the new

Pennsylvania Electric Choice program.

• AmerGen, our joint venture with British Energy, successfully negotiated the first-ever U.S. purchase of a nuclear generating station, scheduled for completion this year. • PECO Energy was named "Energy Company of the Year" by the Washington International Energy Group.

Strong Financial Results

Earnings per share in 1998, before special items, were \$2.66. That represents a 46% increase over 1997 earnings from operations. After accounting for an extraordinary charge related

to the redemption of higher cost debt and a year-end adjustment for the cost of our on-going workforce reduction program, earnings were \$2.24 per share. Our power marketing activities contributed significantly to our strong earnings performance, particularly in the third quarter when we achieved the highest quarterly earnings in our company's history. During 1998, we also benefited from lower operating and maintenance expenses, significantly lower fuel and replacement power costs following the Salem Nuclear Generating Station's full return to service in early 1998, and a lower effective income tax rate.

PECO Energy Delivered Excellent Returns in 1998

PECO Energy's shares of common stock closed 1998 at \$41.75, a 74% increase over the 1997 close of \$24 per share. The unprecedented increase in our common stock price, combined with dividends paid, resulted in a total return to our shareholders of 78%, winning PECO Energy the number one spot in the rankings for total shareholder return among the 25 largest U.S. electric utilities. The catalysts to our dramatically improved valuation were the favorable completion of our long and difficult regulatory restructuring proceeding and the progress we have made in executing our competitive growth strategy.

Favorable Restructuring Plan in Place

The most significant event of 1998 was the successful completion of our restructuring proceeding before the Pennsylvania Public Utility Commission (PUC). In May, the PUC approved a fair and balanced plan that on January 1, 1999 opened our electric generation business to competition. The plan provides our customers with guaranteed savings through across-the-board rate cuts for the next two years as well as the freedom to choose their energy supplier. PECO Energy will continue to provide regulated distribution services to all customers in our traditional service territory.

For PECO Energy, the restructuring plan provides a very reasonable transition to retail competition while maintaining a solid financial foundation upon which we're building new, competitive businesses. A central element of the plan is the allowed recovery of almost \$5.3 billion in stranded investments. On January 1, 1999, we began recovering these investments from our customers through a special transition charge that will remain in place for 12 years, while earning a 10.75% return on the balance. The plan also gives us the ability to securitize the majority of our recoverable stranded costs through the issuance of up to \$4 billion of "transition bonds." The issuance of these highly rated bonds will enable us to significantly realign our capital structure, most notably through the retirement of debt and preferred stock, and the repurchase of common stock

Our Vision for the Future

Our business and industry are clearly moving into a vastly different and exciting era. Given the speed of this change, we think it is essential to have a clear picture of where we're going, and the kind of company we want to be when we get there. In 1998, we developed a powerful new corporate vision — To become the world's leading provider of clean energy. (Our complete vision and mission statements are presented on page

5 of this report.) This mission will guide and propel our progress for years to come, and we are continuing to build the processes and structures to make it a reality.

Pursuing Aggressive Growth Objectives

To mark our progress in achieving our long-term vision for the Company, in 1998 we established the following goals that we will work to meet by the year 2003:

- To retain a 75% market share in our traditional service territory, achieved through customer retention by our local distribution company, PECO Energy Distribution, as well as market share growth by Exelon Energy.
- To nearly triple our electric generation capabilities to 25 gigawatts through acquisitions and long-term supply agreements by the year 2003.
- To achieve a 50% increase in our earnings per share between 1998 and 2003.

To achieve these aggressive earnings and growth objectives, we will build upon our strengths in power generation and power marketing. We will also continue to develop ventures that leverage our core business capabilities, and continuously work to optimize the cost efficiency of PECO Energy Distribution Company.

Building a Competitive Retail Market Share

Our long-term goal is to maintain a very strong market share in our traditional electric service area, plus establish a significant position in other electric retail markets across Pennsylvania, and ultimately other regions of the United States. As of January 2, 1999, two-thirds of Pennsylvania's electric customers gained the ability to choose their energy suppliers. In anticipation of the opening of retail markets, Exelon Energy conducted a marketing campaign in 1998 that has helped it gain more than 130,000 retail customers. To date, Exelon Energy has established the largest competitive market share in the state and is one of the few suppliers with customers in all of Pennsylvania's electric franchise areas.

Even with the new opportunities for choice that our customers have, I am pleased to note that a large number of our customers have opted not to switch their energy supplier and have remained with PECO Energy Distribution. I believe this loyalty is a testament to our strong ties to the communities we serve as well as our proud history of service excellence.

Increasing PECO's Generation Capabilities

We took the first important step in expanding our generation portfolio in July of 1998, when we entered into an agreement to purchase Unit 1 of Three Mile Island Nuclear Generating Station (TMI) from GPU, Inc. We will purchase the unit through AmerGen, our joint venture with British Energy, and expect to complete the transaction by mid-1999. TMI Unit 1 has one of the finest operational and safety records in the industry. We see real opportunities for even stronger performance by

applying the same spirit of innovation and operational excellence that has earned our Peach Bottom and Limerick nuclear stations world-class status in performance, safety and cost efficiency. Based on our latest estimates, we believe the TMI Unit 1 acquisition will make a positive contribution to earnings in its first year.

The growth of our generating capacity will go hand-in-hand with the growth of Power Team's wholesale energy marketing operations. Power Team has developed the expertise, market knowledge and a portfolio management strategy that consistently produce superior value for PECO Energy. In 1998, Power Team delivered 100% of the power it contracted to provide. This deliverability record was particularly impressive given the supply problems experienced by other marketers during last summer's shortages in the Midwest.

Managing our Businesses to Achieve Excellence

Now more than ever, we need a talented and motivated workforce to help us accomplish the goals we have set. We are fulfilling that need by building an employee team which is smart, ambitious and motivated to succeed. Over the past year, we have added significantly to our talent base and have recruited leaders from a variety of competitive industries, such as oil, gas and chemicals.

I believe in challenging our workforce, providing the right incentives to achieve our goals and then rewarding excellent results. In 1998 we put in place a new incentive compensation system that includes stock option grants for every employee, which vest only after our stock price meets aggressive price targets. We also began offering quarterly cash bonuses to employees when their respective business units meet value-driven business and operational objectives. Under this new system, employees and management will only enjoy financial rewards when we create value for our shareholders.

New Corporate Structure Proposed

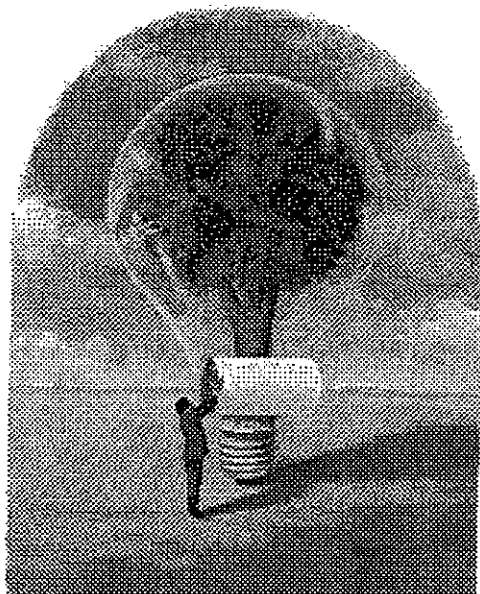
In 1999, we will be asking common shareholders to vote on a proposal to create a holding company structure for PECO Energy that, if approved, will establish a new corporate holding company named PECO Energy Corporation. This will be the first step in establishing separate subsidiaries organized around our three key lines of business: power generation and marketing, gas & electric distribution and unregulated energy service-related businesses. We believe that this proposed structure will give us the flexibility to compete in new markets and grow our businesses as new opportunities arise.

Before closing, I want to recognize and thank fellow board member Admiral Kinnaird R. McKee, who stepped down from our Board of Directors in 1998 after completing 10 years of service. I would also like to welcome Rosemarie Greco, who joined our board in 1998. And finally, I want to thank you, our shareholders, for your continued support and confidence. All of us who are a part of PECO Energy are excited about building on our competitive strengths in the coming year and beyond.

Corbin A. McNeill, Jr.
PECO Energy Chairman, President and Chief Executive Officer
February 5, 1999

The power of **Vision**

Becoming the world's leading provider of clean energy.



In 1998, we developed a powerful vision statement — to become the world's leading provider of clean energy. This vision is guiding and propelling our strategy, our actions and ultimately our success.

We are an energy company that measures our success by our impact on the lives of others.

We will provide energy safely, reliably and affordably to power the 21st century dreams of families and businesses

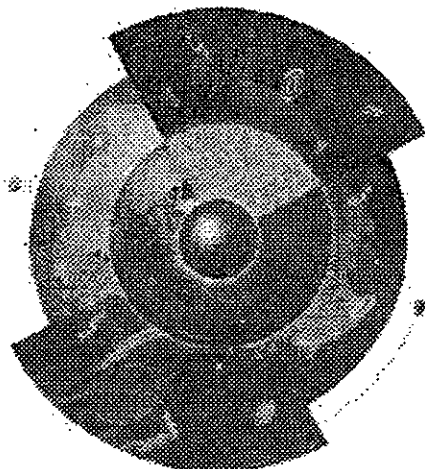
We will create value for our shareholders and our customers that no other energy company can equal

We will ensure that air and water are cleaner for generations to come.

We will be a company respected as much for what we value as for the value we create.

The power of **Boldness**

We are pursuing a bold national strategy designed to nearly triple our generating capacity within five years and strengthen our market presence throughout the United States.



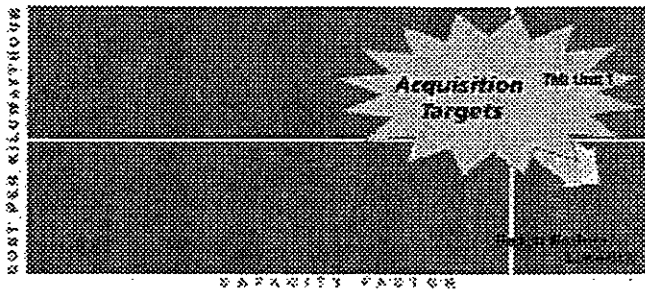
Our key for success in deregulated power generation markets will be to own or control a significant amount of environmentally clean and efficient generating capacity in targeted regions of the United States. As part of our vision to become the world's leading provider of clean energy, we set a goal of increasing our generation capacity from just over 9,000 megawatts to 25,000 megawatts in the next five years.

We are working to achieve this goal through an aggressive yet disciplined acquisition program, and through securing long-term supply contracts with generation asset owners. Under our acquisition program, we are targeting attractively priced, environmentally and operationally sound plants that have the potential for outstanding performance and strong returns. As we make acquisitions, we will work to develop regional groups of geographically synergistic plants that allow us to leverage our resources and expertise in specific geographic areas.

In 1998, we began expanding our Mid-Atlantic operating group, consisting of the four nuclear units we operate at Limerick and Peach Bottom stations. In October, we reached a final agreement to purchase Unit 1 at GPU's Three Mile Island Nuclear Generating Station through AmerGen, our joint venture with British Energy. TMI Unit 1, with its strong operating record and 786 megawatts of nuclear baseload capacity, will be an excellent addition to our generating portfolio. This plant has twice set world

records for continuous days of operation. AmerGen is obtaining all necessary governmental approvals and expects to complete this transaction by mid-1999.

Building Our Portfolio of High Performers



Leveraging Our Operational Excellence

Good acquisitions are not enough. It is what we do with the plants after they are acquired that determines their true value. The second pillar of our generation strategy is our proven operating expertise. Our Limerick and Peach Bottom nuclear stations are among the safest and best-performing nuclear plants in the industry. These facilities have some of the highest capacity factors and lowest production costs in the nation. We are targeting additional plants with similar high performance potential.

In 1999, we plan to continue to expand our generation portfolio through a strategy that focuses first and foremost on building earnings potential and strong investment returns. We will seek out the best possible plants at competitive prices, working to create a balanced portfolio of generation assets, including nuclear, hydroelectric and clean-burning fossil fuel plants. This strategy positions us to be a leader in power generation in North America and achieve our bold aspiration of becoming the world's leading provider of clean energy.

PECO is building its portfolio by targeting generating plants with potential for high capacity factors and low operating costs, and will use its operating strengths to improve performance of acquired plants.

The power of Experience

A pioneer in the industry, PECO's Power Team continues to demonstrate its leadership in marketing and delivering wholesale power throughout the United States.

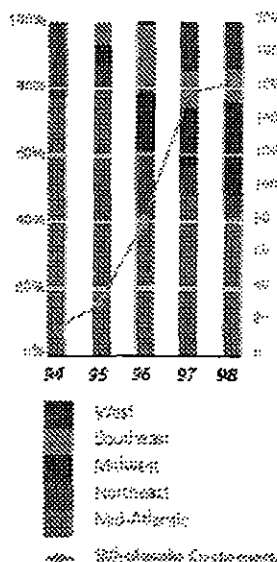


The expertise of our power marketing group, Power Team, was again proven in 1998 with a record of 100% delivery in highly competitive and rapidly changing U.S. power markets. Power Team continues to use its expertise to expand its assets and markets in the United States and Canada and increase its contributions to our bottom line. At the same time, our strategy of growing our generation portfolio will provide Power Team with additional sources of low-cost power.

The Value of Experience

Power Team's knowledge, supply portfolio and marketing strategy have driven its rapid growth. Since pioneering the development of the wholesale power market in 1994, Power Team has nearly tripled its sales to become one of the largest "real time" deliverers of wholesale electricity in the continental United States. Today, Power Team's customer base includes

Power Team's Growing Geographic Reach and Wholesale Customers



municipal utilities, investor-owned utilities, rural cooperatives and marketers.

Power Team's most significant competitive advantage is a diverse portfolio of generation assets, including both PECO-generated power and a variety of long-term and short-term power purchase contracts with other suppliers. As an early player, Power Team also established positions in generation and transmission assets across the United States that have become more valuable as competition has increased. These assets give Power Team the flexibility to move power quickly to areas where demand is strongest.

Expanding Power Sources and Markets

In 1998, Power Team continued to diversify its power sources and markets. Power Team expanded its supply portfolio by adding generating sources outside of PECO Energy's traditional service territory. PECO-generated power accounted for only about a quarter of our total supply portfolio and Power Team continues to add new capacity. For example, through a partnership with Tenaska, Inc., Power Team will market the output of a new 800-megawatt plant, which will be the largest merchant power plant in the United States when it opens in 2000.

Drawing upon our broad supply portfolio, Power Team also expanded the size and scope of sales across the United States. For the first time, Power Team sold more power outside PECO's traditional Mid-Atlantic service territory than inside (see chart).

To respond to the more complex needs of customers in deregulated markets, Power Team has created innovative solutions for customers. For example, we developed products that enable us to serve entire municipalities in Pennsylvania and Maine. In addition, Power Team has developed arrangements that allow us to support our hydro-based customers in periods of low hydropower generation. With a marketing operation that runs 24 hours per day, 7 days per week, our national transmission access and our unique and innovative delivery knowledge, we can provide power just about wherever and whenever it is needed.

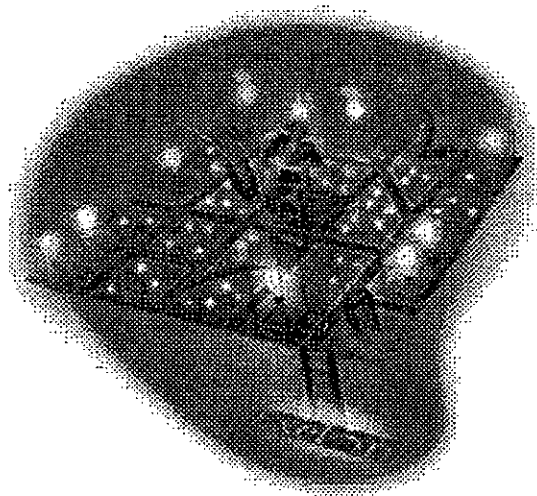
As the market becomes more crowded and competitive, our demonstrated experience will become more valuable.

We are well positioned to take advantage of emerging opportunities in retail markets as they open to competition across the country and as we add low-cost, strategically located supply to our portfolio.

For the first time, Power Team sold more power outside the Mid-Atlantic region than inside as we continued to grow our wholesale market.

The power of Innovation

Under the umbrella brand of Exelon, we are developing diverse businesses that leverage our assets and skills in high-potential markets.



In 1998, we increased our power of innovation by developing and expanding several new businesses, brought together under the umbrella brand of Exelon. These ventures, which leverage our core competencies into new areas, have high potential for future growth. Among our early achievements we have: established ourselves as the most successful electric generation supplier in Pennsylvania's Electric Choice program; signed up over 100,000 wireless phone customers; installed a telecommunications network consisting of over 27,000 fiber miles; and began to prove the viability of a new infrastructure services business.

Leveraging Our Strengths

This year, we leveraged our core strengths in operations and utility infrastructure to launch or expand several new ventures:

- **Energy:**

Exelon Energy provides competitively priced electricity and natural gas to residential, commercial and industrial clients in deregulated retail energy markets. Exelon has been successful in meeting the initial challenge of competition, becoming the largest electric generation supplier in Pennsylvania's Electric Choice program — building market share not only in our

traditional service area but also in every distribution area of the state. The strong systems we developed in 1998 for customer acquisition, customer care, energy supply and billing ensure we are well positioned for the expanded choice program in 1999. With the unique experience we've gained in Pennsylvania, we are poised to move quickly into any U.S. market where regulatory conditions provide open retail competition.

• **Communications:**

Exelon Communications is working with experienced partners to develop wireless phone networks and local fiber optics communications services in the Philadelphia region. In its first full year, Exelon's joint venture with AT&T Wireless has become a significant competitor in the region's wireless telecommunications business. Our transmission infrastructure and skilled staff have allowed us to build wireless cell sites rapidly and efficiently, by utilizing existing assets. We developed innovative approaches to piggyback antennas and cell sites on top of electrical transmission poles and towers. In the first year, the joint venture built a base of over 100,000 subscribers, well above our target, and established a significant network in the Philadelphia area. We are well prepared to pursue the estimated two million new customers expected to sign up for wireless service in the region in the next five years. In partnership with Hyperion Communications, a leading provider of competitive communications services, we also installed 27,000 fiber miles in the PECO service territory as well as Allentown, Bethlehem, Easton and Reading. This venture redeploys our strengths in building and maintaining our current power delivery network to establish a new communications platform.

• **Infrastructure:**

One of the most creative ways we are leveraging our strengths in managing complex infrastructures is a new service business we launched in 1998 to provide infrastructure construction and maintenance to other utilities. In new residential construction, for example, electric, gas, telephone and cable companies traditionally use separate service technicians to install their lines. We are developing a venture to provide single-source service. By combining installation of electric, gas, telephone and cable, Exelon Infrastructure Services reduced total costs by a third in installing service to more than 8,000 homes in 1998. In addition to new construction, we began building a utility infrastructure maintenance business, including contracts to maintain street lighting in Philadelphia, provide design services in southern New Jersey and assess utility maintenance operations at a midwestern utility. As utilities face pressures to cut costs, they will find it increasingly attractive to outsource many construction and maintenance functions. We are well positioned to continue to grow this market.

Overall, Exelon offers a laboratory for rapidly developing new business ideas, allowing us to take advantage of fast-moving opportunities. Exelon is developing a wide range of other seed projects and pilot programs with high future growth potential. The flow of innovative projects in the pipeline and strong early results are signs of the potential contributions of the power of

innovation to our future progress and shareholder value.

The power of **Alignment**

We have refocused our performance measures and compensation systems to align our organization around aggressive goals designed to enhance shareholder value.



Building Upon a Solid Foundation

Our local distribution company, PECO Energy Distribution (PED), provides a strong foundation of earnings, cash flow and core expertise to support our other non-regulated growth initiatives. In 1998, we reorganized PED to ensure we are positioned for competition and to increase alignment with shareholder interests. The changes in PED were the centerpiece of a company-wide shift in performance measures, management systems and incentives to increase alignment and ownership.

With our rates for delivering energy capped by regulators through mid-2005, our greatest opportunity for optimizing the earnings contribution of PED comes from reducing our operating costs while sustaining high performance and service. We began driving down our cost of delivery in 1998, with a goal of reducing costs by nearly 20% by 2000. To achieve this goal, we restructured PED to focus on financial performance, market share, cost containment and increasing service levels to optimize customer satisfaction and retention. By the end of 2000, we expect to reduce our 1998 PED staff by more than 20%.

These actions are part of an overall corporate initiative to increase performance and alignment. We conducted a Cost Competitiveness Review that identified potential annual cost savings of \$150 million across the entire corporation, which we are actively working to realize. Our goal in making these reductions is not only to decrease operating costs, but to do so while continuing to improve customer-related performance through improved processes.

Promoting a Performance Ethic

<http://www.peco.com/investor/98ar/align.html>

In 1998, we began to implement one of the most rigorous performance-based compensation and management systems in the industry. It provides opportunities for stock ownership at all levels of the organization through stock option grants that vest only when performance goals are met. It is designed to promote a performance ethic throughout the organization and align employees' interests directly with the interests of shareholders.

We embedded our vision and objectives in a coordinated system of goals, organization, performance feedback and consequence management. In 1998, we began implementing a new system of incentives based upon corporate and business unit performance that will be applied across all levels of the organization. We shifted more compensation from base pay to performance-based pay. A new incentive plan in our nuclear division, for example, has tied compensation to safety and operating goals for every employee. It has been very successful in boosting performance and sharing the rewards with employees.

As part of our plan to push performance incentives throughout the organization, we announced grants of options to purchase 300 shares of PECO Energy common stock to all employees by year-end 1999. But these options — like performance-based stock options granted to senior executives — are not gifts or rewards for longevity. They must be earned, vesting only when aggressive performance goals are reached. The employees win only if shareholders win. We are one of the few companies to create such a performance-based plan.

These new approaches to managing the business have fundamentally reshaped our culture. We have transformed a company that performed well in regional, regulated markets into an organization prepared to succeed in world-class competition.

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

General

The Electricity Generation Customer Choice and Competition Act (Competition Act), enacted in December 1996, provided for the restructuring of the electric utility industry in Pennsylvania, including the institution of retail competition for generation supply beginning in 1999. Pursuant to the Competition Act, in April 1997, the Company filed with the Pennsylvania Public Utility Commission (PUC) a restructuring plan in which it identified \$7.5 billion of retail electric generation-related stranded costs.

At December 31, 1997, the Company determined that its electric generation business no longer met the criteria of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." In connection with the discontinuance of SFAS No. 71, the Company performed a market value analysis of its generation assets and wrote-off \$1.8 billion (net of income taxes) of unrecoverable electric plant costs and regulatory assets. See Note 4 of Notes to Consolidated Financial Statements.

In May 1998, the PUC entered an Opinion and Order (Final Restructuring Order) approving a joint petition and settlement of the Company's restructuring case. Under the Final Restructuring Order, the Company has received approval to recover stranded costs of \$5.26 billion over 12 years beginning January 1, 1999 with a return of 10.75%. The Final Restructuring Order provides for the phase-in of customer choice of electric generation suppliers (EGS) for all customers: One-third of the peak load of each customer class on January 1, 1999; one-third on January 2, 1999; and the remainder on January 2, 2000. The Final Restructuring Order calls for an across the board retail electric rate reduction of 8% in 1999. This rate reduction will decrease to 6% in 2000. See Note 3 of Notes to Consolidated Financial Statements.

Based on the estimated annual sales of the Company in the Final Restructuring Order, the rate reductions are expected to reduce the Company's revenues from retail electric sales by \$270 million in 1999 and \$200 million in 2000. The Company believes that its revenues from retail electric sales will be further reduced by competition for electric generation services within its traditional service territory. The Company is actively participating in the competitive electric generation supply market throughout Pennsylvania. In addition, the Company anticipates lower depreciation and amortization expense in 1999 as a result of the amortization schedule for the Company's stranded cost recovery.

In light of the expected impact on future revenues of the Final Restructuring Order and competition for electric generation services, the Company is continuing its cost management efforts through a Cost Competitiveness Review (CCR). The goal of CCR is to achieve significant cost savings while maintaining high levels of service quality, reliability, safety and overall performance. The cost-control targets of CCR include reducing annual operating and maintenance expense by at least \$150 million by 2001. The expense reductions will be realized, in part, through the elimination of approximately 1,200 employee positions. As part of the CCR, in April 1998, the Board of Directors authorized the implementation of a retirement incentive program and an enhanced severance benefit program to accompany targeted workforce reductions. In the fourth quarter of 1998, the Company incurred an after-tax charge to earnings of \$74 million to recognize costs related to the CCR workforce reduction.

Discussion of Operating Results

Earnings

The Company recorded basic earnings per average common share of \$2.24 in 1998 as compared with a loss of \$6.80 per share in 1997 and earnings per share of \$2.24 in 1996. Earnings per share in 1998 reflect higher revenues net of fuel of \$0.14 per share primarily attributable to sales to other utilities and interchange sales; lower operating and maintenance expenses of \$0.10 per share and lower fuel expenses of \$0.22 per share as a result of the full return to service of Salem Nuclear Generating Station (Salem); and lower operating and maintenance expenses of \$0.21 per share. In addition, earnings include the effects of a lower effective income tax rate of \$0.34 per share. These increases were partially offset by higher depreciation and amortization expense of \$0.17 per share; a charge of \$0.33 per share related to the CCR workforce reduction program initiated in 1998; and an extraordinary charge of \$0.09 per share for premiums paid in connection with the redemption of higher cost long-term debt.

The loss in 1997 of \$6.80 per common share was primarily due to an extraordinary charge of \$8.24 per share reflecting the effects of the PUC Restructuring Order and deregulation of the Company's electric generation operations. 1997 earnings were also reduced by several one-time charges totaling \$0.56 per share for changes in employee benefits, write-offs of information

systems development charges reflecting clarification of accounting guidelines and additional reserves, including those for environmental site remediation; by \$0.30 per share for higher depreciation expense resulting from a full year's increase in depreciation and amortization of assets associated with Limerick Generating Station (Limerick) and other assets; by \$0.12 per share for income tax adjustments; by \$0.09 per share for losses from new non-utility ventures; and by \$0.05 per share for increased depreciation expense due to plant additions. These decreases were partially offset by a one-time \$0.18 per share credit relating to the settlement of litigation arising from the outage of Salem; \$0.08 per share for operational efficiencies; and higher revenues net of fuel of \$0.06 per share primarily due to increased sales to other utilities.

Operating Revenues

Total operating revenues increased in 1998 by \$593 million to \$5,210 million. This represented a \$644 million increase in electric revenues and a \$51 million decrease in gas revenues compared to 1997. Electric revenues increased as a result of additional sales to other utilities and interchange sales, in addition to higher wholesale prices. The decrease in gas revenues was primarily attributable to lower sales to house heating, small commercial and residential customers as a result of milder weather conditions in 1998, partially offset by higher purchased gas clause revenues charged in 1998 compared to 1997.

Total operating revenues increased in 1997 by \$334 million to \$4,618 million. This represented a \$312 million increase in electric revenues and a \$22 million increase in gas revenues over 1996. The increase in electric revenues was primarily due to increased sales to other utilities. The increase in gas revenues was primarily due to higher revenues from sales to commercial, house heating and residential customers resulting from higher purchased gas clause revenues charged in 1997 compared to 1996, partially offset by lower sales resulting from milder weather conditions in 1997. This increase was partially offset by reduced sales to interruptible customers switching to transportation service.

Significant Operating Items

Revenue and Expense Items as a Percentage of Total Operating Revenues				Percentage Dollar Changes	
1998	1997	1996		1998-1997	1997-1996
92%	90%	90%	Electric	15%	8%
8%	10%	10%	Gas	(11%)	5%
100%	100%	100%	Total Operating Revenues	13%	8%
34%	28%	23%	Fuel and Energy Interchange	36%	33%
24%	31%	30%	Operating and Maintenance (a)	(12%)	12%
12%	12%	11%	Depreciation and Amortization	11%	19%
5%	7%	7%	Taxes Other Than Income	(10%)	4%
75%	78%	71%	Total Operating Expenses	9%	19%
25%	22%	29%	Operating Income	28%	(19%)
(7%)	(9%)	(10%)	Interest Expense	(10%)	(2%)
(9%)	(8%)	(9%)	Total Other Income and Deductions	(15%)	4%

16%	14%	20%	Income Before Taxes and Extraordinary Item	35%	(27%)
6%	6%	8%	Income Taxes	9%	(14%)
10%	8%	12%	Income Before Extraordinary Item	58%	(35%)

Increases/(decreases) in electric sales and revenues by class of customer for 1998 compared to 1997 and 1997 compared to 1996 are set forth as follows:

	1998 - 1997	1997 - 1996		
	Electric	Electric	Electric	Electric
	Sales	Revenues	Sales	Revenues
	(Millions of kWh)	(Millions of \$)	(Millions of kWh)	(Millions of \$)
Residential	356	\$ 30	(48)	\$ (1)
House Heating	(140)	(10)	(217)	(12)
Small Commercial				
and Industrial	203	5	194	30
Large Commercial				
and Industrial	644	(11)	(174)	(21)
Other	(38)	2	(61)	8
Unbilled	61	(18)	397	45
Service Territory	1,086	(2)	91	49
Interchange Sales	1,556	152	992	33
Sales to Other Utilities	8,365	494	8,650	230
Total	11,007	\$ 644	9,733	\$ 312

Fuel and Energy Interchange Expense

Fuel and energy interchange expense increased in 1998 by \$462 million to \$1,752 million. The increase was primarily due to increased energy purchases associated with increased sales to other utilities and interchange sales partially offset by reduced replacement power expense related to Salem. Increases in purchases of non-utility generation also contributed to increased fuel expense in 1998. Fuel and energy interchange expense as a percentage of operating revenues, increased from 28% to 34% principally as a result of energy purchases associated with increased sales to other utilities and interchange sales.

Fuel and energy interchange expense increased in 1997 by \$318 million to \$1,290 million. The increase was primarily due to purchases associated with increased sales to other utilities and a one-time billing credit in 1996 from a non-utility generator. Fuel and energy interchange expense as a percentage of operating revenues increased from 23% to 28% principally due to purchases associated with increased sales to other utilities.

Operating and Maintenance Expense

Operating and maintenance expense, inclusive of expenses associated with early retirement and separation programs, decreased in 1998 by \$178 million to \$1,253 million. The decrease in 1998 was primarily attributable to the full return to service of Salem which resulted in lower restart expenses, a credit to pension and benefits expense related to the performance of pension plan investments and lower property insurance and workers compensation insurance. These decreases were partially offset by the charge associated with the CCR workforce reduction program and increased power marketing expenses.

Operating and maintenance expense increased in 1997 by \$157 million to \$1,431 million primarily due to several one-time charges totaling \$187 million, including charges for changes in employee benefits, write-offs of information systems development charges reflecting clarification of accounting guidelines and additional reserves, including reserves for environmental site remediation. These increases were partially offset by lower operating costs at Company-operated nuclear generating stations and lower administrative and general expenses resulting from the Company's ongoing cost-control efforts.

Depreciation and Amortization Expense

Depreciation and amortization expense increased in 1998 by \$62 million to \$643 million. The increase was primarily due to the amortization of Deferred Generation Costs Recoverable in Current Rates during 1998, preceding the Company's transition to market-based pricing of electric generation in 1999. Included in this amortization were charges that were included in operating and maintenance expense and interest expense in 1997.

Depreciation and amortization expense increased in 1997 by \$92 million to \$581 million. The increase was primarily due to increased depreciation of assets associated with Limerick which became effective October 1, 1996. Depreciation and amortization expense also increased due to additions to plant in service.

Interest Charges

Interest charges consist of interest expense, distributions on Company Obligated Mandatorily Redeemable Preferred Securities of a Partnership (COMRPS) and Allowance for Funds Used During Construction (AFUDC). Interest charges decreased in 1998 by \$22 million to \$358 million. The decrease was primarily due to the Company's program to reduce and/or refinance higher cost, long-term debt, lower variable interest rates and the discontinuance of amortization of the loss on reacquired debt related to electric generation operations as of December 31, 1997. These decreases were partially offset by lower AFUDC and capitalized interest resulting from fewer projects in the construction base in 1998 and the replacement of \$62 million of preferred stock with COMRPS in the third quarter of 1997.

Interest charges decreased in 1997 by \$9 million to \$380 million. The decrease was primarily due to the Company's program to reduce and/or refinance higher-cost, long-term debt. This decrease was partially offset by the replacement of \$62 million of preferred stock with COMRPS in the third quarter of 1997.

Other Income and Deductions Excluding Interest Charges

Other income and deductions excluding interest charges decreased in 1998 by \$77 million to a deduction of \$73 million. The decrease was primarily due to the settlement of litigation arising from the shutdown of Salem recognized in 1997 and losses from the Company's non-utility ventures, which are accounted for under the equity method, partially offset by interest income on a gross receipts tax refund.

Other income and deductions excluding interest charges increased in 1997 by \$6 million to \$4 million. The increase was primarily due to the settlement of litigation arising from the shutdown of Salem, partially offset by losses from the Company's non-utility ventures. Also offsetting the increase was the write-off of one of the Company's telecommunications investments as a result of the auctioning of personal communications systems "C-block" licenses by the Federal Communication Commission.

Income Taxes

Income taxes increased in 1998 by \$27 million to \$320 million. The Company's effective income tax rate decreased, however, from 46.5% to 37.5% in 1998 primarily as a result of full normalization of deferred taxes associated with deregulated generation plant.

Income taxes decreased in 1997 by \$47 million to \$293 million. The Company's effective income tax rate increased, however, from 39.7% to 46.5% in 1997 primarily attributable to reduced tax depreciation benefits from plant and regulatory assets which were not fully normalized for ratemaking purposes.

Preferred Stock Dividends

Preferred stock dividends decreased in 1998 by \$4 million to \$13 million and decreased in 1997 by \$1 million to \$17 million. The decreases were primarily a result of the replacement of \$62 million of preferred stock with COMRPS in the third quarter of 1997.

Discussion of Liquidity and Capital Resources

The Company's capital resources are primarily provided by internally generated cash flows from utility operations and, to the extent necessary, external financing. Such capital resources are used to fund the Company's capital requirements, including investments in new and existing ventures, to repay maturing debt and to make preferred and common stock dividend payments.

Cash flows from operations were \$1,433 million in 1998 as compared to \$1,038 million in 1997 and \$1,172 million in 1996. The increase in 1998 was principally attributable to improved operating results and changes in working capital.

Cash flows used in investing activities were \$462 million in 1998 as compared to \$573 million in 1997 and \$663 million in 1996. Expenditures under the Company's construction program decreased to \$415 million in 1998. Net funds invested in diversified activities in 1998 were \$47 million, consisting of \$17 million for telecommunications ventures, \$21 million for nuclear plant decommissioning trust funds and \$9 million for other deposits and ventures. In 1997 and 1996, funds used in similar activities were \$83 million and \$114 million, respectively.

Cash flows used in financing activities were \$956 million in 1998 as compared to \$461 million in 1997 and \$501 million in 1996. The increase in 1998 was primarily attributable to increased retirement of long-term debt partially offset by lower dividends on common stock. During 1998, in anticipation of competition, which is expected to reduce cash flows, the Company reduced its dividend payment requirements by reducing its common stock dividend to \$1 per share. The decrease in 1997 was primarily due to fewer retirements of higher-cost debt.

The Company's capital expenditures are currently estimated to be \$440 million in 1999. Certain facilities under construction and to be constructed may require permits and licenses which the Company has no assurance will be granted. Capital expenditures do not include investments in joint ventures including investments related to the Company's strategy to expand its generation portfolio. See "Outlook-Expansion of Generation Portfolio." The Company may use internally generated funds or external financing or a combination of both to finance any acquisition.

The Company meets its short-term liquidity requirements primarily through the issuance of commercial paper and borrowings under bank credit facilities. The Company has a \$900 million unsecured revolving credit facility with a group of banks which consists of a \$450 million 364-day credit agreement and a \$450 million three-year credit agreement. The Company uses the credit facility principally to support its \$600 million commercial paper program. There was no debt outstanding under this credit facility at December 31, 1998. The Company had \$525 million of short-term debt, consisting of \$125 million of commercial paper, and a \$400 million term loan, outstanding at December 31, 1998.

At December 31, 1998, the Company's embedded cost of debt was 6.65% with 29% of the Company's long-term debt having floating rates.

At December 31, 1998, the Company's capital structure consisted of 44.2% common equity; 8.4% preferred stock and COMRPS (which comprised 5.1% of the Company's total capitalization structure); and 47.4% long-term debt.

In the Final Restructuring Order, the PUC authorized the Company to securitize up to \$4 billion of its allowed \$5.26 billion stranded cost recovery through the issuance of transition bonds (Transition Bonds). The proceeds of any securitization are required to be used by the Company principally to reduce its stranded costs and related capitalization. The Company currently

proposes to securitize its allowed stranded asset recovery, up to the maximum amount authorized by the PUC, through the issuance of Transition Bonds by a special purpose subsidiary (SPS). The Transition Bonds will be obligations of the SPS secured by intangible transition property (ITP). ITP represents the irrevocable right of the Company or its assignee, to collect non-bypassable charges from customers to recover stranded costs. The Transition Bonds will be included in the consolidated capitalization of the Company. Because the Transition Bonds will be obligations of the SPS, payable from the ITP owned by the SPS, the Company does not expect the issuance of Transition Bonds to adversely affect the ratings on the Company's securities which remain outstanding after issuance of Transition Bonds.

In anticipation of the issuance of Transition Bonds, the Company's Board of Directors authorized the repurchase of up to 25 million shares of the Company's common stock from time to time through open market, privately negotiated and/or other types of transactions. The Company has entered into forward purchase agreements to be settled from time to time, at the Company's election on either a physical, net share or net cash basis. The amount at which these agreements can be settled is dependent principally upon the market price of the Company's common stock as compared to the forward purchase price per share and the number of shares to be settled. If these agreements had been settled on a net share basis at December 31, 1998, based on the closing price of the Company's common stock on that date, the Company would have received approximately 4.6 million shares of the Company's common stock.

The Company has entered into treasury forwards and forward starting interest rate swaps to manage interest rate exposure associated with the anticipated issuance of Transition Bonds. The fair value of (\$4.7 million) was based on the present value difference between the contracted rate (i.e., hedged rate) and the market rates at December 31, 1998.

The aggregate change in fair value of the Transition Bond derivative instruments that would have resulted from a hypothetical 50 basis point decrease in the spot yield at December 31, 1998 is estimated to be \$128 million. If the derivative instruments had been terminated at December 31, 1998, this estimated fair value represents the amount to be paid by the Company to the counterparties.

The aggregate change in fair value of the Transition Bond derivative instruments that would have resulted from a hypothetical 50 basis point increase in the spot yield at December 31, 1998 is estimated to be \$113 million. If the derivative instruments had been terminated at December 31, 1998, this estimated fair value represents the amount to be paid by the counterparties to the Company.

Outlook

The Company is entering a period of financial uncertainty as a result of the deregulation of its electric generation operations. Under the terms of the Final Restructuring Order, revenues from regulated rates will decrease. In addition, the Company will sell an increasing portion of its energy at market-based rates. The Company believes that the deregulation of its electric generation operations and other regulatory initiatives designed to encourage competition will increase the Company's risk profile by changing and increasing the number of factors upon which the Company's financial results are dependent. This may result in more volatility in the Company's future results of operations. The Company believes that it has significant advantages that will strengthen its position in the increasingly competitive electric generation environment. These advantages include the ability to produce electricity at a low variable-cost and the demonstrated ability to market power in the competitive wholesale markets.

The Company's future financial condition and results of operations are substantially dependent upon the effects of the Final Restructuring Order and retail and wholesale competition for generation services. Additional factors that affect the Company's financial condition and results of operations include operation of nuclear generating facilities, Year 2000 issues, new accounting pronouncements, inflation, weather, compliance with environmental regulations and the profitability of the Company's investments in new ventures.

Final Restructuring Order

The Final Restructuring Order contains a number of provisions which the Company expects will significantly impact its future results of operations and financial condition, including mandated rate reductions, extended rate caps, provisions designed to enhance competition for generation services, the amortization of the Company's stranded cost recovery and the securitization of stranded cost recovery.

The Final Restructuring Order mandates retail electric rate reductions of 8% in 1999 and 6% in 2000 from rates in existence on December 31, 1996. Based on the estimated annual sales of the Company in the Final Restructuring Order, these rate reductions will reduce the Company's revenue from retail electric sales by \$270 million and \$200 million in 1999 and 2000, respectively. The Company's revenue from retail electric sales will be further reduced to the extent that customers purchase

generation service from alternate EGS.

The Final Restructuring Order caps the Company's retail transmission and distribution rates at their current levels through June 30, 2005. The Final Restructuring Order also established rate caps for generation services, consisting of the charge for stranded cost recovery and a charge for energy and capacity, through 2010. The rate caps will limit the Company's ability to pass cost increases through to customers.

The Final Restructuring Order contains a number of provisions which are designed to encourage competition for generation services. The Final Restructuring Order establishes an above-market shopping credit for generation services, equivalent to the Company's energy and capacity charge, in order to provide an economic incentive for customers to choose an alternate EGS. If market prices of retail generation services remain below the shopping credits for generation established by the Final Restructuring Order, this economic incentive to choose an alternate EGS will continue. If, on the other hand, market prices of retail generation services exceed the shopping credits for generation, customers will have an economic incentive to purchase generation services from the Company as the provider of last resort (PLR) at below market rates. Additionally, if on January 1, 2001 and January 1, 2003, less than 35% and 50%, respectively, of the Company's residential and commercial customers are obtaining generation service from alternate EGS, the non-shopping customers will be randomly assigned to EGS, including those affiliated with the Company, to meet these thresholds. Further, on January 1, 2001, 20% of all the Company's residential customers, whether or not such customers are obtaining generation service from an alternate EGS, will be assigned to a PLR other than the Company. Such alternate supplier will be selected by a PUC-approved bidding process. The right to provide this competitive default service will be rebid annually, and if the number of residential customers served by this service falls below 17%, further random selection of customers will be assigned to achieve the 20% level.

The Company's recovery of stranded costs is based on the level of transition charges established in the Final Restructuring Order and the projected annual retail sales in the Company's service territory. Recovery of transition charges for stranded costs will be included in operating revenue and are expected to be \$552 million in 1999, increasing to \$932 million by 2010, the final year of stranded cost recovery. Amortization of the Company's stranded cost recovery, which is a regulatory asset, will be included in depreciation and amortization, beginning in 1999 at a level of (\$14) million and increasing by 2010 to \$879 million. The Company is allowed a 10.75% return on the unamortized balance. As a result of this amortization schedule, the Company expects its earnings to be disproportionately benefited by the recovery of stranded assets in the early years of the transition period declining over the life of the recovery as the balance of the unamortized regulatory asset is reduced.

Under the Final Restructuring Order, the Company may securitize up to \$4 billion of its \$5.26 billion of stranded cost recovery through the issuance of Transition Bonds. The rate reductions and rate caps of the Final Restructuring Order anticipate the benefits of securitization and no adjustment in the Company's base rates will be made upon the issuance of Transition Bonds. As a result of the 10.75% allowed return on the unamortized balance of stranded cost recovery and expected costs of securitization substantially below this allowed return, the Company anticipates that successful securitization, resulting in a reduction of its common equity, will improve the Company's future financial results.

Competition

The Company competes in both the retail electric generation market in Pennsylvania and the wholesale electric generation market nationally. Competition for electric generation services is expected to create new uncertainties in the utility industry. These uncertainties include future prices of generation services in both the wholesale and retail markets; potential changes in the Company's customer profiles, both at the retail level where change is expected to be ongoing as a result of customer choice, and between the retail and wholesale markets; and supply and demand volatility.

Retail competition for generation supply commenced in January 1999, with two-thirds of Pennsylvania electric utility consumers having the right to choose their suppliers of generation service. The Company is actively competing for a share of the generation supply market in its traditional service territory through PECO Energy Distribution as the PLR for customers who do not or cannot choose an alternate EGS and throughout Pennsylvania through Exelon Energy, the Company's new competitive supplier. Generation services provided by PECO Energy Distribution are at the energy and capacity charge mandated by the Final Restructuring Order. Generation services offered by Exelon Energy are at competitive market prices. Customers who continue to take generation service from PECO Energy Distribution may choose an alternate generation supplier at any time. As of January 12, 1999, approximately 12% of the Company's residential and small commercial customers and approximately 50% of its large commercial and industrial customers had selected an alternate EGS. As of that date, Exelon Energy is providing generation service to approximately 135,000 business and residential customers throughout Pennsylvania. Because the energy and capacity charge (shopping credit) established by the PUC in the Restructuring Order remains above current retail market prices for generation services, including those offered by Exelon Energy, the Company's retail revenues will be reduced to the extent customers choose an alternate EGS, including Exelon Energy. To the extent that the Company cannot replace lost retail sales through PECO Energy Distribution with retail sales by Exelon Energy, the Company will be required to sell a larger portion of its energy and capacity in the wholesale market. Since prices in the

wholesale market are currently lower on average than those charged in the competitive retail market, this will adversely affect the Company's revenues and profit margins.

The Company is a low variable-cost electricity producer, which puts it in a favorable position to take advantage of opportunities in the electric retail and wholesale generation markets. The Company's competitive position and its future financial condition and results of operations are dependent on the Company's ability to successfully operate its low variable-cost power plants and market its power effectively in competitive wholesale markets.

The Company competes in the wholesale market by selling the energy and capacity from the Company's installed capacity not utilized in the retail market and buying and selling energy from third parties. The Company enters into both long-term and short-term commitments to buy and sell power. Currently, the Company's long-term commitments, together with the energy the Company expects to market from the Company's installed capacity, make the Company a net power seller. This long position, however, exposes the Company to the risk of declining revenues in periods of low wholesale demand for generation services. See Note 5 of Notes to Consolidated Financial Statements.

There is an initiative in the Pennsylvania legislature to deregulate the gas industry, which has the support of the governor. The Company cannot predict whether the Pennsylvania legislature will enact legislation that deregulates the gas industry or whether the governor will ultimately sign into law any such legislation. The Company cannot predict the ultimate effect of gas industry deregulation on its future financial condition or results of operations.

Regulation and Operation of Nuclear Generating Facilities

The Company's financial condition and results of operations are in part dependent on the continued successful operation of its nuclear generating facilities. The Company's nuclear generating facilities represent 44% of its installed generating capacity. Because of the Company's reliance on its nuclear generating units, any changes in regulations by the Nuclear Regulatory Commission (NRC) requiring additional investments or resulting in increased operating costs of nuclear generating units could adversely affect the Company.

During 1998, Company-operated nuclear plants operated at an 86% weighted-average capacity factor and Company-owned nuclear plants operated at an 83% weighted-average capacity factor. Company-owned nuclear plants produced 39% of the Company's electricity. Nuclear generation is currently the most cost-effective way for the Company to meet customer needs and commitments for sales to other utilities. See "Expansion of Generation Portfolio".

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," to establish accounting and reporting standards for derivatives. The new standard requires recognizing all derivatives as either assets or liabilities on the balance sheet at their fair value and specifies the accounting for changes in fair value depending upon the intended use of the derivative. The new standard is effective for fiscal years beginning after June 15, 1999. The Company expects to adopt SFAS No. 133 in the first quarter of 2000. The Company is in the process of evaluating the impact of SFAS No. 133 on its financial statements.

In November 1998, the FASB's Emerging Issues Task Force issued EITF 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." EITF 98-10 outlines attributes that may be indicative of an energy trading operation and gives further guidance on the accounting for contracts entered into by an energy trading operation. This accounting guidance requires mark-to-market accounting for contracts considered to be a trading activity. EITF 98-10 is applicable for fiscal years beginning after December 15, 1998 with any impact recorded as a cumulative effect adjustment through retained earnings at the date of adoption. At December 31, 1998, the Company has evaluated its wholesale marketing operation and related contracts under the guidance provided in EITF 98-10. For those contracts entered into in the over-the-counter market and considered to be a trading activity, the Company believes the impact to be immaterial. However, with respect to the long-term commitments considered to be trading activities, the Company is continuing to evaluate these commitments and the impact of adopting EITF 98-10.

Other Factors

Annual and quarterly operating results can be significantly affected by weather. Since the Company's peak demand is in the summer months, temperature variations in summer months are generally more significant than variations during winter months.

Inflation affects the Company through increased operating costs and increased capital costs for utility plant. As a result of the rate caps imposed under the Final Restructuring Order and expected price pressures due to competition, the Company may have a limited opportunity to pass the costs of inflation through to customers.

The Company's operations have in the past and may in the future require substantial capital expenditures in order to comply with environmental laws. Additionally, under federal and state environmental laws, the Company is generally liable for the costs of remediating environmental contamination of property now or formerly owned by the Company and of property contaminated by hazardous substances generated by the Company. The Company owns or leases a number of real estate parcels, including parcels on which its operations or the operations of others may have resulted in contamination by substances which are considered hazardous under environmental laws. The Company is currently involved in a number of proceedings relating to sites where hazardous substances have been deposited and may be subject to additional proceedings in the future.

The Company has identified 28 sites where former manufactured gas plant (MGP) activities have or may have resulted in actual site contamination. The Company is presently engaged in performing various levels of activities at these sites, including initial evaluation to determine the existence and nature of the contamination, detailed evaluation to determine the extent of the contamination and the necessity and possible methods of remediation, and implementation of remediation. The Pennsylvania Department of Environmental Protection has approved the Company's clean-up of three sites. Eight other sites are currently under some degree of active study and/or remediation.

As of December 31, 1998 and 1997, the Company had accrued \$60 and \$63 million, respectively, for environmental investigation and remediation costs, including \$33 and \$35 million, respectively, for MGP investigation and remediation that currently can be reasonably estimated. The Company expects to expend \$3 million for environmental remediation activities in 1999. The Company cannot predict whether it will incur other significant liabilities for any additional investigation and remediation costs at these or additional sites identified by the Company, environmental agencies or others, or whether such costs will be recoverable from third parties.

For a discussion of other contingencies, see Note 5 of Notes to Consolidated

Financial Statements.

Year 2000 Readiness Disclosure

Due to the severity of the potential impact of the Year 2000 Issue (Y2K Issue) on the electric utility industry, the Company has adopted a comprehensive schedule to achieve Y2K readiness by the time specified by the NRC. The Company has dedicated extensive resources to its Y2K Project (Project) and believes the project is progressing on schedule.

The Project is addressing the issue resulting from computer programs using two digits rather than four to define the applicable year and other programming techniques that constrain date calculations or assign special meanings to certain dates. Any of the Company's computer systems that have date-sensitive software or microprocessors may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, a temporary inability to process transactions, send bills, operate generating stations, or engage in similar normal business activities.

The Company has determined that it will be required to modify, convert or replace significant portions of its software and a subset of its system hardware and embedded technology so that its computer systems will properly utilize dates beyond December 31, 1999. The Company presently believes that with these modifications, conversions and replacements the effect of the Y2K Issue on the Company can be mitigated. If such modifications, conversions and replacements are not made, or are not completed in a timely manner, the Y2K Issue could have a material impact on the operations and financial condition of the Company. The costs associated with this potential impact are not presently quantifiable.

The Company is utilizing both internal and external resources to reprogram, or replace and test software and computer systems for the Project. The Project is scheduled for completion by July 1, 1999, except for a small number of modifications, conversions or replacements that are impacted by vendor dates and/or are being incorporated into scheduled plant outages between July and October 1999.

The Project is divided into four major sections: Information Technology Systems (IT Systems), Embedded Technology (devices used to control, monitor or assist the operation of equipment, machinery or plant), Supply Chain (third-party suppliers and customers), and Contingency Planning. The general phases common to all sections are: (1) inventorying Y2K items; (2) assigning priorities to identified items; (3) assessing the Y2K readiness of items determined to be material to the Company; (4)

converting material items that are determined not to be Y2K ready; (5) testing material items; and (6) designing and implementing contingency plans for each critical Company process. Material items are those believed by the Company to have a risk involving the safety of individuals, may cause damage to property or the environment, or affect revenues.

The IT Systems section includes both the conversion of applications software that is not Y2K ready and the replacement of software when available from the supplier. The Company estimates that the software conversion phase was approximately 66% complete at January 27, 1999, and the remaining conversions are expected to be completed by the scheduled end date. The Company has been experiencing slippage in delivery dates of vendor supplied products which may have a minor impact on the July 1, 1999 target completion date. Contingency planning for IT Systems is scheduled to be completed by July 1, 1999 with an interim date of March 31, 1999 that addresses PUC contingency planning requirements. The Project has identified 380 critical systems of which 238 are IT Systems. The current readiness status of IT Systems is set forth below:

Number of Systems	Progress Status
79 Systems	Y2K Ready
65 Systems	In Testing
87 Systems	In Active Code Modification Or Package Upgrading
7 Systems	Not Started

The Embedded Technology section consists of hardware and systems software other than IT Systems. The Company estimates that the Embedded Technology section was approximately 75% complete at January 27, 1999. The remaining conversions are on schedule to be tested and ready by July 1, 1999, except for a small number of systems which will be extended into the fall of 1999 because their final tests will occur during a planned generating plant outage. Contingency planning for Embedded Technology is scheduled to be completed by July 1, 1999 with an interim date of March 31, 1999 that addresses PUC contingency planning requirements. The Project has identified 142 critical Embedded Technology systems. The current readiness status of those systems is set forth below:

Number of Systems	Progress Status
31 Systems	Y2K Ready
29 Systems	In Final Quality Review
76 Systems	In Progress
6 Systems	Not Started

The Supply Chain section includes the process of identifying and prioritizing critical suppliers and communicating with them about their plans and progress in addressing the Y2K Issue. The Company initiated formal communications with all of its critical suppliers to determine the extent to which the Company may be vulnerable to their Y2K issues. The process of evaluating these critical suppliers has commenced and is scheduled to be completed by March 31, 1999.

The Company, like other companies, is interconnected with many businesses, including electric utilities, natural gas pipelines and municipalities. The Company is working with businesses where interconnections exist to determine and monitor their Y2K readiness efforts. In addition, the Company is currently developing contingency plans to address how to respond to events which may disrupt normal operations. These plans address Y2K risk scenarios that cross departmental, business unit and industry lines as well as specific risks from various internal and external sources, including supplier readiness. Emergency plans already exist that cover various aspects of the Company's business. These plans are being reviewed and updated, as needed, to address the Y2K Issue. The Company is also participating in industry contingency planning efforts.

The estimated total cost of the Project is \$75 million, the majority of which will be incurred during testing. This estimate includes the Company's share of Y2K costs for jointly owned facilities. The total amount expended on the Project through December 31, 1998 was \$21 million. The Company expects to fund the Project from operating cash flows.

The Company's failure to become Y2K ready could result in an interruption in or a failure of certain normal business activities or operations. In addition, there can be no assurance that the systems of other companies on which the Company's systems rely or with which they communicate will be converted in a timely manner, or that a failure to convert by another company, or a conversion that is incompatible with the Company's systems, will not have a material adverse effect on the Company. Such failures could materially and adversely affect the Company's results of operations, liquidity and financial condition. The Company is currently developing contingency plans to address how to respond to events that may disrupt normal operations, including activities with PJM Interconnection, LLC.

The costs of the Project and the date on which the Company plans to complete the Y2K modifications are based on estimates, that were derived utilizing numerous assumptions of future events, including the continued availability of certain resources, third-party modification plans and other factors, such as regulatory requirements that impact key systems. There can be no assurance that these estimates will be achieved. Actual results could differ materially from the projections. Specific factors that might cause a material change include, but are not limited to, the availability and cost of trained personnel, the ability to locate and correct all relevant computer programs and microprocessors.

The Project is expected to significantly reduce the Company's level of uncertainty about the Y2K Issue. The Company believes that the completion of the Project, as scheduled, minimizes the possibility of significant interruptions of normal operations.

Expansion of Generation Portfolio

The Company established specific goals to increase its generation capacity from 9 gigawatts to 25 gigawatts by 2003. The Company is targeting a balanced portfolio of nuclear, hydro and clean burning fossil capacity through the acquisition of plants and long-term supply agreements. In order to meet this strategic objective the Company may require significant capital resources.

In October 1998, the Company through AmerGen Energy Company, LLC, a 50% owned joint venture with British Energy, Inc., entered into a definitive asset purchase agreement with GPU, Inc. (GPU) to acquire GPU's 786 megawatt Three Mile Island Unit No. 1 Nuclear Generating Facility for approximately \$23 million in cash, \$77 million for nuclear fuel payable over five years and certain contingent payments based upon future wholesale market prices. The Company currently expects the acquisition, which is subject to various regulatory approvals, to close by mid-year 1999.

Corporate Restructuring

In 1999, the Company's common shareholders will vote on a management proposal for the formation of a holding company. The holding company will be formed through the exchange of PECO Energy common stock for common stock of the holding company. As a result, the Company will become a wholly owned subsidiary of the holding company. The formation of the holding company will not affect the Company's other securities. Management has proposed the formation of the holding company to facilitate the disaggregation of the Company's transmission and distribution, generation and unregulated businesses and corporate central services in order to create increased financial, management and organizational flexibility.

Forward-Looking Statements

Except for the historical information contained herein, certain of the matters discussed in this Report are forward-looking statements which are subject to risks and uncertainties. The factors that could cause actual results to differ materially include those discussed herein as well as those listed in Note 5 of Notes to Consolidated Financial Statements and other factors discussed in the Company's filings with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Report. The Company undertakes no obligation to publicly release any revision to these forward-looking statements to reflect events or circumstances after the date of this Report.

Consolidated Financial Statements

For the Years Ended December 31,	1998	1997	1996
<i>Thousands of Dollars</i>			
Operating Revenues			
Electric	\$ 4,810,840	\$ 4,166,669	\$ 3,854,836
Gas	399,642	451,232	428,814
Total Operating Revenues	5,210,482	4,617,901	4,283,650
Operating Expenses			
Fuel and Energy Interchange	1,751,819	1,290,164	972,380
Operating and Maintenance	1,128,792	1,431,420	1,274,222
Early Retirement and Separation Programs	124,200	-	-
Depreciation and Amortization	642,842	580,595	489,001
Taxes Other Than Income	279,515	310,091	299,546
Total Operating Expenses	3,927,168	3,612,270	3,035,149
Operating Income	1,283,314	1,005,631	1,248,501
Other Income and Deductions			
Interest Expense	(330,842)	(372,857)	(382,443)
Company Obligated Mandatorily Redeemable Preferred Securities of a Partnership, which holds Solely Subordinated Debentures of the Company	(30,694)	(28,990)	(26,723)
Allowance for Funds Used During Construction	3,522	21,771	19,947
Settlement of Salem Litigation	-	69,800	-
Other, net	(73,268)	(66,028)	(1,976)
Total Other Income and Deductions	(431,282)	(376,304)	(391,195)
Income Before Income Taxes and Extraordinary Item	852,032	629,327	857,306
Income Taxes	319,654	292,769	340,101
Income Before Extraordinary Item	532,378	336,558	517,205

Extraordinary Item (net of income taxes of \$13,757 and \$1,290,961 for 1998 and 1997, respectively)	(19,654)	(1,833,664)	-
Net Income (Loss)	512,724	(1,497,106)	517,205
Preferred Stock Dividends	13,109	16,804	18,036
Earnings (Loss) Applicable to Common Stock	\$ 499,615	\$(1,513,910)	\$ 499,169
Average Shares of Common Stock			
Outstanding (Thousands)	223,219	222,543	222,490
Before Extraordinary Item (Dollars)	\$ 2.33	\$ 1.44	\$ 2.24
Extraordinary Item (Dollars)	\$ (0.09)	\$ (8.24)	\$ -
Basic Earnings per Average Common Share (Dollars)	\$ 2.24	\$ (6.80)	\$ 2.24
Diluted Earnings per Average Common Share Before Extraordinary Item (Dollars)	\$ 2.32	\$ 1.44	\$ 2.24
Extraordinary Item (Dollars)	\$ (0.09)	\$ (8.24)	\$ -
Diluted Earnings per Average Common Share (Dollars)	\$ 2.23	\$ (6.80)	\$ 2.24
Dividends per Common Share (Dollars)	\$ 1.00	\$ 1.80	\$ 1.755

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For the Years Ended December 31,	1998	1997	1996
<i>Thousands of Dollars</i>			
Cash Flows from Operating Activities			
Net Income (Loss)	\$ 512,724	\$(1,497,106)	\$ 517,205
Extraordinary Item (net of income taxes)	(19,654)	(1,833,664)	-
Income Before Extraordinary Item	532,378	336,558	517,205
Adjustments to reconcile Net Income to Net Cash			

provided by Operating Activities:			
Depreciation and Amortization	704,718	664,294	566,412
Deferred Income Taxes	(115,640)	(17,228)	166,770
Amortization of Investment Tax Credits	(18,066)	(18,201)	(15,979)
Early Retirement and Separation Charge	125,000	-	-
Salem Litigation Settlement	-	69,800	-
Deferred Energy Costs	5,818	(5,652)	(66,151)
Amortization of Leased Property	59,923	39,100	31,400
Changes in Working Capital:			
Accounts Receivable	15,590	(289,610)	53,681
Inventories	14,192	28,628	(2,729)
Accounts Payable	8,971	93,881	(86,765)
Other Current Assets and Liabilities	54,263	58,539	(25,040)
Other Deferred Credits - Other	49,948	78,846	(4,609)
Other Items affecting Operations	(4,190)	(804)	38,050
Net Cash Flows from Operating Activities	1,432,905	1,038,151	1,172,245
Cash Flows from Investing Activities			
Investment in Plant	(415,331)	(490,200)	(548,854)
Increase in Other Investments	(46,742)	(83,261)	(114,126)
Net Cash Flows from Investing Activities	(462,073)	(573,461)	(662,980)
Cash Flows from Financing Activities			
Change in Short-Term Debt	123,500	114,000	287,500
Proceeds from Exercise of Stock Options	50,700	117	11,301
Retirement of Company Obligated Mandatorily Redeemable			
Preferred Securities of a Partnership	(80,794)	(61,895)	-
Issuance of Company Obligated Mandatorily Redeemable Preferred Securities of a Partnership	78,105	50,000	-

Issuance of Long-Term Debt	13,486	161,813	43,700
Retirement of Long-Term Debt	(841,755)	(283,303)	(427,463)
Loss on Recquired Debt	6,753	22,752	24,724
Dividends on Preferred and Common Stock	(236,307)	(417,383)	(411,569)
Capital Lease Payments	(59,923)	(39,100)	(31,400)
Other Items Affecting Financing	(9,918)	(7,522)	2,575
Net Cash Flows from Financing Activities	(956,153)	(460,521)	(500,632)
Increase in Cash and Cash Equivalents	14,679	4,169	8,633
Cash and Cash Equivalents at beginning of period	33,404	29,235	20,602
Cash and Cash Equivalents at end of period	\$ 48,083	\$ 33,404	\$ 29,235

Consolidated Balance Sheets

At December 31, 1998 1997

Thousands of Dollars

Assets

Utility Plant		
Electric-Transmission & Distribution	\$ 3,833,780	\$ 3,617,666
Electric-Generation	1,713,430	1,434,895
Gas	1,131,999	1,071,819
Common	407,320	302,672
7,086,529	6,427,052	
Less Accumulated Provision for Depreciation	2,891,321	2,690,824
	4,195,208	3,736,228
Nuclear Fuel, net	141,907	147,359
Construction Work in Progress	272,590	611,204
Leased Property, net	154,308	175,933
Net Utility Plant	4,764,013	4,670,724
Current Assets		

Cash and Temporary Cash Investments	48,083	33,404
Accounts Receivable, net		
Customers	97,527	173,350
Other	213,229	139,996
Inventories, at average cost		
Fossil Fuel	79,488	84,858
Materials and Supplies	82,068	90,890
Deferred Energy Costs-Gas	29,847	35,665
Deferred Generation Costs Recoverable in Current Rates	-	424,497
Other	19,013	20,115
Total Current Assets	569,255	1,002,775
Deferred Debits and Other Assets		
Competitive Transition Charge	5,274,624	5,274,624
Recoverable Deferred Income Taxes	614,445	590,267
Deferred Non-Pension Postretirement Benefits Costs	90,915	97,409
Investments	550,904	515,835
Loss on Reacquired Debt	77,165	83,918
Other	107,042	121,016
Total Deferred Debits and Other Assets	6,715,095	6,683,069
Total Assets	\$ 12,048,363	\$ 12,356,568

At December 31, 1998 1997

<i>Thousands of Dollars</i>		
Capitalization and Liabilities		
Capitalization		
Common Shareholders' Equity		

Common Stock	\$ 3,589,031	\$ 3,517,731
Other Paid-In Capital	1,236	1,239
Retained Earnings (Accumulated Deficit)	(532,925)	(792,239)
3,057,342	2,726,731	
Preferred and Preference Stock		
Without Mandatory Redemption	137,472	137,472
With Mandatory Redemption	92,700	92,700
Company Obligated Mandatorily Redeemable Preferred		
Securities of a Partnership, which holds Solely		
Subordinated Debentures of the Company	349,355	352,085
Long-Term Debt	2,919,592	3,853,141
Total Capitalization	6,556,461	7,162,129
Current Liabilities		
Notes Payable	525,000	401,500
Long-Term Debt Due Within One Year	361,523	247,087
Capital Lease Obligations Due Within One Year	69,011	55,808
Accounts Payable	316,292	323,816
Taxes Accrued	170,495	66,397
Interest Accrued	61,515	77,911
Deferred Income Taxes	14,168	185,696
Other	217,416	260,457
Total Current Liabilities	1,735,420	1,618,672
Deferred Credits and Other Liabilities		
Capital Lease Obligations	85,297	120,125
Deferred Income Taxes	2,376,792	2,297,042
Unamortized Investment Tax Credits	299,999	318,065
Pension Obligation	219,274	211,596
Non-Pension Postretirement Benefits Obligation	421,083	324,850
Other	354,037	304,089

Total Deferred Credits and Other Liabilities	3,756,482	3,575,767
Commitments and Contingencies (Note 5)		
Total Capitalization and Liabilities	\$ 12,048,363	\$ 12,356,568

See Notes to Consolidated Financial Statements.

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

All Amounts in Thousands	Common Stock		Other Paid-In Capital	Retained Earnings (Accumulated Deficit)	Preferred Stock	
	Shares	Amount			Shares	Amount
Balance at January 1, 1996	222,172	\$ 3,506,313	\$ 1,326	\$ 1,023,708	2,921	\$ 292,067
Net Income				517,205		
Cash Dividends Declared						
Preferred Stock						
(at specified annual rates)				(21,042)		
Common Stock (\$1.755 per share)				(390,527)		
Expenses of Capital Stock Activity				(275)		
Capital Stock Activity						
Long-Term Incentive Plan Issuances	370	11,301		(2,028)		
Balance at December 31, 1996	222,542	3,517,614	1,326	1,127,041	2,921	292,067
Net Loss				(1,497,106)		
Cash Dividends Declared						

Preferred Stock						
(at specified annual rates)				(16,804)		
Common Stock (\$1.80 per share)				(400,578)		
Expenses of Capital Activity				97		
Stock Repurchase Forward Contract				(4,889)		
Capital Stock Activity						
Long-Term Incentive Plan Issuances	5	117				
Preferred Stock Redemptions			(87)		(619)	(61,895)
Balance at December 31, 1997	222,547	\$ 3,517,731	\$ 1,239	\$ (792,239)	2,302	\$ 230,172
				512,724		
Net Income						
Cash Dividends Declared						
Preferred Stock (at specified annual rates)				(13,109)		
Common Stock (\$1.00 per share)				(223,198)		
Expenses of Capital Stock Activity				2,731		
Stock Repurchase Forward Contract				(7,677)		
Capital Stock Activity						

Long-Term Incentive Plan Issuances	2,137	71,300	(3)	(12,157)		
Balance at December 31, 1998	224,684	\$ 3,589,031	\$ 1,236	\$ (532,925)	2,302	\$ 230,172

Notes to the Consolidated Financial Statements

1. Significant Accounting Policies

General

The consolidated financial statements of PECO Energy Company (the Company) include the accounts of its utility subsidiary companies, all of which are wholly owned. Accounting policies for all of the Company's operations are in accordance with generally accepted accounting principles (GAAP). Accounting policies for regulated operations are also in accordance with those prescribed by the regulatory authorities having jurisdiction, principally the Pennsylvania Public Utility Commission (PUC) and the Federal Energy Regulatory Commission (FERC). The Company has unconsolidated non-utility subsidiaries which are not material. The unconsolidated subsidiaries are accounted for under the equity method.

Use of Estimates

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

Estimates are used by the Company in accounting for unbilled revenue, the allowance for uncollectible accounts, purchased gas adjustment clause, depreciation and amortization, taxes, reserves for contingencies, employee benefits, certain fair value and recoverability determinations, and nuclear outage costs, among others.

Accounting for the Effects of Regulation

The Company accounts for all of its electric transmission and distribution and gas operations in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," requiring the Company to record the financial statement effects of the rate regulation to which such operations are currently subject. If a separable portion of the Company's business no longer meets the provisions of SFAS No. 71, the Company is required to eliminate the financial statement effects of regulation for that portion. Effective December 31, 1997, the Company determined that the electric generation portion of its business no longer met the criteria of SFAS No. 71 and, accordingly, implemented SFAS No. 101, "Regulated Enterprises - Accounting for the Discontinuation of FASB Statement No. 71," for that portion of its business.

Revenues

Electric and gas revenues are recorded as service is rendered or energy is delivered to customers. At the end of each month, the Company accrues an estimate for the unbilled amount of energy delivered or services provided to customers.

Purchased Gas and Energy Cost Adjustment Clauses

The Company's gas rates are subject to a fuel adjustment clause designed to recover or refund the difference between the actual cost of purchased gas and the amount included in base rates. Differences between the amounts billed to customers and the actual costs recoverable are deferred and recovered or refunded in future periods by means of prospective quarterly adjustments to rates.

Prior to December 31, 1996, the Company's retail electric rates were subject to an Energy Cost Adjustment (ECA) clause designed to recover or refund the difference between the actual cost of fuel, energy interchange or purchased power and the amount of such costs included in base rates. Effective December 31, 1996, the PUC approved the roll-in of electric energy costs into the base rates charged to the Company's retail electric customers and such rates are no longer subject to the ECA.

Nuclear Fuel

The cost of nuclear fuel is capitalized and charged to fuel expense on the unit of production method. Estimated costs of nuclear

1
fuel disposal are charged to fuel expense as the related fuel is consumed. The Company's nuclear fuel at Peach Bottom Atomic Power Station (Peach Bottom) and Salem Generating Station (Salem) is accounted for as a capital lease. Nuclear fuel at Limerick Generating Station (Limerick) is owned.

Nuclear Outage Costs

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

Depreciation, Amortization and Decommissioning

Depreciation is provided over the estimated service lives of plant on the straight-line method. Annual depreciation provisions for financial reporting purposes, expressed as a percentage of average depreciable utility plant in service, were approximately 2.8% in 1998, 3.3% in 1997 and 2.9% in 1996. See note 3 for information concerning the change in 1996 to depreciation and amortization.

The Company's current estimate of the costs for decommissioning its ownership share of its nuclear generating stations is currently included in regulated rates and is charged to operations over the expected service life of the related plant. The amounts recovered from customers are deposited in trust accounts and invested for funding of future costs. These amounts, and realized investment earnings thereon, are credited to accumulated depreciation. The Company believes that the amounts being recovered from customers through electric rates will be sufficient to fully fund the unrecorded portion of its decommissioning obligation.

Allowance for Funds Used During Construction (AFUDC)

AFUDC is the cost, during the period of construction, of debt and equity funds used to finance construction projects for regulated operations. AFUDC is recorded as a charge to Construction Work in Progress and as a credit to AFUDC included in Other Income and Deductions. The rates used for capitalizing AFUDC, which averaged 8.63% in 1998, 8.88% in 1997 and 9.38% in 1996, are computed under a method prescribed by regulatory authorities. AFUDC is not included in regular taxable income and the depreciation of capitalized AFUDC is not tax deductible.

Effective January 1, 1998, the Company ceased accruing AFUDC for electric generation-related construction projects and began using SFAS No. 34, "Capitalizing Interest Costs," to calculate the costs during construction of debt funds used to finance its electric generation-related construction projects. The Company recorded capitalized interest of \$7 million in 1998.

Gains and Losses on Reacquired Debt

Prior to December 31, 1997, gains and losses on reacquired debt were deferred and amortized to interest expense over the period approved for ratemaking purposes. Effective January 1, 1998, gains and losses on reacquired debt associated with the electric generation portion of the Company's operations are expensed as incurred. Gains and losses on reacquired debt associated with the Company's regulated operations continue to be deferred and amortized to interest expense over the period approved for ratemaking purposes based on management's assessment of the likelihood of recovery.

Income Taxes

Deferred Federal and state income taxes are provided on all significant timing differences between book bases and tax bases of assets and liabilities, transactions that reflect taxable income in a year different than book income and tax carry forwards. Investment tax credits previously used for income tax purposes have been deferred on the Consolidated Balance Sheet and are recognized in book income over the life of the related property. The Company and its subsidiaries file a Consolidated Federal income tax return. Income taxes are allocated to each of the Company's subsidiaries within the consolidated group based on the separate return method.

Derivative Financial Instruments

Hedge accounting is applied only if the derivative reduces the risk of the underlying hedged item and is designated at inception as a hedge, with respect to the hedged item. If a derivative instrument ceased to meet the criteria for deferral, any gains or losses would be currently recognized in income. The Company does not hold or issue derivative financial instruments for

1
trading purposes.

Utility Plant

Effective December 31, 1997, electric generation plant is valued at the lower of original cost or market pursuant to SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (SFAS No. 121). All other utility plant continues to be valued at original cost.

Capitalized Software Costs

Software projects which exceed \$5 million are capitalized. At December 31, 1998 and 1997, capitalized software costs totaled \$84 and \$86 million (net of \$37 and \$29 million accumulated amortization), respectively. Such capitalized amounts are amortized ratably over the expected lives of the projects when they become operational, not to exceed ten years.

New Accounting Pronouncements

In 1998, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS No. 131). SFAS No. 131 supersedes SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise," replacing the "industry segment" approach with the "management" approach. The management approach designates the internal organization that is used by management for making operating decisions and assessing performance as the source of the Company's reportable segments. SFAS No. 131 also requires disclosures about products and services, geographic areas and major customers. The adoption of SFAS No. 131 did not affect the Company's financial condition or results of operations (see note 2).

In 1998, the Company adopted SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," (SFAS No. 132) which revises and standardizes employers' disclosures about pension and other postretirement benefit plans but does not change the measurement or recognition of those plans. The adoption of SFAS No. 132 did not affect the Company's financial condition or results of operations (see note 6).

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," (SFAS No. 133) to establish accounting and reporting standards for derivatives. The new standard requires recognizing all derivatives as either assets or liabilities on the balance sheet at their fair value and specifies the accounting for changes in fair value depending upon the intended use of the derivative. The new standard will be effective for fiscal years beginning after June 15, 1999. The Company expects to adopt SFAS No. 133 in the first quarter of 2000. The Company is in the process of evaluating the impact of SFAS No. 133 on its financial statements.

In November 1998, the FASB's Emerging Issues Task Force issued EITF 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." EITF 98-10 outlines attributes that may be indicative of an energy trading operation and gives further guidance on the accounting for contracts entered into by an energy trading operation. This accounting guidance requires mark-to-market accounting for contracts considered to be a trading activity. EITF 98-10 is applicable for fiscal years beginning after December 15, 1998 with any impact recorded as a cumulative effect adjustment through retained earnings at the date of adoption. At December 31, 1998, the Company has evaluated its wholesale marketing operation and related contracts under the guidance provided in EITF 98-10. For those contracts entered into in the over-the-counter market and considered to be a trading activity, the Company believes the impact to be immaterial. However, due to the duration, complexity, and uncertainties surrounding the long-term commitments considered to be trading activities, the Company is continuing to evaluate these commitments and the impact of adopting EITF 98-10.

Reclassifications

Certain prior-year amounts have been reclassified for comparative purposes. These reclassifications had no effect on net income or common shareholders' equity.

Notes to the Consolidated Financial Statements

2. Nature of Operations and Information about Products and Services

The Company is primarily a vertically integrated public utility that provides retail electric and natural gas service to the public in its traditional service territory and retail electric generation service throughout Pennsylvania in conjunction with Pennsylvania's Customer Choice Program. The Company also engages in the wholesale marketing of electricity on a national basis. The Company participates in joint ventures which provide services such as telecommunications in the Philadelphia metropolitan area. Revenues and expenses associated with these activities, the Customer Choice Program, joint ventures and other projects are reflected in Other Income and Deductions in the Company's

For the Years Ended December 31,	1998	1997	1996
<i>Thousands of Dollars</i>			
Operating Revenues from Electric Operations			
Residential	\$ 1,377,237	\$ 1,357,449	\$ 1,370,158
Small commercial and industrial	783,682	778,743	748,561
Large commercial and industrial	1,066,868	1,077,374	1,098,307
Other	149,424	147,523	140,133
Unbilled	1,409	19,130	(25,950)
Service territory	3,378,620	3,380,219	3,331,209
Interchange sales	210,965	58,614	25,991
Sales to other utilities	1,221,255	727,836	497,636
Total operating revenues	\$ 4,810,840	\$ 4,166,669	\$ 3,854,836
Operating Revenues from Gas Operations			
Residential	\$ 15,968	\$ 16,852	\$ 15,716
House heating	236,430	265,299	249,507
Commercial and industrial	124,548	144,801	132,822
Other	2,037	3,228	11,462
Unbilled	(2,960)	(969)	(4,250)

Subtotal	376,023	429,211	405,257
Other revenues (including gas transported for customers)	23,619	22,021	23,557
Total operating revenues	\$ 399,642	\$ 451,232	\$ 428,814

Notes to the Consolidated Financial Statements

3. Rate Matters

Final Restructuring Order

On May 14, 1998, the PUC issued a final order (Final Restructuring Order) approving a Joint Petition for Settlement (Global Settlement) filed by the Company and numerous parties to the Company's restructuring proceeding mandated by the Electricity Generation Competition and Customer Choice Act (Competition Act). The Competition Act provides for the restructuring of the electric utility industry in Pennsylvania, including the deregulation of generation operations and the institution of retail competition for generation supply beginning in 1999. The Final Restructuring Order provided for the recovery of \$5.26 billion of stranded costs through transition charges to distribution customers over a 12 year period beginning in 1999 with a 10.75% return on the balance and supercedes all prior orders regarding recovery of generation-related regulatory assets and liabilities. During the 12 year stranded cost recovery period, the Company will amortize the recoverable stranded costs in accordance with the rate schedules determined in the Final Restructuring Order.

The Final Restructuring Order provided for the phase-in of customer choice of electric generation supplier (EGS) for all customers: one-third of the peak load of each customer class on January 1, 1999; one-third on January 2, 1999; and the remainder on January 2, 2000. The Final Restructuring Order also established market share thresholds to ensure that a minimum number of residential and commercial customers choose an EGS. If less than 35% and 50% of residential and commercial customers have chosen an EGS by January 1, 2001 and January 1, 2003, respectively, the number of customers sufficient to meet the necessary threshold levels shall be randomly selected and assigned to an EGS through a PUC-determined process.

Beginning January 1, 1999, electric rates will be unbundled into transmission and distribution components, a Competitive Transition Charge (CTC) for recovery of stranded costs and an energy and capacity charge. Eligible customers who choose an alternative EGS will not be charged the energy and capacity charge or the transmission charge and instead will purchase their electric energy supply and transmission at market-based rates from their EGS. The Company will in turn be reimbursed by the EGS, via the PJM Interconnection, LLC, for the cost of the transmission service at a rate approximately equivalent to the unbundled transmission rate. Also, beginning January 1, 1999, the Company will unbundle its retail electric rates for metering, meter reading and billing and collection services to provide credits to those customers who elect to have an alternative supplier perform these services.

In accordance with the Competition Act and the Final Restructuring Order, the Company's retail electric rates are capped at the year-end 1996 levels (system-wide average of 9.96 cents/kilowatt hour (kWh)) through June 2005. The Final Restructuring Order requires the Company to reduce its retail electric rates by 8% from the 1996 system-wide average rate on January 1, 1999. The rate decrease will become 6% from January 1, 2000 until January 1, 2001, when the system-wide average rate cap will revert to 9.96 cents/kWh. The transmission and distribution rate component will remain capped at a system-wide average rate of 2.98 cents/kWh through June 30, 2005. Additionally, generation rate caps, defined as the sum of the applicable transition charge and energy and capacity charge, will remain in effect through 2010.

The Final Restructuring Order requires that on January 1, 2001, 20% of all of the Company's residential customers, determined by random selection and without regard to whether such customers are obtaining generation service from an alternate EGS, shall be assigned to a provider of last resort default supplier other than the Company through a PUC-approved bidding process.

The Final Restructuring Order authorizes the issuance of up to \$4 billion of transition bonds (Transition Bonds). In preparation for the issuance of Transition Bonds, the Company formed a special purpose subsidiary (SPS). The proceeds of the Transition Bonds are required to be used principally to reduce recoverable stranded costs and related capitalization. The Transition Bonds will be obligations of the SPS, secured by intangible transition property (ITP). ITP represents the irrevocable right of the Company or its assignee, to collect non-bypassable charges from customers to recover stranded costs.

The Company filed complaints in federal and state courts relating to the restructuring orders issued by the PUC in December 1997, January 1998 and February 1998. In addition, numerous other parties filed appeals and cross appeals of these orders. In accordance with the terms of the Final Restructuring Order, all appeals and cross-appeals filed by the signatories to the Global Settlement have been placed in a pending but inactive status. Such appeals and cross appeals will be permanently withdrawn at such time that the Final Restructuring Order is no longer subject to administrative or judicial challenge.

In an appeal of a PUC order issued in May 1997, an intervenor brought an action asserting that the stranded cost recovery

provisions of the Competition Act violated the Commerce Clause of the United States Constitution. On May 7, 1998, the Commonwealth Court of Pennsylvania unanimously rejected the claim. The intervenor petitioned the Supreme Court of Pennsylvania for allowance of appeal. On September 29, 1998, the Pennsylvania Supreme Court denied the petition. On December 28, 1998, the intervenor filed a petition for certiorari with the United States Supreme Court.

Limerick

Through 1997, the Company was recovering certain deferred Limerick costs. At December 31, 1997, the unamortized portion of these regulatory assets of \$321 million was included as part of electric generation-related regulatory assets.

Under its electric tariffs and ECA, the Company was allowed to retain for shareholders any proceeds above the average energy cost for sales of 399 megawatts (MW) of near-term excess capacity and/or associated energy and to share in the benefits which resulted from the operation of both Limerick Units No. 1 and No. 2. The Company's ECA was discontinued at December 31, 1996. During 1996, the Company recorded as revenue net of fuel costs \$82 million, as a result of the sale of the 399 MW of capacity and/or associated energy and the Company's share of Limerick energy savings.

Declaratory Accounting Order

Pursuant to a PUC Declaratory Order, effective October 1, 1996, the Company increased depreciation and amortization on assets associated with Limerick by \$100 million per year and decreased depreciation and amortization on other Company assets by \$10 million per year, for a net increase in depreciation and amortization of \$90 million per year. At December 31, 1997, \$90 million of depreciation and amortization that would have been recognized in 1998 was deferred as a regulatory asset since the Company's rates continued to be cost-based until January 1, 1999. During 1998 these amounts were amortized and recovered.

Energy Cost Adjustment (ECA)

Through December 31, 1996, the Company was subject to a PUC-established electric ECA which, in addition to reconciling fuel costs and revenues, incorporated a nuclear performance standard which allowed for financial bonuses or penalties depending on whether the Company's system nuclear capacity factor exceeded or fell below a specified range. For the year ended December 31, 1996 the Company recorded a bonus of \$22 million.

Notes to the Consolidated Financial Statements

4. Accounting Changes

The Company accounts for its electric transmission and distribution and gas operations in accordance with SFAS No. 71 which requires the Company to record the financial statement effects of the rate regulation to which the Company is subject. Use of SFAS No. 71 is applicable to the utility operations of the Company which meet the following criteria: (1) third-party regulation of rates; (2) cost-based rates; and (3) a reasonable assumption that all costs will be recoverable from customers through rates. The Company believes that it is probable that regulatory assets associated with these operations will be recovered.

Effective December 31, 1997, the Company discontinued the application of SFAS No. 71 for its retail electric generation operations and adopted the provisions of SFAS No. 101 "Regulated Enterprises - Accounting for the Discontinuation of Application of FASB Statement No. 71."

As required by SFAS No. 101, at December 31, 1997, the Company performed an impairment test of its electric generation assets pursuant to SFAS No. 121, on a plant specific basis and determined that \$6.1 billion of its \$7.1 billion of electric generation assets would be impaired as of December 31, 1998. The Company estimated the fair value for each of its electric generating units by determining its estimated future operating cash inflows and outflows. The net future cash flows for each electric generating plant were then compared to its net book value. For any electric generating plant with future undiscounted cash flows less than its book value, net cash flows were discounted using a discount rate commensurate with the risk of each electric generating plant. Since the Company's retail electric rates continued to be cost-based through January 1, 1999, \$333 million representing depreciation expense on electric generation-related assets in 1998 and \$91 million representing amortization of other regulatory assets in 1998 were reclassified to a regulatory asset and were amortized and recovered in 1998.

At December 31, 1997, the Company had total electric generation-related stranded costs of \$8.4 billion, representing \$5.8 billion of net stranded electric generation plant and \$2.6 billion of electric generation-related regulatory assets. The original PUC restructuring order allowed the Company to recover \$5.3 billion of its generation-related stranded costs from customers. This resulted in a net unrecoverable amount of \$3.1 billion. Accordingly, the Company recorded an extraordinary charge at December 31, 1997 of \$3.1 billion (\$1.8 billion net of taxes) of electric generation-related stranded costs that will not be recovered from customers. The Final Restructuring Order did not change the amount of allowable stranded costs.

Effective December 31, 1997, the Company discontinued the application of SFAS No. 71 for its wholesale energy sales operations. Based on projections of the Company's retail load growth, the Company concluded all of its owned generation capacity would be necessary to meet its electric retail load. As a result, the discontinuance of SFAS No. 71 for its wholesale energy sales operations did not result in a charge against income.

Notes to the Consolidated Financial Statements

5. Commitments and Contingencies

Capital Commitments

The Company estimates \$440 million of capital expenditures in 1999. Certain facilities under construction and to be constructed may require permits and licenses which the Company has no assurance will be granted. Capital expenditures do not include investments in joint ventures including investments related to the Company's strategy to expand its generation portfolio.

Nuclear Insurance

As of December 31, 1998, the Price-Anderson Act limited the liability of nuclear reactor owners to \$9.8 billion for claims that could arise from a single incident. The limit is subject to change to account for the effects of inflation and changes in the number of licensed reactors. The Company carries the maximum available commercial insurance of \$200 million and the remaining \$9.6 billion is provided through mandatory participation in a financial protection pool. Under the Price-Anderson Act, all nuclear reactor licensees can be assessed up to \$88 million per reactor per incident, payable at no more than \$10 million per reactor per incident per year. This assessment is subject to inflation and state premium taxes. In addition, the U.S. Congress could impose revenue raising measures on the nuclear industry to pay claims.

The Company carries property damage, decontamination and premature decommissioning insurance in the amount of its \$2.75 billion proportionate share for each station loss resulting from damage to its nuclear plants. In the event of an accident, insurance proceeds must first be used for reactor stabilization and site decontamination. If the decision is made to decommission the facility, a portion of the insurance proceeds will be allocated to a fund which the Company is required by the Nuclear Regulatory Commission (NRC) to maintain to provide for decommissioning the facility. The Company is unable to predict the timing of the availability of insurance proceeds to the Company for the Company's bondholders, and the amount of such proceeds which would be available. Under the terms of the various insurance agreements, the Company could be assessed up to \$30 million for losses incurred at any plant insured by the insurance companies. The Company is self-insured to the extent that any losses may exceed the amount of insurance maintained. Such losses could have a material adverse effect on the Company's financial condition and results of operations.

The Company is a member of an industry mutual insurance company which provides replacement power cost insurance in the event of a major accidental outage at a nuclear station. The premium for this coverage is subject to assessment for adverse loss experience. The Company's maximum share of any assessment is \$10 million per year.

Nuclear Decommissioning and Spent Fuel Storage

The Company's current estimate of its nuclear facilities' decommissioning cost is \$1.5 billion in 1997 dollars. Through 1998, this amount was being collected through electric rates over the life of each generating unit. Beginning in 1999, decommissioning costs will be recoverable through regulated rates. Under rates in effect through December 31, 1998, the Company collected and expensed approximately \$20 million annually from customers which was accounted for as a component of depreciation expense and accumulated depreciation. At December 31, 1998 and 1997, \$336 and \$294 million, respectively, were included in accumulated depreciation. In order to fund future decommissioning costs, at December 31, 1998 and 1997, the Company held \$378 and \$320 million, respectively, in trust accounts which are included as Investments in the Company's Consolidated Balance Sheets and include both net unrealized and realized gains. Net unrealized gains of \$60 and \$43 million were recognized as a Deferred Credit in the Company's Consolidated Balance Sheet at December 31, 1998 and 1997, respectively. The Company recognized net realized gains of \$12, \$11 and \$10 million as Other Income in the Company's Consolidated Statement of Income for the years ended December 31, 1998, 1997 and 1996, respectively. The Company believes that the amounts being recovered from customers through regulated rates will be sufficient to fully fund the unrecorded portion of its decommissioning obligation.

In an Exposure Draft issued in 1996, the FASB proposed changes in the accounting for closure and removal costs of production facilities, including the recognition, measurement and classification of decommissioning costs for nuclear generating stations. The FASB has expanded the scope of the Exposure Draft to include closure or removal liabilities that are incurred at any time during the operating life of the related long-lived asset. The FASB has decided that it should proceed toward either a final Statement or a revised Exposure Draft. The timing of this project is still to be determined. If current electric utility industry accounting practices for decommissioning are changed, annual provisions for decommissioning could increase and the estimated cost for decommissioning could be recorded as a liability rather than as accumulated depreciation with recognition of

an increase in the cost of a related regulatory asset.

Under the Nuclear Waste Policy Act of 1982 (NWPAA), the U.S. Department of Energy (DOE) is required to begin taking possession of all spent nuclear fuel generated by the Company's nuclear units for long-term storage by no later than 1998. Based on recent public pronouncements, it is not likely that a permanent disposal site will be available for the industry before 2015, at the earliest. In reaction to statements from the DOE that it was not legally obligated to begin to accept spent fuel in 1998, a group of utilities and state government agencies filed a lawsuit against the DOE which resulted in a decision by the U.S. Court of Appeals for the District of Columbia (D.C. Court of Appeals) in July 1996 that the DOE had an unequivocal obligation to begin to accept spent fuel in 1998. In accordance with the NWPAA, the Company pays the DOE one mill (\$.001) per kilowatthour of net nuclear generation for the cost of nuclear fuel long-term storage and disposal. This fee may be adjusted prospectively in order to ensure full cost recovery. Because of inaction by the DOE following the D.C. Court of Appeals finding of the DOE's obligation to begin receiving spent fuel in 1998, a group of forty-two utility companies, including the Company, and forty-six state agencies, filed suit against the DOE seeking authorization to suspend further payments to the U.S. government under the NWPAA and to deposit such payments into an escrow account until such time as the DOE takes effective action to meet its 1998 obligations. In November 1997, the D.C. Court of Appeals issued a decision in which it held that the DOE had not abided by its prior determination that the DOE has an unconditional obligation to begin disposal of spent nuclear fuel by January 31, 1998. The D.C. Court of Appeals also precluded the DOE from asserting that it was not required to begin receiving spent nuclear fuel because it had not yet prepared a permanent repository or an interim storage facility. The DOE and one of the utility companies filed Petitions for Reconsideration of the decision which were denied, as were petitions seeking U.S. Supreme Court review of the decision. In addition, the DOE is exploring other options to address delays in the waste acceptance schedule.

Peach Bottom has on-site facilities with capacity to store spent nuclear fuel discharged from the units through 2000 for Unit No. 2 and 2001 for Unit No. 3. Life-of-plant storage capacity will be provided by on-site dry cask storage facilities, the construction of which began in 1998. Limerick has on-site facilities with capacity to store spent nuclear fuel to 2007. Salem has on-site facilities with spent fuel storage capacity through 2008 for Unit No. 1 and 2012 for Unit No. 2.

Energy Commitments

The Company's electric utility operations include the wholesale marketing of electricity. The Company utilized certain types of fixed-price contracts and other risk management instruments in connection with its wholesale marketing operations. These contracts include long-term contracts which commit the Company to purchase or sell energy at fixed prices in the future (i.e. fixed-price forward purchase and sales contracts), and short-term bilateral swaps and options contracted for in the over-the-counter market. Under some of these contracts, the Company may purchase at its option additional power as needed. The use of the foregoing types of contracts is so that the Company may manage and hedge its retail and wholesale commitments in coordination with the economic dispatch of the Company's installed capacity.

At December 31, 1998, the Company had long-term commitments relating to the purchase from unaffiliated utilities and others of energy associated with 632 MW of capacity in 1999, with 2,054 MW of capacity during the period 2000 through 2002 and with 2,431 MW of capacity thereafter. During 1998, purchases under long-term commitments resulted in expenditures of \$170 million. As of December 31, 1998, these purchase commitments result in obligations of approximately \$121 million for 1999, \$526 million for 2000 through 2002 and \$805 million thereafter. These purchases will be utilized through a combination of retail sales to customers, long-term sales to other utilities and open market sales.

At December 31, 1998, the Company had entered into long-term agreements with unaffiliated utilities to sell energy associated with 5,094 MW of capacity, of which 1,030 MW of these agreements are for 1999, 2,202 MW are for 2000 through 2002 and the remaining 1,862 MW extend through 2009.

At December 31, 1998, the Company had entered into long-term agreements with unaffiliated utilities to purchase transmission rights. These purchase commitments result in obligations of approximately \$21 million in 1999, \$19 million in 2000 and \$9 million per year in 2001 through 2003.

Environmental Issues

The Company's operations have in the past and may in the future require substantial capital expenditures in order to comply with environmental laws. Additionally, under federal and state environmental laws, the Company is generally liable for the costs of remediating environmental contamination of property now or formerly owned by the Company and of property contaminated by hazardous substances generated by the Company. The Company owns or leases a number of real estate parcels, including parcels on which its operations or the operations of others may have resulted in contamination by substances which are considered hazardous under environmental laws. The Company is currently involved in a number of proceedings relating to sites where hazardous substances have been deposited and may be subject to additional proceedings in the future.

<http://www.peco.com/investor/98ar/notes98/note5.html>

The Company has identified 28 sites where former manufactured gas plant (MGP) activities have or may have resulted in actual site contamination. The Company is presently engaged in performing various levels of activities at these sites, including initial evaluation to determine the existence and nature of the contamination, detailed evaluation to determine the extent of the contamination and the necessity and possible methods of remediation, and implementation of remediation. The Pennsylvania Department of Environmental Protection has approved the Company's clean up of three sites. Eight other sites are currently under some degree of active study and/or remediation.

As of December 31, 1998 and 1997, the Company had accrued \$60 and \$63 million, respectively, for environmental investigation and remediation costs, including \$33 and \$35 million, respectively, for MGP investigation and remediation, that currently can be reasonably estimated. The Company cannot reasonably estimate whether it will incur other significant liabilities for additional investigation and remediation costs at these or additional sites identified by the Company, environmental agencies or others, or whether such costs will be recoverable from third parties.

Litigation

Grays Ferry Cogeneration Partnership

On April 9, 1998, Grays Ferry Cogeneration Partnership (Grays Ferry), two of three partners of Grays Ferry and Trigen-Philadelphia Energy Corporation, filed a complaint in Philadelphia County of Common Pleas against the Company for specific performance, breach of contract, fraud and breach of implied covenant of good faith and fair dealing, conversion, unjust enrichment, breach of fiduciary duties and tortious interference with respect to two power purchase agreements (PPAs) that the Company had entered into with Grays Ferry. The plaintiff seeks specific performance, damages in excess of \$200 million and punitive damages. A preliminary injunction was entered against the Company on May 5, 1998, enjoining the Company from terminating the PPAs. On May 29, 1998, Westinghouse Power Generation filed a complaint in the Philadelphia Court of Common Pleas against the Company for tortious interference with two alleged contracts that Westinghouse has with Grays Ferry. On September 4, 1998, The Chase Manhattan Bank, as agent for a syndicate of banks that are lenders to Grays Ferry, filed a complaint against the Company alleging tortious interference by the Company in the credit agreements between Grays Ferry and the banks and breach of contract of a letter agreement between the Company and the banks. The Company cannot predict the outcome of these matters.

Cajun Electric Power Cooperative, Inc.

On May 27, 1998, the United States Department of Justice, on behalf of the Rural Utilities Service and the Chapter 11 Trustee for the Cajun Electric Power Cooperative, Inc. (Cajun), filed an action claiming breach of contract against the Company in the United States District Court for the Middle District of Louisiana arising out of the Company's termination of the contract to purchase Cajun's interest in the River Bend nuclear power plant. This action seeks \$67 million in damages. The Company cannot predict the outcome of this matter.

The Company is involved in various other litigation matters. The ultimate outcome of such matters, while uncertain, is not expected to have a material adverse effect on the Company's financial condition or results of operations.

Notes to the Consolidated Financial Statements

6. Retirement Benefits

The Company and its subsidiaries have a defined benefit pension plan and postretirement benefit plans applicable to essentially all employees. The following provides a reconciliation of benefit obligations, plan assets and funded status of the plans.

Thousands of Dollars	Pension Benefits		Other Postretirement Benefits	
	1998	1997	1998	1997
Change in Benefit Obligation				
Net benefit obligation at beginning of year	\$ 2,141,040	\$ 1,982,915	\$ 779,231	\$ 662,701
Service cost	30,167	25,368	18,375	14,401
Interest cost	153,644	150,057	53,924	54,149
Plan participants' contributions	-	-	397	-
Plan amendments	-	(3,052)	-	-
Actuarial (gain)/loss	143,274	129,148	(8,260)	85,452
Curtailments	(73,330)	-	10,403	-
Settlements	(46,541)	-	-	-
Special termination benefits	114,182	-	29,712	-
Gross benefits paid	(152,850)	(143,396)	(36,011)	(37,472)
Net benefit obligation at end of year	\$ 2,309,586	\$ 2,141,040	\$ 847,771	\$ 779,231
Change in Plan Assets				
Fair value of plan assets at beginning of year	\$ 2,538,039	\$ 2,302,935	\$ 178,045	\$ 126,661
Actual return on plan assets	343,754	377,803	23,535	22,691
Employer contributions	16,404	697	57,319	66,165
Plan participants' contributions	-	-	397	-

Gross benefits paid	(152,850)	(143,396)	(36,011)	(37,472)
Fair value of plan assets at end of year	\$ 2,745,347	\$ 2,538,039	\$ 223,285	\$ 178,045
Funded status at end of year	\$ 435,761	\$ 396,999	\$ (624,486)	\$ (601,186)
Unrecognized net actuarial (gain)/loss	(659,480)	(649,903)	37,617	53,110
Unrecognized prior service cost	65,419	83,188	-	-
Unrecognized net transition obligation (asset)	(30,512)	(35,713)	165,786	223,226
Net amount recognized at end of year	\$ (188,812)	\$ (205,429)	\$ (421,083)	\$ (324,850)
Amounts recognized in the consolidated balance sheet consist of:				
Prepaid benefit cost	\$ 30,462	\$ 6,167	\$ N/A	\$ N/A
Accrued benefit cost	(219,274)	(211,596)	(421,083)	(324,850)
Net amount recognized at end of year	\$ (188,812)	\$ (205,429)	\$ (421,083)	\$ (324,850)

	Pension Benefits			Other Postretirement Benefits		
	1998	1997	1996	1998	1997	1996
Weighted-average assumptions as of December 31						
Discount rate	7.00%	7.25%	7.75%	7.00%	7.25%	7.75%
Expected return on plan assets	9.50%	9.50%	9.50%	8.00%	8.00%	8.00%

Rate of compensation increase	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Health care cost trend on						
covered charges	N/A	N/A	N/A	6.5%	7.0%	8.0%
				decreasing to ultimate trend of 5.0% in 2002	decreasing to ultimate trend of 5.0% in 2002	decreasing to ultimate trend of 5.0% in 2002
Components of net periodic benefit cost						
Service cost	\$ 30,167	\$ 25,368	\$ 27,627	\$ 18,375	\$ 14,401	\$ 11,855
Interest cost	153,644	150,057	145,570	53,924	54,149	48,524
Expected return on assets	(209,976)	(182,866)	(171,207)	(13,243)	(9,984)	(3,937)
Amortization of:						
Transition obligation (asset)	(4,538)	(4,538)	(4,538)	14,882	14,882	14,882
Prior service cost	6,441	6,441	5,114	-	-	-
Actuarial (gain) loss	(7,028)	(3,898)	248	-	-	-
Curtailement charge (credit)	(62,002)	-	-	52,961	-	-
Settlement charge (credit)	(13,439)	-	-	-	-	-
Net periodic benefit cost	\$ (106,731)	\$ (9,436)	\$ 2,814	\$ 126,899	\$ 73,448	\$ 71,324
Special termination benefit charge (credit)	\$ 114,182	\$ -	\$ -	\$ 29,712	\$ -	\$ -

Sensitivity of retiree welfare results

Effect of a one percentage point increase in assumed health care cost trend	
on total service and interest cost components	\$ 10,432
on postretirement benefit obligation	\$ 90,490
Effect of a one percentage point decrease in assumed health care cost trend	
on total service and interest cost components	\$ (8,460)
on postretirement benefit obligation	\$ (75,599)

Prior service cost is amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits under the plans.

During 1998, costs were recognized for special termination benefits in connection with the retirement incentives and enhanced severance benefits provided under the Company's Workforce Reduction Program.

The Company provides certain health care and life insurance benefits for retired employees. Company employees become eligible for these benefits if they retire from the Company with ten years of service. These benefits and similar benefits for active employees are provided by an insurance company whose premiums are based upon the benefits paid during the year.

The Company sponsors a qualifying savings plan covering all employees. Contributions made by participating employees are matched based on a specified percentage of employee contribution up to 4% of the employees' pay base. The cost of the Company's matching contribution to the savings plan totaled \$7 million, \$7 million and \$3 million in 1998, 1997 and 1996, respectively.

Notes to the Consolidated Financial Statements

7. Accounts Receivable

Accounts receivable at December 31, 1998 and 1997 included unbilled operating revenues of \$142 and \$135 million, respectively. The allowance for uncollectible accounts at December 31, 1998 and 1997 was \$20 and \$32 million, respectively.

The Company is party to an agreement with a financial institution under which it can sell or finance with limited recourse an undivided interest, adjusted daily, in up to \$425 million of designated accounts receivable until November 2000. At December 31, 1998, the Company had sold a \$425 million interest in accounts receivable, consisting of a \$358 million interest in accounts receivable which the Company accounts for as a sale and a \$67 million interest in special agreement accounts receivable which were accounted for as a long-term note payable (see note 12). The Company retains the servicing responsibility for these receivables. The agreement requires the Company to maintain the \$425 million interest, which, if not met, requires the Company to deposit cash in order to satisfy such requirements. At December 31, 1998, the Company did not meet this requirement and was required to make a deposit of \$7 million.

Notes to the Consolidated Financial Statements

8. Common Stock

At December 31, 1998 and 1997, common stock without par value consisted of 500,000,000 shares authorized and 224,684,306 and 222,546,562 shares outstanding, respectively. At December 31, 1998, there were 5,800,841 shares reserved for issuance under the Company's Dividend Reinvestment and Stock

Purchase Plan.

Stock Repurchase

During 1997, the Company's Board of Directors authorized the repurchase of up to 25 million shares of its common stock from time to time through open-market, privately negotiated and/or other types of transactions in conformity with the rules of the Securities and Exchange Commission.

Pursuant to these authorizations, the Company has entered into forward purchase agreements to be settled from time to time, at the Company's election, on either a physical, net share or net cash basis. The amount at which these agreements can be settled is dependent principally upon the market price of the Company's common stock as compared to the forward purchase price per share and the number of shares to be settled. If these agreements had been settled on a net share basis at December 31, 1998, based on the closing price of the Company's common stock on that date, the Company would have received approximately 4.6 million shares of Company common stock.

Stock Option Plans

The Company maintains a Long-Term Incentive Plan (LTIP) for certain full-time salaried employees of the Company. The types of long-term incentive awards which have been granted under the LTIP are non-qualified options to purchase shares of the Company's common stock and shares of restricted common stock. In 1998, the Company initiated a Broad-based Incentive Program and awarded non-qualified options to all employees except those in electric transmission and distribution system and gas operations. The Company uses the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." If the Company elected to account for the LTIP based on SFAS No. 123, earnings applicable to common stock and earnings per average common share would have been changed to the pro forma amounts as follows:

		1998	1997
<i>Thousands of Dollars</i>			
Earnings (Loss) applicable to common stock	As reported	\$ 499,615	\$ (1,513,910)
	Pro forma	\$ 493,696	\$ (1,515,895)
Earnings (Loss) per average common share (Dollars)	As reported	\$ 2.24	\$ (6.80)
	Pro forma	\$ 2.20	\$ (6.81)

Options granted under the LTIP and the Broad-based Incentive Program become exercisable upon attainment of a target share value and/or time. All options expire 10 years from the date of grant. Information with respect to the LTIP and the Broad-based Incentive Program at December 31, 1998 and changes for the three years then ended, is as follows:

<http://www.peco.com/investor/98ar/notes98/note8.html>

11/18/1999

	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
	1998	(per share) 1998	1997	(per share) 1997	1996	(per share) 1996
Balance at January 1	3,816,794	\$ 26.14	2,961,194	\$ 26.68	2,591,765	\$ 26.16
Options granted	2,933,540	27.74	1,139,000	22.49	786,500	28.12
Options exercised	(2,130,744)	23.86	-	-	(369,871)	25.07
Options cancelled	(91,000)	24.82	(283,400)	24.96	(47,200)	29.36
Balance at December 31	4,528,590	27.71	3,816,794	26.14	2,961,194	26.68
Exercisable at December 31	3,462,550	23.91	2,800,794	26.65	2,192,694	26.17
Weighted average fair value of options granted during year		\$ 3.43		\$ 2.97		\$ 2.78

The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 1998, 1997 and 1996, respectively:

	1998	1997	1996
Dividend yield	6.8%	6.2%	6.2%
Expected volatility	21.4%	19.5%	16.6%
Risk-free interest rate	5.5%	6.4%	5.5%
Expected life (years)	9.5	5	5

At December 31, 1998, the option groups outstanding, based on ranges of exercise prices, were as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$15.75 - \$20.00	899,700	8.71	\$ 19.60	899,700	\$ 19.60
\$20.01 - \$25.00	1,019,750	8.41	22.15	1,004,750	22.18
\$25.01 - \$30.00	1,510,600	5.76	27.38	1,510,600	27.38
\$30.01 - \$35.00	78,500	9.43	32.97	47,500	31.98
\$35.01 - \$50.00	1,020,040	9.87	40.48	-	-
Total	4,528,590	3,462,550			

The Company issued 7,000 and 4,475 shares of restricted common stock during 1998 and 1997, respectively. Vesting in the restricted common stock awards is over a period not to exceed 10 years from the grant date. The compensation cost associated with these awards is amortized to expense over the vesting period. Compensation cost associated with these awards is immaterial.

Notes to the Consolidated Financial Statements

9. Earnings Per Share

Diluted earnings per average common share is calculated by dividing earnings applicable to common stock by the weighted average shares of common stock outstanding including stock options outstanding under the Company's stock option plans considered to be common stock equivalents. The following table shows the effect of these stock options on the weighted average number of shares outstanding used in calculating diluted earnings per average common share:

	1998	1997	1996
Average Common Shares Outstanding	223,219,000	222,543,000	222,490,000
Assumed Conversion of Stock Options	685,000	-	-
Potential Average Dilutive Common Shares Outstanding	223,904,000	222,543,000	222,490,000

Notes to the Consolidated Financial Statements

10. Preferred and Preference Stock

At December 31, 1998 and 1997, Series Preference Stock consisted of 100,000,000 shares authorized, of which no shares were outstanding. At December 31, 1998 and 1997, cumulative Preferred Stock, no par value, consisted of 15,000,000 shares authorized.

Series of Preferred Stock	Current Redemption Price (a)	Shares Outstanding		Amount Thousands of Dollars	
		1998	1997	1998	1997
Series (without mandatory redemption)					
\$4.68	104.00	150,000	150,000	\$ 15,000	\$ 15,000
\$4.40	112.50	274,720	274,720	27,472	27,472
\$4.30	112.00	150,000	150,000	15,000	15,000
\$3.80	106.00	300,000	300,000	30,000	30,000
\$7.48	(b)	500,000	500,000	50,000	50,000
		1,374,720	1,374,720	137,472	137,472
Series (with mandatory redemption)					
\$6.12	(c)	927,000	927,000	92,700	92,700
Total preferred stock		2,301,720	2,301,720	\$ 230,172	\$ 230,172

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

(b) None of the shares of this series are subject to redemption prior to April 1, 2003.

(c) Annual sinking fund requirements in 1999 - 2003 are \$18,540,000. None of the shares of this series are subject to redemption prior to August 1, 1999.

Notes to the Consolidated Financial Statements

11. Company Obligated Mandatorily Redeemable Preferred Securities of a Partnership (COMRPS)

At December 31, 1998 and 1997, PECO Energy Capital, L.P. (Partnership), a Delaware limited partnership of which a wholly owned subsidiary of the Company is the sole general partner, had outstanding A, C and D series of COMRPS with liquidation values of \$25 (A and C) and \$1,000 (D) per security. Each series is supported by the Company's deferrable interest subordinated debentures, held by the Partnership, which bear interest at rates equal to the distribution rates on the related series of COMRPS. The interest expense on the debentures is included in Other Income and Deductions in the Consolidated Statements of Income and is deductible for tax purposes.

At December 31,	Mandatory Redemption Date	Distribution Rate	Trust Receipts Outstanding		Amount Thousands of Dollars	
			1998	1997	1998	1997
Series						
A	2043	9.00%	8,850,000	8,850,000	\$ 221,250	\$ 221,250
B (a)	2025	8.72%	-	3,124,183	-	80,835
C (b)	2037	8.00%	2,000,000	2,000,000	50,000	50,000
D (c)	2028	7.38%	78,105	-	78,105	-
Total			10,928,105	13,974,183	\$ 349,355	\$ 352,085

(a) On May 15, 1998, PECO Energy Capital Trust I redeemed all outstanding Trust Receipts, each representing an 8.72% Cumulative Monthly Income Preferred Security, Series B of PECO Energy Capital, L.P.

(b) Ownership of this series is evidenced by Trust Receipts, each representing an 8.00% COMRPS, Series C, representing limited partnership interests. The Trust Receipts were issued by PECO Energy Capital Trust II, the sole assets of which are 8.00% COMRPS, Series C. Each holder of Trust Receipts is entitled to withdraw the corresponding number of 8.00% COMRPS, Series C from the Trust in exchange for the Trust Receipts so held.

(c) Ownership of this series is evidenced by Trust Receipts, each representing an 7.38% COMRPS, Series D, representing limited partnership interests. The Trust Receipts were issued by PECO Energy Capital Trust III, the sole assets of which are 7.38% COMRPS, Series D. Each holder of Trust Receipts is entitled to withdraw the corresponding number of 7.38% COMRPS, Series D from the Trust in exchange for the Trust Receipts so held. This Series was issued on April 6, 1998.

Notes to the Consolidated Financial Statements

12. Long-Term Debt

At December 31,	Series	Due	1998	1997
Thousands of Dollars				
First and refunding mortgage bonds (a)	5 3/8 %	1998	\$ -	\$ 225,000
	7 1/2%-9 1/4%	1999	325,000	325,000
	5 5/8%-7 3/8%	2001	330,000	330,000
	7 1/8%-8%	2002	500,000	500,000
	6 1/2%-6 5/8%	2003	450,000	450,000
	6 3/8%-10 1/4 %	2004-2008	111,562	115,625
	(b)	2009-2013	154,200	154,200
	6 5/8%-8 3/4%	2019-2024	1,082,130	1,607,130
Total first and refunding mortgage bonds			2,952,892	3,706,955
Notes payable			15,930	15,574
Pollution control notes	(c)		212,705	212,705
Medium-term notes	(d)		50,000	62,400
Note Payable - accounts receivable agreement	(e)		66,837	128,999
Unamortized debt discount and premium, net	(17,249)		(26,405)	
Total long-term debt	3,281,115		4,100,228	
Due within one year	(f)		361,523	247,087
Long-term debt included in capitalization	(g)		\$ 2,919,592	\$ 3,853,141

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

- (b) Floating rates, which were an average annual interest rate of 3.13% at December 31, 1998.
- (c) Floating rates, which were an average annual interest rate of 3.32% at December 31, 1998.
- (d) Medium-term notes collateralized by mortgage bonds. The average annual interest rate was 9.09% at December 31, 1998.
- (e) See note 7.
- (f) Long-term debt maturities, including mandatory sinking fund requirements, in the period 1999-2003 are as follows: 1999 - \$361,523,000; 2000 - \$74,255,500; 2001 - \$337,431,500; 2002 - \$507,436,500; 2003 - \$406,534,500.
- (g) The annualized interest on long-term debt at December 31, 1998, was \$222 million, of which \$210 million was associated with mortgage bonds and \$12 million was associated with other long-term debt.

In the fourth quarter of 1998, the Company redeemed \$525 million of its First Mortgage Bonds consisting of: \$150 million of its 8 3/4% series due 2022, \$125 million of its 8 5/8% series due 2022 and \$250 million of its 8 1/4% series due 2022 at redemption prices of 105.75, 105.20 and 104.85 plus interest, respectively. As a result, the Company recognized an extraordinary charge of \$34 million (\$20 million net of income taxes). The extraordinary charge consisted primarily of premiums and the write-off of deferred charges.

Notes to the Consolidated Financial Statements

13. Short-Term Debt

	1998	1997	1996
Thousands of Dollars			
Average borrowings	\$ 209,261	\$ 248,111	\$ 198,090
Average interest rates, computed on daily basis	5.83%	5.83%	5.64%
Maximum borrowings outstanding	\$ 525,000	\$ 464,500	\$ 369,500
Average interest rates, at December 31	6.17%	6.74%	6.90%

The Company has a \$400 million one-year term loan agreement with a group of banks, which expires on November 30, 1999. At December 31, 1998, \$400 million of short-term debt was outstanding under this term loan agreement.

The Company has a \$900 million unsecured revolving credit facility with a group of banks. The credit facility consists of a \$450 million 364-day credit agreement and a \$450 million three-year credit agreement. The Company uses the credit facility principally to support its \$600 million commercial paper program. There was no debt outstanding under this credit facility at December 31, 1998. At December 31, 1998, \$125 million of commercial paper was outstanding. At December 31, 1998, the Company had available formal and informal lines of credit with banks aggregating \$100 million.

Notes to the Consolidated Financial Statements

14. Income Taxes

Income tax expense (benefit) is comprised of the following components:

For the Years Ended December 31,	1998	1997	1996
Thousands of Dollars			
Included in operations:			
Federal			
Current	\$ 358,051	\$ 251,509	\$ 126,471
Deferred	(109,211)	(11,378)	154,564
Investment tax credit, net	(18,066)	(18,201)	(15,979)
State	95,309	76,689	62,839
Current	(6,429)	(5,850)	12,206
Deferred	292,769	340,101	319,654
Included in extraordinary item:			
Federal	(10,583)	(123)	-
Current	-	(987,234)	-
Deferred			
State	(3,174)	(29)	-
Current			
Deferred	-	(303,575)	-
	(13,757)	(1,290,961)	-
Total	\$ 305,897	\$ (998,192)	\$ 340,101

The total income tax provisions, excluding the extraordinary item, differed from amounts computed by applying the federal statutory tax rate to pre-tax income as follows:

	1998	1997	1996
<i>Thousands of Dollars</i>			
Net Income	\$ 532,378	\$ 336,558	\$ 517,205
Total income tax provisions	319,654	292,769	340,101
Income before income taxes	\$ 852,032	\$ 629,327	\$ 857,306
Income taxes on above at federal statutory rate of 35%	\$ 298,211	\$ 220,264	\$ 300,057
Increase (decrease) due to:			
Property basis differences	(10,262)	40,828	9,903
State income taxes, net of federal income tax benefit	57,582	46,046	48,779
Amortization of investment tax credit	(18,066)	(18,201)	(15,979)
Prior period income taxes	(12,951)	(2,985)	(1,707)
Other, net	5,140	6,817	(952)
Total income tax provisions	\$ 319,654	\$ 292,769	\$ 340,101
Effective income tax rate	37.5%	46.5%	39.7%

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

	1998	1997	1996
<i>Thousands of Dollars</i>			
Deferred generation charges recoverable	\$ (174,787)	\$ -	\$ -
Depreciation and amortization	140,448	57,530	42,385
Deferred energy costs	(2,491)	2,256	27,374
Retirement and separation programs	(51,146)	(12,734)	19,746
Incremental nuclear outage costs	(7,434)	(981)	2,440
Uncollectible accounts	4,764	(1,710)	(2,805)
Reacquired debt	(5,026)	(8,607)	(9,578)
Unbilled revenue	3,579	(5,110)	3,910
Environmental clean-up costs	(3,574)	(15,121)	(714)
Obsolete inventory	4,206	(7,074)	5,829

Limerick plant disallowances and phase-in plan	-	(747)	(747)
AMT credits	(42,067)	-	83,010
Other nuclear operating costs	9,926	(9,892)	-
Other	7,962	(15,038)	(4,080)
Subtotal	(115,640)	(17,228)	166,770
Extraordinary item	-	(1,290,809)	-
Total	\$(115,640)	\$(1,308,037)	\$166,770

The tax effect of temporary differences giving rise to the Company's net deferred tax liability as of December 31, 1998 and 1997 is as follows:

	Liability or (Asset)	
	1998	1997
Thousands of Dollars		
Nature of temporary difference:		
Plant basis difference	\$ 2,653,760	\$ 2,620,254
Deferred investment tax credit	299,999	318,065
Deferred debt refinancing costs	37,575	111,651
Other, net	(300,375)	(249,167)
Deferred income taxes (net) on the balance sheet	\$ 2,690,959	\$ 2,800,803

The net deferred tax liability shown above as of December 31, 1998 and 1997 was comprised of \$3,123 and \$3,153 million of deferred tax liabilities, and \$432 and \$352 million of deferred tax assets, respectively.

In accordance with SFAS No. 71, the Company recorded a recoverable deferred income tax asset of \$614 and \$586 million at December 31, 1998 and 1997, respectively. These balances are applicable only to regulated assets, due to the discontinuance of SFAS No. 71 for the Company's electric generation operations. These recoverable deferred income taxes include the deferred tax effects associated principally with liberalized depreciation accounted for in accordance with the ratemaking policies of the PUC, as well as the revenue impacts thereon, and assume recovery of these costs in future rates.

The Internal Revenue Service (IRS) has completed and settled its examinations of the Company's federal income tax returns through 1990 which resulted in a net increase of \$11 million in credits available for carry forward. The 1991 through 1993 federal income tax returns have been examined and the Company and the IRS are in the process of settling the audit which will not have an adverse impact on financial condition or results of operations of the Company. The years 1994 through 1996 are currently being examined by the IRS.

Notes to the Consolidated Financial Statements

15. Taxes, Other Than Income - Operating

For the Years Ended December 31,	1998	1997	1996
<i>Thousands of Dollars</i>			
Gross receipts	\$ 155,663	\$ 163,552	\$ 160,246
Capital stock	43,754	48,085	41,972
Real estate	51,313	69,597	69,185
Payroll	30,068	25,976	27,585
Other	(1,283)	2,881	558
Total	\$ 279,515	\$ 310,091	\$ 299,546

Notes to the Consolidated Financial Statements

16. Leases

Leased property included in utility plant was as follows:

At December 31,	1998	1997
Thousands of Dollars		
Nuclear fuel	\$ 523,325	\$ 521,921
Electric plant	2,321	2,321
Gross leased property	525,646	524,242
Accumulated amortization	(371,338)	(348,309)
Net leased property	\$ 154,308	\$ 175,933

Nuclear fuel is amortized as the fuel is consumed. Amortization of leased property totaled \$60, \$39 and \$31 million for the years ended December 31, 1998, 1997 and 1996, respectively. Other operating expenses included interest on capital lease obligations of \$9 million in 1998, 1997 and 1996, respectively.

Minimum future lease payments as of December 31, 1998 were:

For the Years Ending December 31,	Capital Leases	Operating Leases	Total
<i>Thousands of Dollars</i>			
1999	\$ 69,026	\$ 48,806	\$ 117,832
2000	65,714	45,457	111,171
2001	32,439	42,850	75,289
2002	92	42,056	42,148
2003	92	49,386	49,478
Remaining years	721	511,164	511,885
Total minimum future lease payments	\$ 168,084	\$ 739,719	\$ 907,803
Imputed interest (rates ranging from 6.5% to 17.0%)	(13,776)		
Present value of net minimum future lease payments	\$ 154,308		

Rental expense under operating leases totaled \$69 million in 1998 and \$74 million in 1997 and 1996, respectively.

Notes to the Consolidated Financial Statements

17. Jointly Owned Electric Utility Plant

The Company's ownership interests in jointly owned electric utility plant at December 31, 1998, were as follows:

Operator	Production Plants				Transmission and Other Plant
	Peach Bottom	Salem	Keystone	Conemaugh	
	PECO Energy Company	Public Service Electric and Gas Company	GPU Generating Corp.	GPU Generating Corp.	Various Companies
Participating interest	42.49%	42.59%	20.99%	20.72%	21% to 43%
Company's share (Thousands of Dollars)					
Utility plant	\$ 347,001	\$ 20,026	\$ 118,256	\$ 190,672	\$ 82,078
Accumulated depreciation	183,383	12,929	73,644	91,052	32,638
Construction work in progress	22,586	1,632	1,770	3,865	1,300

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

Notes to the Consolidated Financial Statements

18. Cash and Cash Equivalents

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

	1998	1997	1996
<i>Thousands of Dollars</i>			
Cash paid during the year:			
Interest (net of amount capitalized)	\$ 384,932	\$ 405,838	\$ 415,063
Income taxes (net of refunds)	346,539	345,232	251,554
Noncash investing and financing:			
Capital lease obligations incurred	38,307	32,909	33,063

Notes to the Consolidated Financial Statements

19. Investments

At December 31,	1998	1997
Thousands of Dollars		
Trust accounts for decommissioning nuclear plants	\$ 377,970	\$ 320,442
Telecommunications ventures	48,391	85,601
Energy services and other ventures	39,359	65,578
Nonutility property	40,456	24,697
Other	44,728	19,517
Total	\$ 550,904	\$ 515,835

Notes to the Consolidated Financial Statements

20. Financial Instruments

Fair values of financial instruments, including liabilities, are estimated based on quoted market prices for the same or similar issues. The carrying amounts and fair values of the Company's financial instruments as of December 31, 1998 and 1997 were as follows:

Thousands of Dollars	1998		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Non-derivatives:				
Assets				
Cash and temporary cash investments	\$ 48,083	\$ 48,083	\$ 33,404	\$ 33,404
Trust accounts for decommissioning nuclear plants	377,970	377,970	320,442	320,442
Liabilities				
Long-term debt (including amounts due within one year)	3,281,115	3,404,250	4,100,228	4,210,885
Derivatives:				
Treasure forwards	-	(300)	-	-
Forward interest rate swaps	-	(4,400)	-	-

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

The fair value of derivatives generally reflects the estimated amounts that the Company would receive or pay to terminate the contracts at the reporting date, thereby taking into account the current unrealized gains or losses of open contracts. Dealer quotes are available for all of the Company's derivatives.

The anticipated issuance of Transition Bonds significantly exposes the Company to market risks of changes in interest rates. Derivative financial instruments are used by the Company to reduce these risks.

The Company has entered into treasury forwards in an aggregate notional amount of \$4 billion with an average interest rate of 4.71%. The Company has entered into forward starting interest rate swaps in the aggregate notional amount of \$713 million with an average interest rate of 5.72%. The notional amount of derivatives do not represent amounts that are exchanged by the parties and, thus, are not a measure of the Company's exposure. The amounts exchanged are calculated on the basis of the notional or contract amounts, as well as on the other terms of the derivatives, which relate to interest rates and the volatility of these rates.

The Company would be exposed to credit-related losses in the event of non-performance by the counterparties that issued the derivative instruments. The Company does not expect that counterparties to the interest rate swaps and treasury forwards will fail to meet these obligations, given their high credit ratings. The credit exposure of derivatives contracts is represented by the fair value of contracts at the reporting date. The Company's interest-rate swaps are documented under master agreements. Among other things, these agreements provide for a maximum credit exposure for both parties. Payments are required by the appropriate party when the maximum limit is reached. The same maximum credit exposure applies to the treasury forwards.

Notes to the Consolidated Financial Statements**21. Early Retirement and Separation Program**

In April 1998, the Board of Directors authorized the implementation of a retirement incentive program and an enhanced severance benefit program. The retirement incentive program allowed employees age 50 and older, who have been designated as excess or who are in job classifications facing reduction, to retire from the Company. The enhanced severance benefit program provided non-retiring excess employees with fewer than ten years of service benefits equal to two weeks pay per year of service. Non-retiring excess employees with more than ten years of service receive benefits equal to three weeks pay per year of service.

Through its Cost Competitiveness Review (CCR), the Company identified 1,157 employees across the Company who were considered excess or were in job classifications facing reduction. Of the 1,157 employees, 711 were eligible for and agreed to take the retirement incentive program. The remaining employees are eligible for the enhanced severance benefit program. The Company has eliminated approximately 422 positions as of December 31, 1998 through both attrition and the early retirement and severance program. The Company expects an additional 735 positions to be eliminated during 1999 and 2000.

The Company recorded an early retirement and separation program charge to earnings of \$125 million (\$74 million, net of income taxes) in the fourth quarter of 1998 to recognize costs related to the CCR workforce reduction program. This charge consisted of the following: \$121 million for the actuarially determined pension and other postretirement benefits costs and \$4 million for outplacement services costs and the continuation of benefits for one year. Approximately \$0.8 million of the \$125 million charge was related to the Company's non-utility operations and accordingly was recorded in Other Income and Deductions. All cash payments related to the early retirement and severance program are expected to be funded through the assets of the Company's Service Annuity Plan.

Notes to the Consolidated Financial Statements**22. Other Income and Deductions****Settlement of Salem Litigation**

On December 31, 1997, the Company received \$70 million pursuant to the May 1997 settlement agreement with Public Service Electric and Gas Company resolving a suit filed by the Company concerning the shutdown of Salem. During the second quarter of 1997, the Company recorded \$70 million (\$41 million net of income taxes) as Other Income.

Ventures

The Company periodically reviews its investments to determine that they are properly valued in its financial statements. Other Income and Deductions reflects write-offs of these investments of \$10 million and \$20 million in 1998 and 1997, respectively.

Notes to the Consolidated Financial Statements

23. Regulatory Assets and Liabilities

At December 31, 1998 and 1997, the Company had deferred the following regulatory assets on the Consolidated Balance Sheets:

	1998	1997
Thousands of Dollars		
Competitive transition charge	\$ 5,274,624	\$ 5,274,624
Recoverable deferred income taxes (see note 14)	614,445	585,661
Deferred generation costs recoverable in current rates	-	424,497
Loss on reacquired debt	77,165	83,918
Compensated absences	4,289	3,881
Deferred energy costs	29,847	35,665
Non-pension postretirement benefits	90,915	97,409
Total	\$ 6,091,285	\$ 6,505,655

24. Quarterly Data (Unaudited)

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

<i>Millions of Dollars</i>	Operating Revenues		Operating Income		Net Income (Loss)	
	1998	1997	1998	1997	1998	1997
Quarter ended						
March 31	\$ 1,173	\$ 1,163	\$ 285	\$ 302	\$ 114	\$ 113
June 30	1,207	1,032	362	250	151	123
September 30	1,774	1,278	546	388	274	158
December 31	1,056	1,145	90	66	(26)	(1,891)

<i>Millions of Dollars (except per share data)</i>	Earnings Applicable to Common Stock		Average Shares Outstanding		Earnings Per Average Share	
	1998	1997	1998	1997	1998	1997
Quarter ended						
March 31	\$ 110	\$ 109	222.5	222.5	\$ 0.50	\$ 0.49
June 30	148	118	222.7	222.5	0.66	0.53
September 30	270	154	223.1	222.5	1.21	0.69
December 31	(28)	(1,895)	224.5	222.5	(0.13)	(8.51)

The increase in 1998 second quarter results was primarily due to increased operating revenues net of related fuel costs. Revenues from wholesale sales increased significantly compared to 1997. Second quarter 1998 earnings also benefited from the full return to service of Salem which decreased the cost of fuel purchases and outage-related costs compared to 1997, from decreased operating and maintenance expense and from reduced uncollectible expenses.

The increase in 1998 third quarter results was due primarily to increased operating revenues net of related fuel costs. Revenues from wholesale sales increased significantly compared to 1997. Third quarter earnings also benefited from the full return to service of Salem, reduction of operating and maintenance costs, reduction of uncollectible expenses and a one-time refund of gross receipts tax.

The increase in the fourth quarter results was primarily due to the extraordinary charge of \$8.24 per share recorded in 1997 resulting from deregulation of the Company's electric generation operations; several one-time adjustments for changes in employee benefits; write-offs of information systems development charges reflecting clarification of accounting guidelines and additional reserves to revise estimates for accruals; higher income tax adjustments; and higher losses from the Company's non-utility ventures. This increase was partially offset by an Early Retirement and Severance charge and an extraordinary charge for the premiums paid in connection with the redemption of higher-cost, long-term debt recorded in the fourth quarter of 1998.

Financial Statistics

Summary of Earnings and Financial Condition

For the Years Ended December 31,	1998	1997	1996	1995	1994	1993
<i>Millions of Dollars, except per share data</i>						
Income Data						
Operating Revenues	\$ 5,210	\$ 4,618	\$ 4,284	\$ 4,186	\$ 4,041	\$ 3,988
Operating Income	1,283	1,006	1,249	1,401	1,064	1,390
Income before Extraordinary Item	532	337	517	610	427	591
Extraordinary Item (net of income taxes)	(20)	(1,834)	-	-	-	-
Net Income (Loss)	513	(1,497)	517	610	427	591
Earnings Applicable to Common Stock	500	(1,514)	499	587	389	542
Earnings per Average Common Share						
Before Extraordinary Item	2.33	1.44	2.24	2.64	1.76	2.45
Extraordinary Item	(0.09)	(8.24)	-	-	-	-
Earnings per Average Common Share	2.24	(6.80)	2.24	2.64	1.76	2.45
Dividends per Common Share						
Dividends per Common Share	1.00	1.80	1.755	1.65	1.545	1.43
Common Stock Equity						
Common Stock Equity	13.61	12.25	20.88	20.40	19.41	19.25
Average Shares of Common Stock						
Outstanding (Millions)	223.2	222.5	222.5	221.9	221.6	221.1

At December 31,	1998	1997	1996	1995	1994	1993
Balance Sheet Data						
Net Utility Plant	\$ 4,610	\$ 4,495	\$ 10,760	\$ 10,758	\$ 10,829	\$ 10,763
Leased Property, net	154	176	182	181	174	194

Total Current Assets	569	1,003	420	426	427	515
Total Deferred Debits and						
Other Assets	6,715	6,683	3,899	3,944	3,992	3,905
Total Assets	\$ 12,048	\$ 12,357	\$ 15,261	\$ 15,309	\$ 15,422	\$ 15,377
Common Shareholders' Equity	\$ 3,057	\$ 2,727	\$ 4,646	\$ 4,531	\$ 4,303	\$ 4,263
Preferred and Preference Stock						
Without Mandatory Redemption	137	137	199	199	277	423
With Mandatory Redemption	93	93	93	93	93	187
Company Obligated Mandatorily						
Redeemable Preferred						
Securities of a Partnership	349	352	302	302	221	-
Long-Term Debt	2,920	3,853	3,936	4,199	4,786	4,884
Total Capitalization	6,556	7,162	9,176	9,324	9,680	9,757
Total Current Liabilities	1,735	1,619	1,103	1,052	850	954
Total Deferred Credits and						
Other Liabilities	3,757	3,576	4,982	4,933	4,892	4,666
Total Capitalization and Liabilities	\$ 12,048	\$ 12,357	\$ 15,261	\$ 15,309	\$ 15,422	\$ 15,377

Operating Statistics

For the Years Ended December 31,	1998	1997	1996	1995	1994	1993
Electric Operations						
Output (Millions of Kilowatthours)						
Fossil	10,262	9,659	10,856	10,792	11,239	10,352
Nuclear	29,732	25,853	24,373	25,499	28,195	27,026

Hydro	1,715	1,558	2,404	1,425	1,970	1,699
Pumped storage output	1,426	1,403	1,540	1,741	1,596	1,478
Pumped storage input	(1,853)	(1,924)	(2,230)	(2,507)	(2,256)	(2,192)
Purchase and interchange	34,075	29,615	19,539	13,945	6,164	6,447
Internal combustion	176	144	179	175	106	56
Total electric output	75,533	66,308	56,661	51,070	47,014	44,866
Sales (Millions of Kilowatthours)						
Residential	10,623	10,407	10,671	10,636	10,859	10,609
Small commercial and industrial	6,888	6,685	6,491	6,200	6,150	5,769
Large commercial and industrial	15,678	15,034	15,208	15,763	15,968	15,956
Other	803	841	902	860	791	771
Unbilled	131	70	(327)	535	(205)	31
Service territory	34,123	33,037	32,945	33,994	33,563	33,136
Interchange sales	3,483	1,927	935	496	768	457
Sales to other utilities	37,258	28,893	20,243	14,041	10,039	8,670
Total electric sales	74,864	63,857	54,123	48,531	44,370	42,263
Number of Customers, December 31,						
Residential	1,343,791	1,333,861	1,324,448	1,321,379	1,350,210	1,341,873
Small commercial and industrial	145,055	144,142	142,431	141,653	143,605	142,363
Large commercial and industrial	3,248	3,308	3,299	3,394	3,603	3,742
Other	1,150	1,094	1,051	959	944	888
Total electric customers	1,493,244	1,482,405	1,471,229	1,467,385	1,498,362	1,488,866
Operating Revenues (Millions of Dollars)						
Residential	\$ 1,377	\$ 1,357	\$ 1,370	\$ 1,379	\$ 1,371	\$ 1,351
Small commercial and industrial	784	779	749	730	710	679

Large commercial and industrial	1,067	1,077	1,098	1,135	1,149	1,168
Other	150	148	140	137	136	161
Unbilled	1	19	(26)	43	(11)	(1)
Service territory	3,379	3,380	3,331	3,424	3,355	3,358
Interchange sales	211	59	26	17	23	14
Sales to other utilities	1,221	728	498	334	247	233
Total electric revenues	\$ 4,811	\$ 4,167	\$ 3,855	\$ 3,775	\$ 3,625	\$ 3,605
Operating Expenses						
Operating expenses, excluding						
depreciation and amortization	\$ 2,993	\$ 2,698	\$ 2,244	\$ 2,026	\$ 2,209	\$ 1,894
Depreciation and amortization	611	553	462	431	416	401
Total operating expenses	3,604	3,251	2,706	2,457	2,625	2,295
Electric Operating Income	\$ 1,207	\$ 916	\$ 1,149	\$ 1,318	\$ 1,000	\$ 1,310
Average Use per Residential Customer (Kilowatthours)						
Without electric heating	6,948	6,695	6,771	6,908	6,736	6,727
With electric heating	15,398	16,400	17,946	17,189	17,527	17,096
All customers	7,935	7,830	8,074	8,130	8,041	7,970
Electric Peak Load, Demand						
(Thousands of Kilowatts)	7,108	7,390	6,509	7,244	7,227	7,100
Net Electric Generating Capacity-- Year-end Summer Rating						
(Thousands of Kilowatts)	9,262	9,204	9,201	9,078	8,956	8,877
Cost of Fuel per Million BTU	\$ 0.82	\$ 0.84	\$ 0.93	\$ 0.87	\$ 0.89	\$ 0.90

BTU per Net Kilowatthour Generated	10,496	10,737	10,682	10,705	11,617	10,675
Operating Statistics (continued)						
For the Years Ended December 31,	1998	1997	1996	1995	1994	1993
Gas Operations						
Sales (Millions of Cubic Feet)						
Residential	1,496	1,614	1,681	1,516	1,636	1,637
House heating	28,402	32,666	35,471	30,698	32,246	30,242
Commercial and industrial	16,757	19,830	20,999	18,464	19,762	18,635
Other	554	673	2,571	1,582	7,039	9,733
Unbilled	(440)	212	(1,306)	1,710	(474)	676
Total gas sales	46,769	54,995	59,416	53,970	60,209	60,923
Gas transported for customers	28,204	30,412	27,891	48,531	29,801	22,946
Total gas sales and						
gas transported	74,973	85,407	87,307	102,501	90,010	83,869
Number of Customers						
Residential	55,417	55,592	56,003	56,533	57,122	59,573
House heating	324,081	314,335	303,996	295,481	287,481	277,500
Commercial and industrial	35,931	35,215	34,182	33,308	32,292	31,573
Total gas customers	415,429	405,142	394,181	385,322	376,895	368,646
Operating Revenues (Millions of Dollars)						
Residential	\$ 16	\$ 17	\$ 16	\$ 15	\$ 16	\$ 15
House heating	236	265	249	236	238	202
Commercial and industrial	125	145	133	126	128	110
Other	2	3	11	5	20	28
Unbilled	(3)	(1)	(4)	7	(3)	5
Subtotal	376	429	405	389	399	360

Other revenues (including gas transported for customers)	24	22	24	22	17	23
Total gas revenues	\$ 400	\$ 451	\$ 429	\$ 411	\$ 416	\$ 383
Operating Expenses						
Operating expenses, excluding depreciation and amortization	\$ 291	\$ 333	\$ 302	\$ 302	\$ 326	\$ 279
Depreciation and amortization	32	28	27	26	26	24
Total operating expenses	323	361	329	328	352	303
Gas Operating Income	\$ 77	\$ 90	\$ 100	\$ 83	\$ 64	\$ 80

Securities Statistics

Ratings on PECO Energy Company's securities

Agency	Mortgage Bonds		Preferred Stock	
	Rating	Date Established	Rating	Date Established
Duff and Phelps, Inc.	A-	10/98	BBB	10/98
Fitch Investors Service, Inc.	A-	9/92	BBB+	9/92
Moody's Investors Service	Baa1	4/92	baa2	4/92
Standard & Poor's Corporation	BBB+	4/92	BBB-	2/99

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

	1998				1997			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
High price	\$ 42- 3/16	\$ 36- 3/4	\$ 30- 5/8	\$ 24- 11/16	\$ 25- 1/8	\$ 24- 5/16	\$ 21- 1/8	\$ 26- 3/8
Low price	\$ 36- 1/2	\$ 28- 1/2	\$ 21- 3/16	\$ 18- 7/8	\$ 21- 7/16	\$ 20- 3/4	\$ 18- 3/4	\$ 20
Close	\$ 41- 3/4	\$ 36- 3/4	\$ 29- 3/16	\$ 22- 1/8	\$ 24- 1/4	\$ 23- 7/16	\$ 21	\$ 20- 3/8

Earnings	\$ (0.13)	\$ 1.21	\$ 0.66	\$ 0.50	\$(8.51)	\$ 0.69	\$ 0.53	\$ 0.49
Dividends	\$ 0.25	\$ 0.25	\$ 0.25	\$ 0.25	\$ 0.45	\$ 0.45	\$ 0.45	\$ 0.45

Shareholder Information

Board of Directors

Susan W. Catherwood (55)

Chairman, Trustee Board,
The University of Pennsylvania Medical Center and Health System

Daniel L. Cooper (63)

Former Vice President and General Manager, Nuclear Services Division
Gilbert/Commonwealth, Inc.

M. Walter D'Alessio (65)

President and Chief Executive Officer,
Legg Mason Real Estate Services (Commercial mortgage banking and pension fund advisors)

G. Fred DiBona, Jr. (47)(1)

President and Chief Executive Officer,
Independence Blue Cross

R. Keith Elliott (56)

Chairman, Chief Executive Officer,
Hercules, Inc.

Richard H. Glanton (52)(1)

Partner of the law firm Reed Smith Shaw and McClay

Rosemarie B. Greco (52)(2)

Former President and Chief Executive Officer,
Private Industry Council

Corbin A. McNeill, Jr. (59)(1)

Chairman of the Board
President and Chief Executive Officer of the Company

John M. Palms, PhD. (63)

President,
University of South Carolina

Joseph F. Paquette, Jr. (64)(1)

Former Chairman of the Board of Directors of the Company

Ronald Rubin (67)

Chief Executive Officer,
Pennsylvania Real Estate Investment Trust

Robert Subin (60)

Former Senior Vice President,
Campbell Soup Company

Officers

Corbin A. McNeill, Jr. (59)

Chairman of the Board of Directors
President and Chief Executive Officer

Gerald R. Rainey (49)(9)

President and Chief Nuclear Officer,
PECO Nuclear

Nancy J. Bessey (45)(6)

President, Power Team

Gregory A. Cucchi (49)(10)

Senior Vice President,
Corporate and President,
PECO Energy Ventures

James W. Durham (61)

Senior Vice President and General Counsel

Michael J. Egan (45)

Senior Vice President, Finance and Chief Financial Officer

Kenneth G. Lawrence (51)(10)

Senior Vice President,
Corporate and President,
PECO Energy Distribution

William H. Smith, III (50)

Senior Vice President,
Business Services Group

David W. Woods (41)(14)

Senior Vice President,
Corporate and Public Affairs

John B. Cotton (53)(11)

Special Projects, PECO Nuclear

John Doering, Jr. (55)(4)

Vice President, Peach Bottom Atomic Power Station

Gregory P. Dudkin (41)(6)

Vice President, Operations,
PECO Energy Distribution

Drew B. Fetters (47)(10)

Vice President,
Nuclear Development, PECO Nuclear

Jean H. Gibson (42)(8)

Vice President and Controller

Joseph J. Hagan (48)(16)

Senior Vice President,
Nuclear Operations, PECO Nuclear

Paul E. Haviland (44)(5)

Vice President,
Corporate Development

Thomas P. Hill, Jr. (50)(7)

Vice President, Regulatory and
External Affairs, PECO Energy Distribution

Christine A. Jacobs (46)(13)

Vice President, Support Services

Suzanne L. Keenan (34)(6)

Vice President, Customer & Marketing Services,
PECO Energy Distribution

Cassandra A. Matthews (48)

Vice President, Information Technology and Chief Information Officer

John P. McElwain (48)(15)

Vice President,
Nuclear Projects, PECO Nuclear

J. Barry Mitchell (51)

Vice President, Treasury and
Evaluation, and Treasurer

James A. Muntz (41)(16)

Vice President, Fossil Operations

James D. von Suskil (52)(3)

Vice President,
Limerick Generating Station, PECO Nuclear

Richard G. White (40)(12)

Vice President, Corporate Planning

Katherine K. Combs (48)

Corporate Secretary

Edward J. Cullen, Jr. (51)

Assistant Corporate Secretary

Todd D. Cutler (38)

Assistant Corporate Secretary

Diana Moy Kelly (44)

Assistant Treasurer

George R. Shicora (52)

Assistant Treasurer and Cash Manager

(1) Member of the Executive Committee of the Board of Directors

(2) Elected February 23, 1998

(3) Effective January 26, 1998

(4) Effective March 2, 1998

(5) Effective March 4, 1998

(6) Effective April 8, 1998

(7) Effective April 9, 1998

(8) Effective May 31, 1998

(9) Effective June 1, 1998

(10) Effective June 22, 1998

(11) Effective August 14, 1998

- (12) Effective September 28, 1998
- (13) Effective November 9, 1998
- (14) Effective December 1, 1998
- (15) Effective January 6, 1999, no longer an officer of PECO Energy
- 16. Effective January 26, 1999
- 17. **Stock Exchange Listings**

Most Company securities are listed on the New York Stock Exchange and the Philadelphia Stock Exchange under PE.

Dividends

The Company has paid dividends on its common stock continually since 1902. The Board of Directors normally considers common stock dividends for payment in March, June, September and December. The Company expects that the \$1.00 per share dividend paid to common shareholders in 1998 is fully taxable as dividend income for federal income tax purposes.

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

In 1998, over 57 percent of the Company's common shareholders were participants in the Plan. Information concerning the Plan may be obtained from: EquiServe, PECO Energy Company Plan, P.O. Box 2598, Jersey City, NJ 07303-2598.

Comments Welcomed

The Company is always pleased to answer questions and provide information. Please address your comments to Katherine K. Combs, Corporate Secretary, PECO Energy Company, 2301 Market Street, P.O. Box 8699, Philadelphia, PA 19101-8699.

Inquiries relating to shareholder accounting records, stock transfer and change of address should be directed to: EquiServe, P.O. Box 2500, Jersey City, NJ 07303-2500.

Toll-Free Telephone Lines

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

For current Company news call 1-888-340-7326

Annual Meeting

The Annual Meeting of the Shareholders of the Company will be held at the Sunnybrook Ballroom and Conference Center in Pottstown, Pennsylvania on April 27, 1999, at 9:30 AM. The record date for voting at the shareholders' meeting is March 5, 1999. Prompt return of proxies will be appreciated.

To vote your proxy over the internet visit <http://www.vote-by-net.com>

To receive future Annual Reports and proxy statements electronically, sign-up [here](#).

Form 10-K

<http://www.peco.com/investor/98ar/notes98/shareholder.html>

11/18/1999

Form 10-K, the annual report filed with the Securities and Exchange Commission, is available without charge to shareholders by calling 1-888-340-7326 or by obtaining a copy from our internet site <http://www.peco.com/investor>.

Shareholders

The Company had 142,794 shareholders of record of □ common stock as of December 31, 1998.

Transfer Agents and Registrars

Preferred and Common Stock Registrar and Transfer Agent: First Chicago Trust, Division of EquiServe, (1-800-626-8729)
P.O. Box 2500, Jersey City, NJ 07303-2500

First and Refunding Mortgage Bond Trustee:

First Union National Bank, (1-800-665-9343)
Corporate Trust Operations Customer Information Center
Redemption Bldg 3C3
1525 West W.T. Harris Blvd. Charlotte, NC 28288-1153

General Office

2301 Market Street
Philadelphia, Pennsylvania 19103
(215) 841-4000

EXHIBIT N

1998

**UNICOM
CORPORATION**

**SUMMARY
ANNUAL
REPORT**

Corporate Profile Incorporated in 1994 and based in Chicago, Unicom Corporation (NYSE:UCM) is a public company dedicated to meeting the energy needs of residential, commercial, industrial and wholesale customers. With nearly 16,000 employees and \$7 billion in revenues, Unicom Corporation is the parent holding company to Commonwealth Edison Company (ComEd), its principal subsidiary, and Unicom Enterprises Inc. (UEI), its unregulated subsidiary.

Engaged principally in the production, purchase, transmission, distribution and sale of electricity to retail and wholesale customers, ComEd provides service to over 3.4 million customers across Northern Illinois, or 70 percent of the state's population.

UEI serves as the umbrella organization for Unicom's unregulated subsidiaries, including: Unicom Energy Services Inc. (and its business units Unicom Distributed Energy, Unicom Energy Solutions, Unicom Gas Services, and Unicom Active Energy Management); UT Holdings Inc. (and its subsidiary Unicom Thermal Technologies); Unicom Energy Inc.; Unicom Power Marketing Inc.; and Unicom Technology Development Inc.

A third subsidiary of Unicom Corporation, Unicom Resources Inc., focuses on the development of power projects and other business ventures.

Financial and Operating Summary			
	1998	1997	% Change
Consolidated Highlights			
Operating Income (Loss)	\$ 7,151	\$ 7,184	2.0%
Net Income (Loss)	\$ 510	\$ 483	N/A
Basic Earnings (Loss) per Common Share	\$ 2.35	\$ 2.29	N/A
Diluted Earnings (Loss) per Common Share	\$ 2.34	\$ 2.29	N/A
Return on Average Common Equity	10.2%	12.7%	
Book Value per Common Share	\$ 23.49	\$ 22.70	
Kilowatt-hour Sales by ComEd (millions)			
Residential	23,942	24,511	5.1
Small Commercial and Industrial	27,005	25,883	4.4
Large Commercial and Industrial	24,043	24,677	(0.1)
Public Authorities and Special Services	7,905	7,743	2.1
Total Sales	82,895	79,814	4.0
Sales for Resale	14,744	15,673	(6.0)
Total Kilowatt-hour Sales	97,639	95,487	2.3

Contents To Our Shareholders 1 / The Illinois Restructuring Act 6 / Unicom Directions 7
 Recommitment 8 / Restructuring 14 / Renewal 18 / Financial Section 23 / Board of
 Directors 32 / Corporate Officers 33 / Unicom Unregulated Businesses 34 / Shareholder
 Information 35

In February 1998, the Board of Directors selected me as your company's Chief Executive Officer and issued a clear mandate: deliver increased shareholder value while meeting our continuing public service responsibilities, implementing the newly enacted Illinois Restructuring Act and building a competitive energy business. Each of these demands would be a challenge — together, they are a formidable task. But our company's position in a changing industry demands no less than an aggressive approach. My management team and I accept these challenges and are hard at work.

Now, one year after my arrival at Unicom, I can report substantial and tangible progress, but much more remains to be done. We hold ourselves accountable to make ComEd's electric service world class and our Unicom ventures successful in an intensely competitive — and entirely new — energy marketplace.

We are resolved to reshape our company to meet the demands of a competitive market and to seize the opportunities found within the Illinois Restructuring Act. Our officers and our many capable and responsible employees are working to achieve an entirely new level of performance for our shareholders and for our customers.

Improving Financial Performance Our 1998 financial performance rebounded from our 1997 write-offs and exceeded most expectations, earning \$2.34 per common share (diluted). Though we began the year with four nuclear generation units shut down at the Quad Cities and LaSalle Stations, and we decided in January to permanently close Zion Station, our Nuclear Generation Group radically improved the performance of our fleet.

We increased revenues from the prior year despite reducing residential base rates by 15 percent in August 1998, in accordance with the provisions of the Illinois Restructuring Act. We reduced operation and maintenance (O&M) expenses by six percent, increased kilowatt-hour sales by two percent and did well in the wholesale



John W. Rowe
Chairman, President and Chief Executive Officer

marketplace with off-system sales revenues of \$274 million — a two percent increase over 1997 levels. And in a hot, but volatile, stock market, our shares reflected this progress, closing the year at \$38 $\frac{1}{2}$ per common share — the highest year-end price in seven years.

While we are pleased with our 1998 earnings of \$510 million, we know that you expect better in 1999. We intend to deliver by continuing our record of improving nuclear performance, by seeking out profitable business opportunities and by reducing costs where consistent with essential service improvements.

Sharpening Vision Meeting your earnings expectations while also meeting our customers' service demands and the challenges engendered by the Illinois Restructuring Act requires clear vision. In the second quarter of 1998, my officers and I took a prompt, but careful, look at our business and presented to our Board of Directors a new strategic plan for the company called *Unicom Directions*. This plan embodies our pledge that all decisions will be firmly rooted in financial realities and sharply focused on the demands of our customers and the needs of the communities we serve. Structured around six fundamental objectives, *Unicom Directions* is fluid enough to allow for changing circumstances, yet definite enough in its milestones to promote both accountability and tangible results.

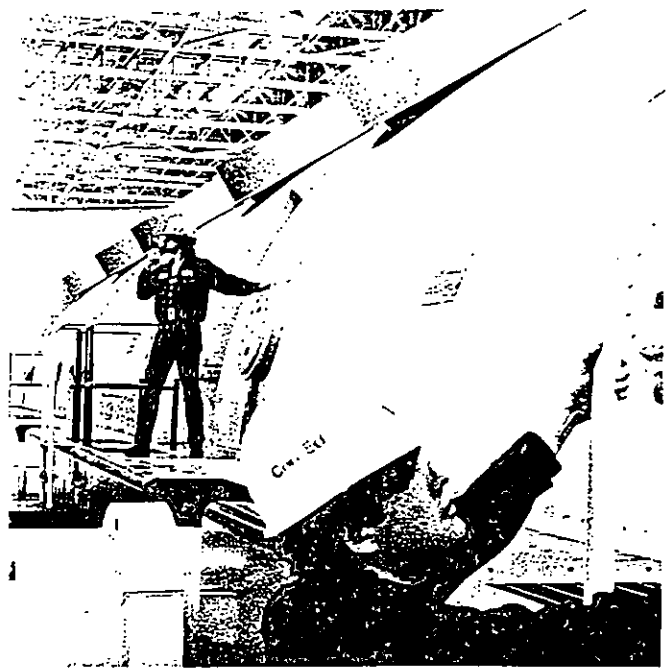
Achieving Milestones

OBJECTIVE 1: Reliability Our primary objective continues to be maintaining and improving the reliability of our service. This includes the supply as well as the delivery of electricity because both the Illinois legislature and the Illinois Commerce Commission (ICC) will continue to hold ComEd responsible for providing an adequate supply until the new energy marketplace is well developed. We must — and we will — make good on these expectations.

Never was our supply responsibility more clear than last June 25th, when an unprecedented chain of events resulted in wholesale prices as high as six dollars per kilowatt-hour on the open market — an extraordinary price given our average retail rate of approximately eight cents per kilowatt-hour. Faced with the possibility of implementing controlled service interruptions, which are sometimes called "rolling blackouts," for the first time in our company's 112-year history, we made necessary spot purchases and spent \$100 million over three days late in June to meet capacity demands.

In the end, ComEd kept the lights on — thanks to improved nuclear performance, voluntary curtailments by our customers, spot purchases and planned reserves. Nevertheless, we came close to a major crisis. This is why we are taking steps to provide increased supply protection during the summer of 1999. At the same time, we are improving our delivery and customer service operations, because most service quality issues fall into these categories.

Our region suffered 16 major storms in 1998 versus the historic average of five per year. We cannot control the weather but we must recognize that outages have occurred



Instrument Maintenance Technicians at Braidwood Station maintain the efficient operation of a turbine, as part of the improving performance of ComEd's nuclear fleet.

at an unacceptable rate in certain areas for several years. To fix these chronic trouble spots in our generally sound transmission and distribution (T&D) system, we have budgeted approximately \$1.6 billion over the next three years in capital expenditures. Additionally, we increased O&M expenditures by \$30 million over the next three years for tree trimming. By improving our existing T&D system, we intend to bolster reliability, reduce the number of storm-related outages and achieve faster recovery when outages do occur.

In addition, our new customer information and billing system must be made to work much better than it did in the latter part of 1998. In mid-July, we installed the Customer Information and Marketing System (CIMS) to replace a system we had been using for over 30 years — one which had become outdated and would hinder us from responding to both customer questions and market demands. Though a system like CIMS was essential, we encountered many problems during the transition that greatly inconvenienced our customers and affected our company's cash flows and productivity. By early 1999, we had made significant progress toward eliminating the problems. We now must fully regain our footing and make the system work — for our customers and for us. Meanwhile, I would like to say a special thank you to the customer service and billing employees who have worked extraordinary hours to cope with these issues.

Particularly in the wake of this experience, we must not underestimate the gravity of the Year 2000 (Y2k) issue, which customers and communities fear will interrupt their electric service. By year-end 1998, Unicom was 73 percent complete with its Y2k preparations and, as of February 19, 1999, we had reached 87 percent readiness. Nevertheless, we cannot lose our sense of urgency, or surrender our commitment to being prepared *well before* December 31, 1999.

A team of employees has been working diligently on the Y2k Project for over two years and we expect to be 100 percent Y2k ready by June 30, 1999. We will continue working in earnest until we are fully ready for the millennium date change. However, the nature of our grid system is such that we must rely on other Midwest utilities to be ready as well.

OBJECTIVE 2: Nuclear Operations ComEd's ten-unit nuclear fleet, the largest in the United States, provides 9,400 megawatts of generating capacity to the homes and businesses of Northern Illinois. Unfortunately, however, ComEd nuclear plants have operated below industry norms and have been the subject of Nuclear Regulatory Commission (NRC) enforcement orders. Therefore, we have committed ourselves to reaching top quartile performance at all ten of our nuclear units. With the strong leadership of Executive Vice President and Chief Nuclear Officer Oliver D. Kingsley, Jr., who previously led a nuclear performance turnaround at the Tennessee Valley Authority, our Nuclear Generation Group (NGG) has made remarkable strides.

Our employees surpassed nearly every 1998 performance goal, and nine out of ten of our nuclear units were available to meet generating capacity demands during the year. I am grateful to all of the employees of the NGG for this effort.

Our nuclear production rose ten percent from 1997 to 1998. We returned three of our nuclear units — Quad Cities Units 1 and 2 and LaSalle Unit 1 — to service in 1998

and the NRC removed Dresden Station from its "watch list." Dresden Station achieved its best production year in its 28-year history, with a nuclear capacity factor of 85.3 percent, and Braidwood Station was in the top quartile of nuclear performers on an industry-wide performance index. Our nuclear employees achieved record-breaking turn-around times for refueling and steam generator replacement outages. Also, coupled with the closure of Zion Station, they reduced nuclear production cost per kilowatt-hour by 19 percent. We intend to continue these improvements and have all ten of our nuclear units available to meet summer reliability demands during 1999.

While making progress, we have made it clear that our nuclear plants must produce power both safely and economically in the future, or they will be shut down. As the generating market becomes more competitive, and as new power plants are built in our region, we must hold our nuclear fleet to strict economic accountability. Only by building on their 1998 performance and achieving world-class operating excellence, can our employees give our nuclear plants the brighter future we all want.

OBJECTIVE 3: Generation We made a difficult, financially driven decision to refocus ComEd's generation business by selling some of our most valuable assets — our fossil generating stations. We believe the market value of these units is substantially greater than the book value, so that a sale will help us reshape our balance sheet and finance new investments in both our regulated energy delivery business and in new opportunities. By selling to new suppliers, we will open the market to competition in Illinois and give these plants the chance to become the Midwestern foothold of one or more national or international generating businesses.

Though we do not expect the sale to be complete until late 1999, we began the sale process in 1998 with a bidder

qualification and preliminary proposal phase. In accordance with our commitment to reliability, we will condition the sale upon short-term power purchase contracts, demonstrated ability to operate the plants and call options to assure availability of generating capacity while the energy market opens.

OBJECTIVE 4: Financial Operations Our 1998 performance yielded strong improvements in earnings, stock price, retail sales and cost reductions, all of which support the financial objective of *Unicom Directions*. Going forward, we remain committed to delivering competitive equity returns and to restructuring our balance sheet to better reflect the economic realities of a competitive market. A successful sale of the fossil plants will aid in recovering our regulatory assets and reducing our nuclear assets closer to competitive values. This financial restructuring is an important component of making our nuclear operations a real business — an accountable business.

In December 1998, Unicom accomplished one of the most significant financing transactions in the history of the company. As permitted under the Illinois Restructuring Act, we successfully issued \$3.4 billion in transitional funding notes. These low-cost, 5.57 percent funds will allow us to redeem or repurchase more expensive debt and common equity, thereby reducing our overall cost of capital and increasing our capability to meet both customer service and financial objectives.

OBJECTIVE 5: Competitive Operations Unicom believes that success in the competitive energy marketplace will require a range of products and services. While the shape of this marketplace is still undefined, the need for



When ComEd customers call the 24-hour 1-800-Edison1 service line, Call Center employees are there to respond to questions and requests, a particularly difficult task during 1998 storms.

profitable, unregulated ventures is acute given the revenue loss we face as a result of the Illinois Restructuring Act. Competitive market prices, combined with a two-step residential rate cut totaling 20 percent, limited transition cost recovery and market share erosion will force us to become increasingly focused and effective in our choice of new ventures.

Today, we have a portfolio of unregulated subsidiaries, including thermal energy services, microturbines and energy management solutions, as well as the sale of both gas and electricity. Though promising, most of the businesses are still in the first years of operations and have yet to contribute to Unicom's bottom line. We will continue to invest in strategic, unregulated products and services that, after a reasonable start-up period, will contribute positively to operating results and have long-term growth potential.

OBJECTIVE 6: Culture Our opportunities under *Unicom Directions* rest squarely on our ability to transform the culture of the Unicom companies. In fact, this may be our most challenging objective, as it is for all companies undergoing a major transition in markets or technology.

Successful culture change at Unicom will require certain key elements. Our employees must understand the ways in which their daily duties and contributions impact our overall company performance and, most important, shareholder value. To bolster this connection, all employees

are encouraged to own Unicom stock. In addition, we have implemented stock ownership guidelines for corporate officers and we are increasing the stock option component of executive compensation.

Our employees must adopt a competitive market mindset, a sense of personal accountability and an appreciation for high-quality customer service. We must benchmark and implement best practices, both within our industry and elsewhere, while expanding awareness of the value of diversity in our workforce. To that end, we have added Continuous Performance Improvement and Diversity to our list of company values.

The road to a competitive marketplace is neither smooth nor straight, and change, though inevitable, is difficult. Though my officers and I will lead the transformation, every one of our 16,000 employees must take an active role in a vastly different business environment. They value the company and their jobs, they will adapt and, together, we will make the transition to a competitive market.

The Road Ahead This letter only brushes the surface of our 1998 accomplishments — greater detail can be found in the pages that follow. But my brief review of 1998 must include mention of the arrival of three new members to our Board of Directors. I would like to extend my personal welcome to Carlos H. Cantu, CEO of ServiceMaster, one of the nation's leaders in consolidating service businesses, Elizabeth A. Moler, recently Deputy Secretary of Energy and an architect of utility restructuring, and Richard L. Thomas, former Chairman of First Chicago and one of the

region's most effective executives. All three will bring extraordinary experience and unique perspectives to this company and its Boards. We are extremely pleased to have them join us.

It is an honor to lead Unicom and ComEd and a rare privilege to succeed James J. O'Connor, who led this company through eighteen years of immense challenge. Without his total commitment, ComEd would never have successfully completed the nation's largest nuclear construction program. Without his talents, we would not have the opportunities we now have to build a new and better business.

Looking forward to 1999, the needs of our customers, the Illinois Restructuring Act and the economics of the marketplace will continue to dictate our company's destination. However, with the creation of *Unicom Directions* and the firm progress made in 1998, we are fixing our course and gaining momentum. We will take advantage of this momentum, take pride in our accomplishments and recognize the continued hard work and dedication of our employees.

Thank you for your investment in the Unicom companies. In prior positions, I have given increased shareholder value absolute priority. As I enter my second year as Chairman and CEO of these companies, my commitment to adding value to your investment is unequivocal. On this, you have my word.



John W. Rowe
Chairman, President and Chief Executive Officer

The Illinois Restructuring Act

In December 1997, Governor Jim Edgar signed The Illinois Electric Service Customer Choice And Rate Relief Law to partially deregulate the electricity industry and allow customers to choose among competitive electricity suppliers. Though commonly called a 'deregulation' law, it is more accurately referred to as the Illinois Restructuring Act.

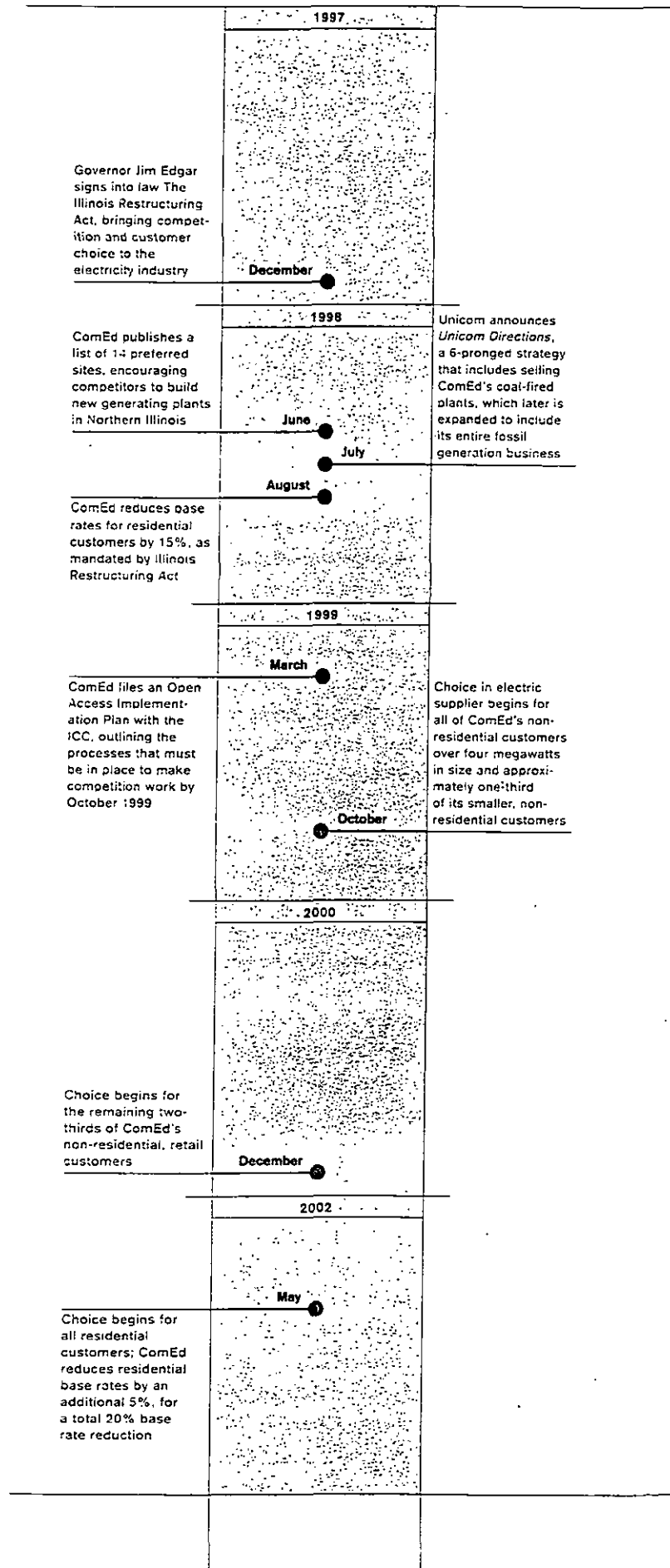
Pursuant to the Act, ComEd no longer has an exclusive franchise to generate, transmit, distribute and market electricity to all customers within a defined service territory. Instead, the generation and marketing aspects of its business will become competitive while the T&D system will remain strictly regulated. For the first time in its 112-year history, ComEd will open its "wires" to a wide variety of competitive suppliers, who will use them to serve customers in ComEd's service territory.

The Illinois Restructuring Act phases-in competition under an aggressive four-year timeline, shown to the right. "Open access" begins in October 1999, at which time the first segment of customers — all large, non-residential customers over 4 megawatts in size and approximately one-third of smaller non-residential customers — will be able to choose their electric supplier. The remaining commercial and industrial customers begin choice in December 2000, followed by residential customers in May 2002.

Throughout 1998 and into 1999, ComEd worked to build consensus with the ICC staff, other utilities, customers and new suppliers on issues relating to the day-to-day business of implementing "open access." Our goal was to assist the ICC in developing a workable set of rules and procedures to apply to ComEd and other market participants once choice begins in October 1999. In the discussion and drafting of our Open Access Implementation Plan, which was filed with the ICC in March 1999 and is subject to ICC approval, we identified those critical tasks and specific processes we believe must be in place if competition is to work in Illinois.

As Unicom evolves from a traditional utility to a competitive energy supplier, we will continue to do all we can to create an efficient competitive marketplace that is beneficial to Illinois consumers and fair to both new suppliers and incumbent utilities.

Open Access Timeline



Unicom Directions

Recommitment

OBJECTIVE 1 We will provide a reliable supply of electricity as the competitive marketplace evolves and improve the efficiency, dependability and quality of our delivery service.

OBJECTIVE 2 We will become a top quartile operator of competitive nuclear plants by insisting that each plant produce power safely and economically.

Restructuring

OBJECTIVE 3 We will refocus ComEd's generation business by offering to sell our entire fossil generation portfolio with safeguards to assure continued availability.

OBJECTIVE 4 We will deliver competitive earnings while restructuring the balance sheet to reflect the realities of the marketplace and the duration of our transition charges.

Renewal

OBJECTIVE 5 We will market a diverse portfolio of products and services to become the Midwest's leading retail supplier of electricity, natural gas and energy services.

OBJECTIVE 6 We will transform the culture of the Unicom companies to achieve higher performance, increased accountability, superior customer focus and greater diversity.

Just as the Illinois Restructuring Act will have a dramatic effect on the electricity industry, so too will it change the way ComEd and Unicom conduct business in both the near and distant future. As ComEd prepares for the day when competitive suppliers are granted access to its wires, it must continue to provide reliable service to the people and businesses of Northern Illinois. As Unicom's other affiliates seek to build competitive businesses, we must preserve the opportunities found within the new law to be successful in the competitive market. As employees adopt a competitive market mindset, they must maintain a sharp focus on customer service, develop a personal sense of accountability and inject continuous improvement into all that they do. None of these changes will occur, however, without clear direction and steady guidance from senior management.

Shortly after his arrival, Chairman John Rowe led the development of a new set of goals for the company in a document called *Unicom Directions*. Designed to prepare Unicom for competition over the next several years, the plan demands a relentless commitment to reliability and nuclear performance improvement, an aggressive restructuring of financial operations and the generation business, and a focused approach to expanding competitive opportunities and changing company culture. Each of the six fundamental objectives, listed to the left, embodies our commitment to accountability by setting forth clear milestones by which our performance can be measured.

As stated in *Unicom Directions*, our goal is to maximize shareholder value from the utility assets of the ComEd subsidiary, while delivering a 20 percent base rate reduction to residential customers through the transition period, and to grow value through the operations of unregulated subsidiaries, strategic alliances and acquisitions. To that end, the company seeks to be one of the nation's most effective operators of regulated energy delivery systems, one of its most effective operators of nuclear power plants and the Midwest's leading retail supplier of electricity, natural gas and energy services.

After announcing *Unicom Directions* in July 1998, we spent the remainder of the year working under its framework and toward its objectives. The format for the remainder of this report mirrors the "Three Rs" of the plan: Recommitment, Restructuring and Renewal.

As Unicom's principal subsidiary and the electric utility that has served Northern Illinois for over 11 decades, ComEd is far from a novice when it comes to the demands of providing reliable service and running nuclear plants. However, ComEd has failed to meet the reliability expectations of customers in certain "hot spots" where there is a need for system improvement. Additionally, ComEd's nuclear program has a history of performance below the industry's best.

With the onset of competition and the heightening of shareholder and customer expectations, ComEd simply must recommit itself to improving performance in both reliability and nuclear operations. The first two objectives of *Unicom Directions* call for just that, and our employees made significant progress in both areas in 1998.

Milestones Achieved in 1998

- 1 Board of Directors approves plans to improve reliability by investing \$307 million in T&D capital improvements — in addition to the \$1.3 billion already budgeted over the next three years — and increasing O&M expenses by \$30 million over the same period
- 2 ComEd announces 14 preferred sites to encourage competitors to build new generation in Northern Illinois
- 3 At year-end 1998, ComEd's Y2k Readiness Project is more than 73% complete; as of February 19, 1999, readiness had risen to 87%
- 4 The Nuclear Generation Group (NGG) returns LaSalle Unit 1 and Quad Cities Units 1 & 2 to service after extended shutdowns
- 5 NGG increases generation production by 10 percentage points over 1997
- 6 Braidwood Station sets new world record with a 70-day steam generator replacement outage
- 7 Byron and Dresden Stations complete site refueling outages in record time; Quad Cities sets NGG record best
- 8 Improved NGG performance merits removal of Dresden Station from the NRC "Watch List"

Opposite:

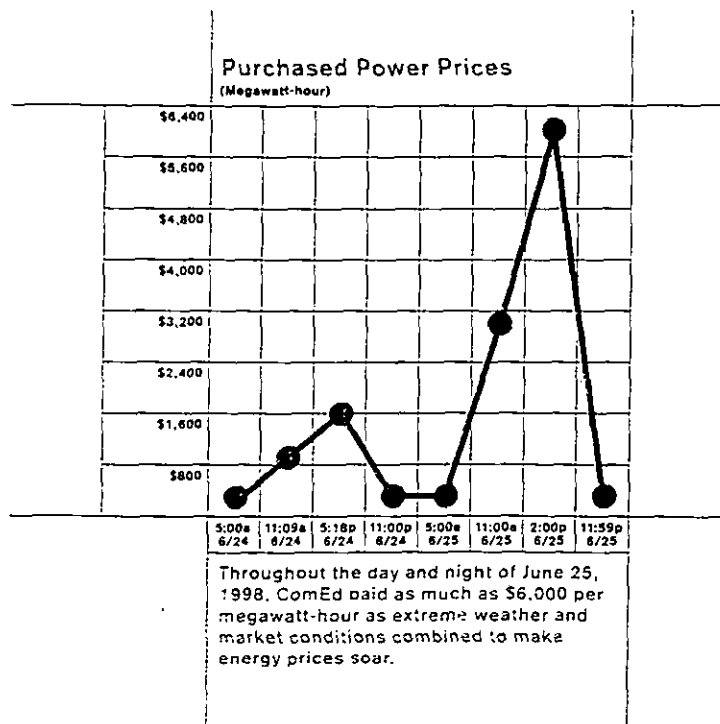
ComEd crew members install a 138 kilovolt capacitor bank at a transmission center in Hoffman Estates to maintain maximum voltage levels in the northern suburbs.

Enhancing Service Reliability June 1998 will be remembered for the chaos that it created in an energy market that had yet to mature. The interdependency of the electrical grid became abundantly clear as scorching temperatures, oppressive humidity and severe thunderstorms wreaked havoc on the Midwestern electrical system. Utilities from the Mississippi to the Atlantic struggled to meet extremely high demand for electricity while maintaining the stability of the grid and Midwest utilities scrambled to deliver power to their customers. The price of electricity soared to unprecedented levels, and ComEd paid as much as six dollars per kilowatt-hour — nearly 75 times the average retail price — to avoid implementing controlled service interruptions.

In the wake of the June crisis, customers began to voice increasingly stronger demands for improved service. Their complaints matched ComEd's own determinations and we ranked reliability as our primary objective under *Unicom Directions*. Quite simply, ComEd must improve its reliability of service for the people and businesses of Northern Illinois.

ComEd's commitment to ensure reliability extends equally into three distinct categories, each with its own dynamics and demands — capacity and supply; T&D; and market development.

Capacity And Supply — ComEd's Generation Business During 1998, ComEd relied primarily on its own generating capacity from both fossil and nuclear generating stations. In addition, ComEd prepared in advance to meet the peak



demand of the summer of 1998 through power purchase agreements, planned reserves and voluntary curtailment contracts with our largest customers. However, the supply situation became so tight in the Midwest, especially during the month of June, that ComEd was forced to face the possibility of controlled service interruptions in order to maintain the safety and integrity of the electric system throughout the region.

Fortunately, ComEd's generating capacity was stronger than it had been just months before due in large part to nuclear improvements and strong fossil performance. Residential customers voluntarily curtailed their usage and we combined planned reserves and spot purchases to meet customer demand. We will use a reinforced, multi-faceted strategy to meet customer expectations during the summer of 1999, along with added power produced by LaSalle Station Unit 2, which we intend to return to service by June of 1999.

Transmission & Distribution — ComEd's Delivery System Mother Nature pushed our T&D system to its limits in 1998 with an icy March blizzard, a stormy June heat wave and a gusty November windstorm with all of the force of a full-fledged hurricane. By year-end, the ComEd service territory had been pummeled by 16 major storms, versus an historic annual average of five.

ComEd's transmission system compares favorably to similarly situated utilities nationwide. However, due to the age of certain parts of the system, weather-related damage

and a high demand for new connections, we must invest in improving our distribution system. We have also identified several distribution "hot spots," to which we are turning our attention and focusing our resources. In the fourth quarter of 1998, the Board of Directors approved a plan to increase our T&D capital expenditures by approximately \$307 million and increase O&M expenditures by \$30 million for tree trimming over the next three years. The additional capital expenditures supplement the \$1.3 billion already budgeted for the same time period.

Looking ahead, we are keenly aware of the potential impact that Year 2000 issues could have on the continuous flow of electricity to customers nationwide. In accordance with our commitment to reliability, we are working hard to ensure that all of our software applications and embedded systems are Y2k ready and that the grid will remain stable at the turn of the century. Since 1996, Unicom's Y2k Project Team has worked to bring all systems into readiness and, as of year-end 1998, the project was 73 percent complete. As of February 19, 1999, the Y2k team had reached the 87 percent mark. Our goal is to have all systems Y2k ready by June 30, 1999.

Additionally, Unicom will have Y2k contingency plans in place to address scenarios that challenge our generation and T&D systems. By taking an aggressive approach to contingency planning, we are confident we will be able to respond appropriately to Y2k related problems on any of our systems.

Finally, the Mid-America Interconnected Network, Inc. (MAIN), which is one of North America's ten regional reliability councils charged with ensuring the safe, reliable and economic operation of the region's electric transmission system, requires ComEd to have at least three times our normal generation operating reserves available for the transition into the year 2000. We will meet, or exceed, that amount.

Market Development — Unicom's Commitment to Competition One of the cornerstones of *Unicom Directions* is the company's commitment to promoting the development of competition in Illinois. To that end, ComEd is in the process of offering its entire fossil generation business for sale, which will allow new competitors to enter the market without having to build new generating plants. Also, ComEd has published a list of 14 preferred sites for new generation, which alerted new competitors to those locations having optimal connectivity to the grid.

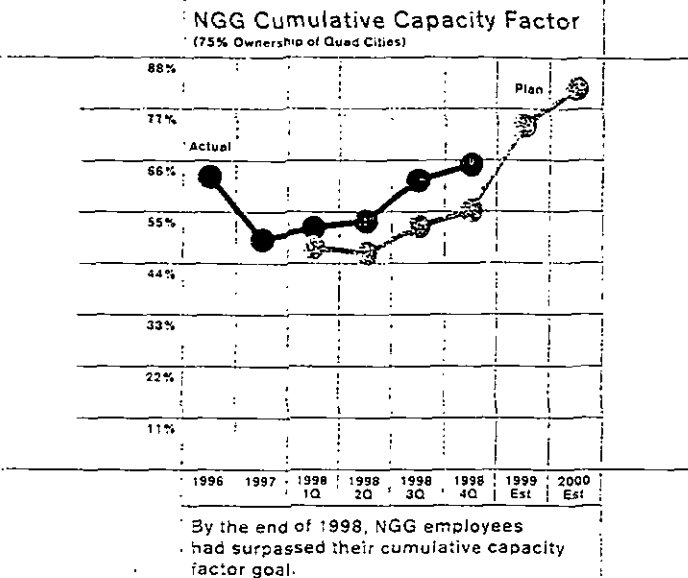
Moreover, the Chicago Board of Trade launched the "ComEd Contract," a tradable futures instrument that made its debut in the third quarter of 1998. And, in September 1998, ComEd and other Midwestern utilities gained approval for the Midwest Independent System Operator (ISO) from the Federal Energy Regulatory Commission (FERC). As the competitive market evolves, the ISO will monitor system reliability and interstate wholesale electricity transactions across a 13-state region and manage the flow of electricity across ComEd's 5,600-mile transmission system.

Improving Nuclear Performance Early in 1998, our new Chief Nuclear Officer, Oliver D. Kingsley, Jr., took a "back to basics" approach to the business and set out to address the root causes of past poor performance. Today, the NGG has completed the initial implementation of 13 "Strategic Reform Initiatives" to achieve the unit's strategic goals. These initiatives cover a wide range of topics, including: results monitoring; maintenance and engineering issues; face-to-face communications; teamwork; training, and business planning. In order to

implement these initiatives. Kingsley has built a strong management team, bringing in people from more successful nuclear operations at all levels as necessary.

The year 1998 began with well-defined priorities: to return Quad Cities Units 1 & 2 and LaSalle Unit 1 to service, to ensure no programmatic breakdowns and to meet production and budget goals. ComEd's NCG accomplished each of these, and, in many cases, surpassed its stated goals.

Plant Operations and Regulatory Action In 1998, the NCG made significant inroads to improved nuclear performance. After an extended regulatory shutdown, Quad Cities Units 1 & 2 were returned to service before the summer's peak demand period. When LaSalle Unit 1 was restarted ahead of schedule in the third quarter of 1998, nine of ComEd's ten nuclear units were on-line and producing power for Illinois customers. Four of the five nuclear stations completed refueling outages in record short turnaround times with Byron and Dresden setting "site best" records and Quad Cities achieving an "NCG-best" of 28 days. Braidwood set a new world record with its 70-day steam generator replacement outage — seven days faster than the previous record. Notably, the NRC removed Dresden Station from its "watch list," though LaSalle remains and Quad Cities is still being tracked closely.



Performance and Financial Measures Key performance measures for the NCG include the Institute of Nuclear Power Operations (INPO) Performance Index and the capacity factor. Though ComEd was still operating well below top quartile performance in 1998, its ranking on the INPO Index did show improvement — rising 3.04 percentage points above target to a high of 80.64. Three stations — Braidwood, Byron and Dresden — achieved capacity factors above the industry average, and Dresden's 85.3 percent was the best in site history.

Financially, NCG reduced costs significantly through improved fiscal management. In fact, nuclear production cost per kilowatt-hour was down 19 percent compared to 1997, partially due to the closure of Zion Station. The NCG closed the year under budget for both capital and O&M expenditures while completing recovery work for both Quad Cities and LaSalle, fire protection improvements at Quad Cities, material condition improvements at all sites — most notably Dresden — and other emergent projects.

While 1998 brought dramatic improvement, ComEd's NCG still lags behind industry standards in both operational excellence and production. Both *Unicom Directions* and the NCG business plan contain goals to propel each of ComEd's nuclear plants to top quartile performance by 2001, with capacity factors of 80 percent or greater.

As principal subsidiary, ComEd provides nearly all of Unicom's net income and will continue to do so for the next several years. However, the Illinois Restructuring Act required ComEd to reduce residential base rates by 15 percent in August 1998. This rate cut resulted in revenue loss of approximately \$170 million in 1998 and we expect a loss of approximately \$380 million in 1999. These amounts do not include the resulting revenue loss when ComEd further reduces residential base rates by five percent in 2002. Moreover, as customers begin to have choice, ComEd's market share will likely erode and its customer base will likely shrink — such is the nature of a competitive market. For these reasons, the third and fourth objectives of *Unicom Directions* call for aggressive restructuring of both financial operations and the ComEd generation business.

In order to better reflect the realities of a competitive market, Unicom embarked on a plan in 1998 to reconcile the market and book values of its generation assets and to sell its entire fossil generation business.

Opposite:

Members of the senior management team gather to exchange views and shape vision as Unicom prepares to enter a competitive energy market.

Milestones Achieved in 1998

- | | |
|---|---|
| 1 | In April, the Board of Directors approves a plan to repurchase up to 33 million shares of Unicom common stock |
| 2 | Pursuant to Securities and Exchange Commission (SEC) guidelines, ComEd determines certain nuclear and fossil assets are impaired and creates a corresponding \$3 billion regulatory asset to be amortized over the next eight years |
| 3 | On July 6, ComEd announces offer to sell coal-fired units and later expands offer to include its gas- and oil-fired Collins Station and all peaking units; the sale is anticipated to be complete by year-end 1999 |
| 4 | On August 1, ComEd reduces residential base rates by 15 percent, pursuant to the Illinois Restructuring Act |
| 5 | In December, a financing subsidiary of ComEd successfully issues \$3.4 billion in transitional funding notes for the purpose of refinancing debt, repurchasing equity and reducing overall cost of capital |
| 6 | Unicom reduces O&M expenses by six percent compared to 1997 |
| 7 | ComEd sells several non-strategic assets |

1999 Fossil Sale — Anticipated Schedule

1	QUARTER	2	QUARTER
<ul style="list-style-type: none"> • Second round bidders due diligence • Proposals submitted • Proposals evaluated 		<ul style="list-style-type: none"> • Sale agreement with one or more successful bidders • Begin regulatory approval process 	
3	QUARTER	4	QUARTER
<ul style="list-style-type: none"> • Continue regulatory approval process • Complete transition plan 		<ul style="list-style-type: none"> • Transfer fossil assets to new owner(s) 	
<p>Although the initial stages of the fossil plant sale began in 1998, we expect to continue the process throughout 1999 and hope to finalize the transaction by year-end.</p>			

Selling Our Fossil Generation ComEd's coal-fired stations, which provide 5,600 megawatts of generating capacity, have been substantially rehabilitated in recent years. Today, they are among our most valuable assets and have been performing with increasing reliability. Because of their quality and the high demand for power plants in regions opening to competition, we believe the market value of these plants is greater than both their book value and the value we could realize through continued ownership.

As we unveiled *Unicom Directions* in July, we announced our plans to offer our coal-fired units for sale. Six months later, in December 1998, we expanded the offer to include the remainder of the fossil units — Collins Station, a 2,700 megawatt gas- and oil-fired facility, and 1,400 megawatts of peaking units located at nine sites throughout the ComEd service territory.

The sale is designed to accomplish three goals: raise cash for system improvements and new investments; facilitate the development of a competitive wholesale market; and accelerate the recovery of costs related to our nuclear fleet.

While this decision reflects a partial departure from the commodity generation market, where national and international competitors have a likely edge, we expect to invest some of the proceeds in the distributed generation

business, where customer relationships can provide a competitive advantage. We are committed to retaining our nuclear fleet for the foreseeable future because we believe that we can obtain the most value through operating those units ourselves.

The Sale Process During the second half of 1998, ComEd began a two-step auction process. ComEd pre-qualified bidders based on financial capability and their ability to run the plants. By year-end, we had received non-binding proposals from a number of bidders and selected a short list from whom to seek binding offers. Final bids are due in the first quarter of 1999. We expect to sign contracts shortly thereafter and complete the sales in late 1999, after obtaining regulatory approvals.

In this process, however, we cannot lose sight of our duty to maintain a reliable supply of electricity for our customers. For this reason, the sales will include short-term power purchase agreements and call options that will permit ComEd to buy power from the stations.

Restructuring Our Balance Sheet With net income of \$510 million and significant cost reductions, 1998 reflected both financial and operational strength. Additionally, with 1998 earnings of \$2.34 per common share (diluted), we are moving toward our *Unicom Directions* goal of earning \$3.00 per share in 2000. Attaining this

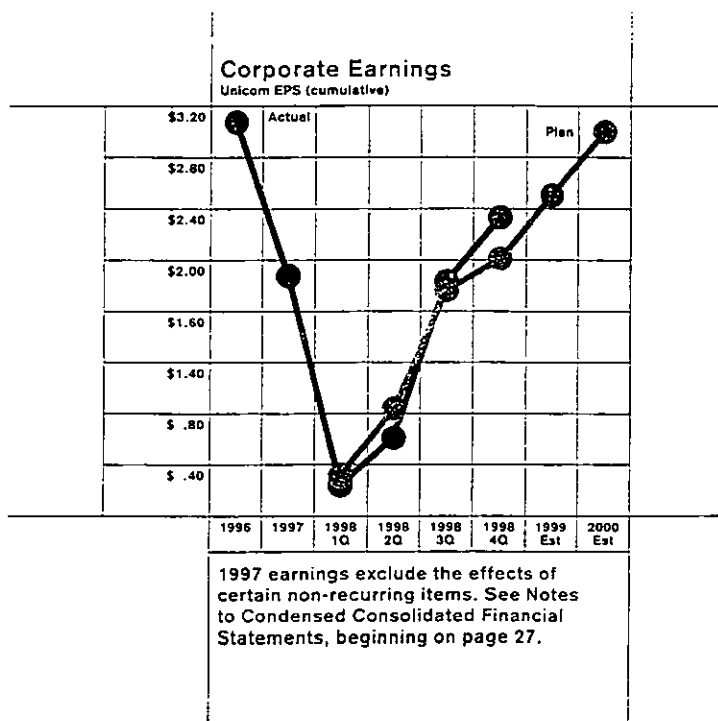
earnings goal will be influenced by many factors, including continuation of the nuclear productivity improvements witnessed in 1998, completion of our share repurchase program, the financial performance of our unregulated businesses and the potential impact of the earnings provision of the Illinois Restructuring Act. Under this provision, if earnings exceed a certain level, which is tied to the 30-Year Treasury Bond Rate, Unicom must share the excess with its customers. Unicom's financial team is working on ways to meet this challenge.

As we continue to build financial strength and as our operations change, our balance sheet should reflect more accurately the value of our assets in a competitive marketplace. While our fossil units are worth considerably more than their value on our books, the costs related to the nuclear units are recorded at a significantly higher level than their value in the marketplace.

By the end of the transition period provided by the Illinois Restructuring Act, our nuclear investment must correlate more closely with its potential market value. Under SEC guidelines, ComEd determined in the second quarter of 1998 that certain nuclear and fossil generation

assets were impaired, wrote down those assets by \$3 billion and recorded a corresponding regulatory asset to be recovered and amortized over the transition period. After reflecting this write down, over \$7 billion remains on the books for these nuclear plants. Current rates of nuclear depreciation, net of capital improvements, should reduce the nuclear investment base by over \$2.5 billion through the transition period. As a result, at the end of the transition period, book values will more closely approximate the anticipated market value of these plants.

Under the Illinois Restructuring Act, Illinois utilities are permitted to refinance up to 50 percent of total capitalization at year-end 1996, which, for ComEd, represents \$6.8 billion. In December 1998, a financing subsidiary of ComEd successfully issued \$3.4 billion in securities, known as transitional funding notes. In early 1999, a portion of these funds was used to redeem or reacquire \$1.8 billion of higher cost debt and preference stock. Also, Unicom has announced plans to repurchase approximately 20 million shares of its common stock with the proceeds.



As Unicom continues to play an integral role in redefining the energy industry, it will also be redefining itself. The fifth and sixth objectives of *Unicom Directions* call for a heightened focus on competitive operations and a dramatic change in the culture of the Unicom companies.

Our goal for competitive operations is to grow our business by marketing a diverse portfolio of products and services to become the Midwest's leading retail supplier of electricity, natural gas and energy services. We will scrutinize the growth potential of our existing businesses and invest only in those opportunities with short payback periods and solid strategic value. In doing so, we expect to refine and expand our unregulated business offerings.

A far more difficult task may prove to be Unicom's greatest challenge: to change a company culture that has been developing for over a century. Today, honesty, loyalty, proficiency and dedication typify our 16,000 employees. In the future, this set of admirable characteristics must expand to include more accountability, increased diversity, continuous performance improvement and dedication to building shareholder value. The competitive market will drive certain standards — it will be up to our employees to meet them.

Milestones Achieved in 1998

- 1 UT Holdings' Northwind™ Windsor plant begins operation; project construction begins in Houston, Chicago's Midway Airport and at the Aladdin Hotel & Casino in Las Vegas
- 2 Unicom Distributed Energy (UDE) partners with McDonald's to open The Energy Efficient McDonald's in May 1998; in January 1999, UDE and AlliedSignal install the first-ever TurboGenerator™ Power System in a commercial setting at this high-tech restaurant
- 3 Unicom Energy Solutions doubles its business in Illinois and opens offices in Missouri, Michigan, Kansas, Indiana, and Minnesota
- 4 Unicom Gas Services signs more than 1,000 commercial and industrial customers in its first year of operation
- 5 Equity holdings of corporate officers are subject to formal stock ownership guidelines
- 6 ComEd and union leaders from Local 15 agree on a structure for the bargaining unit incentive plan to cover 1999 through 2001

Opposite:

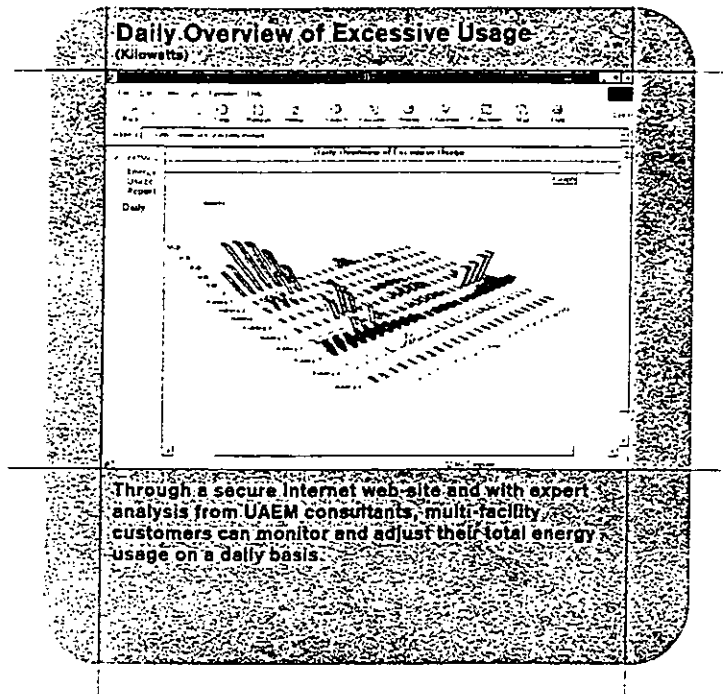
Chairman John Rowe joins Will Crosier and Shaquinta Duncan at the kick-off of the Edison African-American Management Association's (EAAMA) Scholars Program, in partnership with the Boys and Girls Clubs of Chicago.

Investing in Competitive Operations For some of Unicom's unregulated businesses, 1998 marked the first full year of competitive operations. Grouped under an umbrella organization called Unicom Enterprises Inc. (UEI), Unicom provides energy services through a portfolio of unregulated subsidiaries and business units, including: Unicom Active Energy Management, Unicom Distributed Energy, Unicom Thermal Technologies, Unicom Energy Solutions, and Unicom Gas Services.

Though numerous synergies and shared opportunities exist between the business units, each is committed to becoming independently profitable by the year 2001. Further, *Unicom Directions* set a goal of reaching annual sales levels of \$500 million and profit in excess of \$50 million over the next three years for both existing unregulated product lines and new retail ventures. This goal is a long reach, but emphasizes the importance of growth in this area.

Unicom Active Energy Management (UAEM) In light of industry restructuring and the onset of competitive market pricing, customers are becoming increasingly interested in understanding — and managing — their unique patterns of energy consumption. This is especially true of multi-site commercial and industrial customers looking to enhance energy efficiencies at their facilities, such as municipalities, health care institutions, retail and food chains, communications companies and universities.

As a result, UAEM has developed a suite of consultative products and services aimed at giving customers information about, and control over, their energy usage patterns.



For the first time, multi-site customers can independently monitor real-time data and adjust the combined energy usage from each of their facilities on a daily basis. With expert consultation from UAEM analysts, customers are able to make informed management decisions about their total energy usage from a secure Intranet web-site. In 1999, UAEM plans to expand its product and service offerings to provide customers with even more control over their energy usage, including real-time usage tracking and hourly price notification.

Unicom Distributed Energy (UDE) Confident that new options in distributed generation will play an integral role in the future of the energy industry, Unicom has aggressively pursued leadership in bringing accessible, economical on-site technology to market.

In 1997, UDE formed a strategic alliance with AlliedSignal, the manufacturer of the TurboGenerator™ Power System. Each TurboGenerator unit is a compact, self-contained generation system designed to provide 75 kilowatts of primary power to small- and mid-sized commercial and industrial business facilities. Benefits of this system include savings during on- and off-peak hours, increased protection from outages, continuous connection to the power grid, and energy management. In addition, customers can link units to one another to reach the exact amount of power they require at each facility.

In 1998, UDE partnered with McDonald's Corporation to open The Energy Efficient McDonald's. Located in

Bensenville, Illinois and one of four in the United States, this high-tech restaurant was created to test the application of various energy conservation tools and techniques, including the TurboGenerator system. On January 26, 1999, experts from UDE and AlliedSignal installed the TurboGenerator unit at the Bensenville McDonald's — successfully completing the first installation in a commercial setting.

Pursuant to its agreement with AlliedSignal, Unicom will market and distribute the TurboGenerator system throughout the 12-state Midwest region, Ontario, Canada and Puerto Rico. Additionally, Unicom is exploring opportunities to expand its marketing and distribution efforts into new territories, both national and international.

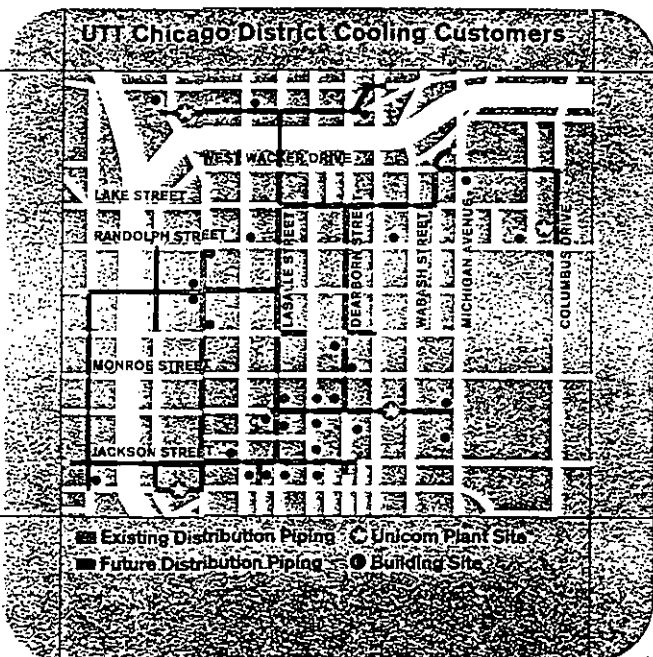
Throughout the first quarter of 1999, UDE will begin installing the TurboGenerator system at additional customer facilities, including AAA Galvanizing, Citibank, Federal Express, Heinemann's Bakeries Inc., Meijers and Walgreen's locations.

Unicom Thermal Technologies (UTT) Founded in 1993 and growing in both strength and size, UTT (a subsidiary of UT Holdings) operates the world's largest, most advanced district cooling system in Chicago.

Through partnerships with leading energy companies located throughout North America, UT Holdings has secured long-term contracts to provide thermal energy services to millions of square feet of customer space. UT Holdings' Northwind™ joint ventures with local utilities have installed six district energy systems, with capital investments worth \$230 million, in Chicago, Boston and Windsor, Canada. At present, UTT and other UT Holdings' subsidiaries are building four additional systems in Houston, Las Vegas, downtown Chicago and at the new terminal at Chicago's Midway Airport.

Unicom Energy Solutions (UES) UES offers single-source energy and operational solutions to commercial and industrial customers, aimed at improving their facilities while making them more efficient, more comfortable and easier to operate. The UES portfolio of offerings includes: utility rate analysis; energy monitoring; lighting, heating and air conditioning retrofits; boiler and chiller replacements, power quality improvements and the measurement and verification of results.

In 1998, UES more than doubled both customer orders and revenue over 1997 levels while maintaining excellent customer satisfaction. New contracts included projects in education, healthcare, and government markets. Upon capturing a significant share of the performance contracting market in Illinois, UES opened district offices in Indiana, Kansas, Michigan, Minnesota and Missouri, thereby expanding its services throughout the 13-state Midwest region. In 1999, UES will introduce several new offerings to broaden its reach and serve a wider range of commercial and industrial customers.



Unicom Gas Services (UGS) Created to market and deliver natural gas and related services to commercial and industrial customers. UGS formed a joint venture with Sonat Marketing Company, L.P., one of the nation's leading marketers of natural gas. Sonat supplies all of the joint venture's gas needs, including transportation, information systems development and risk management. In exchange, Unicom provides the group's sales force, marketing resources and customer and billing services. This year, the company acquired more than 1,000 customers, including 400 McDonald's restaurants in the Midwest.

Changing Our Company Culture Companies nationwide are grappling with the nuances of corporate culture and the challenge of changing it. For Unicom and ComEd, the need for change is both urgent and comprehensive, as competition looms large on the horizon and will require a completely new mindset. Beginning now, nearly 16,000 Unicom employees must link their daily work to specific goals, overall company performance and building shareholder value. They will be asked to accept concepts like the value of greater diversity in the workplace and setting goals through benchmarking industry best practices. Also, in contrast to working in a cost-plus system, employees now must focus sharply on reducing expenses and cutting costs. Finally, they must adopt a far more stringent level of personal accountability.

Creating a direct link between the daily activities of an individual employee and the overall performance of the company must begin at the senior management level. In

1998, we established formal guidelines for mandatory Unicom stock ownership for corporate officers. Ultimately, we will strive to increase Unicom stock ownership throughout all levels of the company to emphasize the importance of working to increase shareholder value.

Also in 1998, ComEd and the International Brotherhood of Electrical Workers, Local Chapter 15, reached an agreement on the basic structure for the bargaining unit annual incentive program through the remainder of the Collective Bargaining Agreement, which ends in April 2001. This structure will closely mirror the incentive plan for management employees.

Soon after the creation of *Unicom Directions*, we announced a significant change to the existing company values — our decision to expand the list to include Diversity and Continuous Performance Improvement. Though diversity programs have been in place for nearly five years, ComEd has a long way to go before reaching the heights of diversity befitting a company headquartered in culturally-rich Chicago. Though it will take time, we will raise awareness of the value of diversity in our workplace while continuing to stress individual merit and ability.

The culture change objective of *Unicom Directions* is, by far, the most difficult to define and remains the area in most need of significant progress in the months ahead. Our employees will continue to adjust and adapt as the market drives change. And our senior management team will lead the charge — revisiting *Unicom Directions* as often as necessary to successfully respond to a competitive environment.

Financial Review

Summary of Selected Consolidated Financial Data

(millions except per share data)	1998	1997	1996	1995	1994
Operating Revenues	\$ 7,151	\$ 7,083	\$ 6,937	\$ 6,910	\$ 6,279
Net Income (Loss)	\$ 510	\$ (353) ¹	\$ 666	\$ 640 ²	\$ 355
Basic Earnings (Loss) per Common Share	\$ 2.35	\$ (3.94) ¹	\$ 3.09	\$ 2.98 ²	\$ 1.56
Diluted Earnings (Loss) per Common Share	\$ 2.34	\$ (3.94) ¹	\$ 3.09	\$ 2.98 ²	\$ 1.66
Cash Dividends Declared per Common Share	\$ 1.60	\$ 1.50	\$ 1.60	\$ 1.60	\$ 1.60
Total Assets (at end of year)	\$25,707	\$22,700	\$23,388	\$23,250	\$23,121
Long-Term Obligations at End of Year					
Excluding Current Portion (Non-Tax):					
Long-Term Debt, Preference Stock and Preferred Securities Subject to Mandatory Redemption Requirements	\$ 8,229	\$ 6,262	\$ 6,487	\$ 7,011	\$ 7,745
Accrued Spent Nuclear Fuel Disposal Fee and Related Interest	\$ 728	\$ 693	\$ 657	\$ 624	\$ 590
Capital Lease Obligations	\$ 334	\$ 438	\$ 477	\$ 376	\$ 433
Other Long-Term Obligations	\$ 2,951	\$ 3,183	\$ 1,991	\$ 1,326	\$ 1,754

1. Includes an extraordinary loss for the write-off of generation-related net regulatory assets of \$310 million (after-tax), or \$3.75 per common share (basic), the loss on the early retirement of Zion nuclear generating station of \$520 million (after-tax), or \$2.42 per common share (basic), and the positive impact of a one-time cumulative effect for a change in accounting principle for revenue recognition of \$197 million (after-tax), or \$0.91 per common share (basic).
 2. Includes an extraordinary loss related to the early redemption of long-term debt of \$20 million (after-tax), or \$0.09 per common share (basic).

Price Range and Cash Dividends Paid per Share of Common Stock

by quarters	1998				1997			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Price Range:								
High	41%	38	36%	35%	30%	25%	24%	29%
Low	36%	33%	32%	30	18½	21	18½	19%
Cash Dividends Paid	40¢	40¢	40¢	40¢	40¢	40¢	40¢	40¢

As reported as NYSE Composite Transactions. Unicom's common stock is traded on the New York, Chicago and Pacific stock exchanges, with the ticker symbol UCM. At December 31, 1998, there were approximately 124,000 holders of record of Unicom's common stock.

1998 Consolidated Revenues and Sales

	Operating Revenues		KWh Sales		Customers	
	millions	% change over 1997	millions	% change over 1997		% change over 1997
Residential	\$2,552	-%	23,942	8.1%	3,134,490	0.4%
Small Commercial and Industrial	2,188	1.6	27,005	4.4	304,208	4.5
Large Commercial and Industrial	1,406	(4.1)	24,043	(0.1)	1,794	14.6
Public Authorities	510	0.8	7,472	2.0	14,049	15.4
Electric Railroads	31	4.2	433	3.6	2	-
Ultimate Consumers	\$6,687	(0.0)	82,895	3.3	3,454,543	0.3
Provision for Revenue Refunds	(22)	(52.1)	-	-	-	-
Net Ultimate Consumers	\$6,665	-	82,895	3.8	3,454,543	0.3
Sales for Resale	397	18.0	14,744	(6.0)	62	21.6
Other Revenues	89	7.1	-	-	-	-
Total	\$7,151	1.0	97,639	2.2	3,454,605	0.8

See the Notes to Condensed Consolidated Financial Statements beginning on page 27 and consolidated financial statements and related discussion in the 1999 Proxy Statement appendix.

Condensed Statements of Consolidated Operations

(millions except per share data)	1998	1997	1996
Operating Revenues	\$7,151	\$ 7,033	\$6,907
Operating Expenses and Taxes:			
Fuel and Energy Costs	\$1,889	\$ 1,609	\$1,000
Operation and Maintenance Expenses	2,286	2,409	2,162
Depreciation and Amortization	943	1,085	969
Taxes (except income)	700	301	734
Income Taxes	326	237	456
Total	\$6,144	\$ 6,171	\$5,874
Operating Income	\$1,007	\$ 912	\$1,260
Other Income and (Deductions):			
Interest on Debt	\$ (464)	\$ (487)	\$ (529)
Loss on Nuclear Plant Closure (net of tax)	-	(523)	-
Other	(33)	(100)	(50)
Total	\$ (497)	\$ (1,130)	\$ (597)
Net Income (Loss) before Extraordinary Item and Cumulative Effect of Change in Accounting Principle	\$ 510	\$ (240)	\$ 666
Extraordinary Loss, less Applicable Income Taxes	-	(310)	-
Cumulative Effect of Change in Accounting Principle	-	197	-
Net Income (Loss)	\$ 510	\$ (353)	\$ 666
Average Number of Common Shares Outstanding (Basic)	217	216	216
Earnings (Loss) per Common Share before Extraordinary Item and Cumulative Effect of Change in Accounting Principle:			
Basic	\$ 2.35	\$ (1.10)	\$ 3.09
Diluted	\$ 2.34	\$ (1.10)	\$ 3.09
Extraordinary Loss, less Applicable Income Taxes (Basic and Diluted)	\$ -	\$ (0.75)	\$ -
Cumulative Effect of Change in Accounting Principle (Basic and Diluted)	\$ -	\$ 0.91	\$ -
Earnings (Loss) per Common Share:			
Basic	\$ 2.35	\$ (3.94)	\$ 3.09
Diluted	\$ 2.34	\$ (3.94)	\$ 3.09

See the Notes to Condensed Consolidated Financial Statements beginning on page 27 and consolidated financial statements and related discussion in the 1999 Proxy Statement Appendix.

Condensed Consolidated Balance Sheets

Balance Sheet	December 31, 1998	1997
Assets		
Utility Plant:		
Plant and Equipment - Net	\$ 12,567	\$ 13,070
Nuclear Fuel at American Job	875	903
Total	\$ 13,442	\$ 13,973
Investments and Other Property:		
Nuclear Decommissioning Funds	\$ 2,267	\$ 1,363
Subsidiary Companies	42	41
Other	293	213
Total	\$ 2,602	\$ 1,617
Current Assets:		
Cash, Temporary Cash Investments and Secured Deposits	\$ 56	\$ 121
Cash Held for Redemption of Securities	3,063	-
Receivables - net	1,458	213
Fossil Fuels and Materials and Supplies	367	173
Other	45	113
Total	\$ 4,989	\$ 6,720
Deferred Charges and Other Noncurrent Assets:		
Regulatory Assets	\$ 4,578	\$ 1,367
Other	96	103
Total	\$ 4,674	\$ 1,470
Total	\$ 25,707	\$ 22,730
POOR ORIGINAL		
Capitalization and Liabilities		
Capitalization:		
Common Stock	\$ 4,956	\$ 4,340
Retained Earnings (Deficit)	143	(21)
Preferred and Preference Stocks of ComEd	144	831
ComEd-Obligated Mandatory Redeemable Preferred Securities of Subsidiary Trusts Holding Safety ComEd's Subordinated Debt Securities	350	350
Long-Term Debt	7,809	5,707
Total	\$ 13,402	\$ 11,307
Current Liabilities:		
Notes Payable	\$ 293	\$ 133
Current Portion of Long-Term Obligations and Redeemable Preference Stock of Subsidiary Companies	2,314	773
Accrued Plant Closing Costs	79	103
Other	1,238	1,170
Total	\$ 3,924	\$ 3,279
Deferred Credits and Other Noncurrent Liabilities:		
Deferred Income Taxes and Accumulated Deferred Investment Credits	\$ 4,368	\$ 4,450
Nuclear Decommissioning Liability for Retired Plants	1,215	1,011
Other	2,798	3,113
Total	\$ 8,381	\$ 8,574
Total	\$ 25,707	\$ 22,730

1. Includes \$413 million and \$301 million of securities not retained earnings at December 31, 1998 and 1997, respectively.

See the Notes to Condensed Consolidated Financial Statements beginning on page 27, and consolidated financial statements and related discussion in the 1998 Proxy Statement regarding:

Condensed Statements of Consolidated Cash Flows

(millions of dollars)	1998	1997	1996
Cash Flow from Operating Activities:			
Net income (Loss)	\$ 510	\$ 1,030	\$ 833
Depreciation, Amortization and Deferred Taxes	1,065	797	1,103
Extraordinary Item	-	310	-
Cumulative Effect of Change in Accounting Principle	-	137	-
Loss on Nuclear Plant Closure	-	334	-
Other - Net	(272)	374	138
Total	\$ 1,303	\$ 1,927	\$ 1,031
Cash Flow from Investing Activities:			
Construction Expenditures	\$ (926)	\$ (1,021)	\$ 837
Nuclear Fuel Expenditures	(166)	134	(230)
Sales of Generating Plants	177	81	-
Contributions to Nuclear Decommissioning Funds	(137)	113	(113)
Other Investments and Special Deposits	(11)	17	2
Total	\$(1,063)	\$ (1,077)	\$ (1,034)
Cash Flow from Financing Activities:			
Issuance of Securities and Change in Short-Term Borrowings	\$ 3,917	\$ 654	\$ 100
Retirement and Redemption of Securities	(657)	(790)	(473)
Cash Dividends Paid on Common Stock	(347)	(243)	(344)
Lease of Nuclear Fuel - Net	(155)	(173)	(106)
Total	\$ 2,758	\$ (1,052)	\$ (1,327)
Change in Net Cash Balance	\$ 2,998	\$ 50	\$ (1)
Cash, Temporary Cash Investments and Cash Held for Redemption of Securities:			
Balance at Beginning of Year	121	61	51
Balance at End of Year	\$ 3,119	\$ 121	\$ 51

See the Notes to Condensed Consolidated Financial Statements beginning on page 27 and consolidated financial statements and related discussion in the 1999 Proxy Statement appendix.

Notes to Condensed Consolidated Financial Statements

Consolidated Financial Statements

The condensed consolidated financial statements as of and for the years ended December 31, 1998, 1997 and 1996 include the accounts of Unicom Corporation (Unicom) and its subsidiary companies and have been derived from the audited consolidated financial statements included in the 1999 Proxy Statement appendix.

As more fully described in the consolidated financial statements and related management discussion in the 1999 Proxy Statement appendix, changes due to the legislation enacted in Illinois in December 1997 (the 1997 Act) and increasing competition will have a significant impact on Unicom's future operating results and financial condition. The subsequent notes are based on Unicom's diluted earnings per common share calculations.

Securitization

In December 1998, Commonwealth Edison Company (ComEd) initiated the issuance of \$3.4 billion of transitional trust notes with interest rates ranging from 5.29% to 5.74%. The proceeds, net of transaction costs, must be used to redeem or repurchase debt and equity to lower ComEd's overall cost of capital. Accordingly, in early 1999 ComEd redeemed \$788 million of long-term debt and \$534 million of preference stock, and reacquired \$229 million of outstanding ComEd long-term debt through a tender offer. In addition, \$500 million of the proceeds, of which approximately \$300 million has been utilized as of December 31, 1998, is being used to reduce ComEd's outstanding short-term debt.

Unicom has announced plans to repurchase approximately \$750 million of Unicom common stock using the proceeds it receives from ComEd's repurchase of its common stock held by Unicom. The repurchased shares will be considered outstanding for financial statement purposes until the date of settlement, which is not currently anticipated to occur until early 2000.

The remaining proceeds will be used for the payment of fees and additional debt and equity redemptions and repurchases. In the first quarter of 1999, ComEd expects to record losses and premiums related to the early redemptions and the tender offer of the above-mentioned long-term debt and preference stock, which will reduce net income on common stock by approximately \$33 million (after-tax), or \$0.17 per common share.

Illinois Legislation

The 1997 Act is expected ultimately to lead to market-based pricing of electric generation services. As a result, ComEd discontinued regulatory accounting practices for the generation portion of its business and recorded an extraordinary loss for the write-off of generation-related

net regulatory assets which resulted in a charge in 1997 of \$310 million (after-tax), or \$3.75 per common share.

Based on the Securities and Exchange Commission's interpretive guidance issued in 1998 for an accounting standard regarding when an electric utility discontinues regulatory accounting practices for separable portions of its operations and assets, ComEd recorded a plant impairment of approximately \$3 billion resulting in a reduction in plant assets and the creation of a regulatory asset. The regulatory asset will be amortized as it is recovered through regulated cash flows over a transition period which is expected to end by 2006, but may be extended to 2008 with Illinois Commerce Commission approval. Accordingly, the impairment had no effect on results of operations in 1998.

The 1997 Act also provided electric utilities the option to eliminate their fuel adjustment clause (FAC) as of January 1, 1997. Due to the elimination of the FAC in December 1997, which required ComEd to refund to customers net FAC charges collected during 1997, ComEd recorded a provision for revenue refunds in 1997 which resulted in a charge of \$25 million (after-tax), or \$0.12 per common share. In addition, ComEd recorded a write-off of its underrecovered energy costs related to the FAC, which resulted in a charge of \$19 million (after-tax), or \$0.08 per common share.

Elimination of the FAC and a transition to market-based pricing for generation-related costs required ComEd to write down its investment in uranium-related properties. This write down resulted in a reduction to earnings for the year 1997 of \$60 million (after-tax), or \$0.28 per common share.

Change in Accounting Method

In 1997, ComEd changed its accounting method for revenue recognition to record revenues associated with service which has been provided to customers but has not yet been billed at the end of each accounting period, retroactive to January 1, 1997. This change in accounting method increased operating results for the year 1997 to reflect the one-time cumulative effect of the change for years prior to 1997 by \$197 million (after-tax), or \$0.91 per common share.

Zion Station Closure

In January 1998, the Boards of Directors of Unicom and ComEd authorized the permanent cessation of nuclear generation operations and retirement of facilities at ComEd's 2,080 megawatt Zion nuclear generating station. The retirement resulted in a charge of \$523 million (after-tax), or \$2.42 per common share, for the year 1997.

Notes to Condensed Consolidated Financial Statements (Concluded)

Other Items

Operation and maintenance (O&M) expenses reflect \$43 million, \$39 million and \$12 million for the years 1998, 1997 and 1996, respectively, for voluntary employee separation plans, as well as certain one-time, employee-related costs. These separation plans reduced operating results by \$29 million (after-tax), or \$0.13 per common share, \$24 million (after-tax), or \$0.11 per common share, and \$7 million (after-tax), or \$0.03 per common share, for the years 1998, 1997 and 1996, respectively.

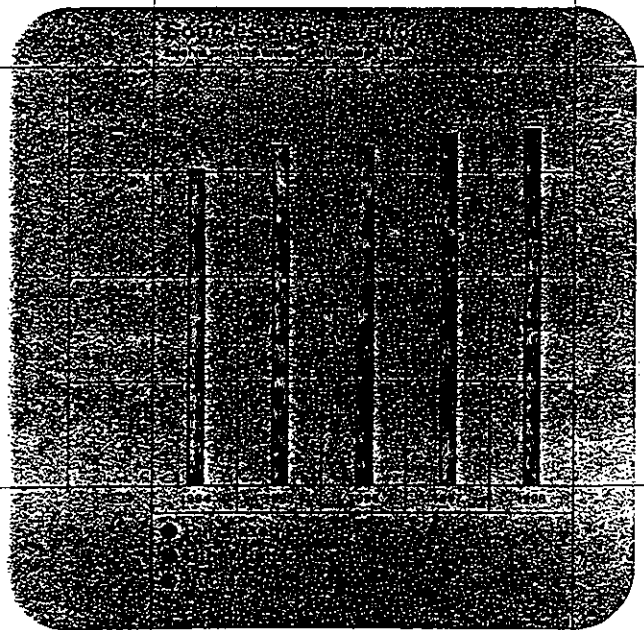
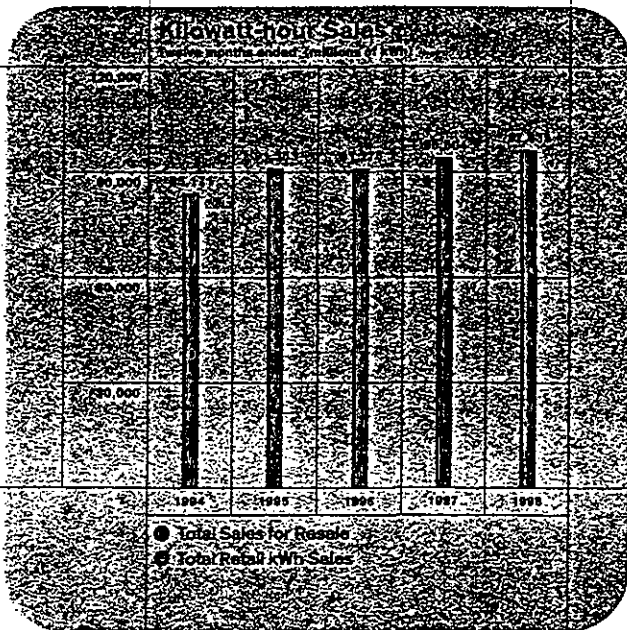
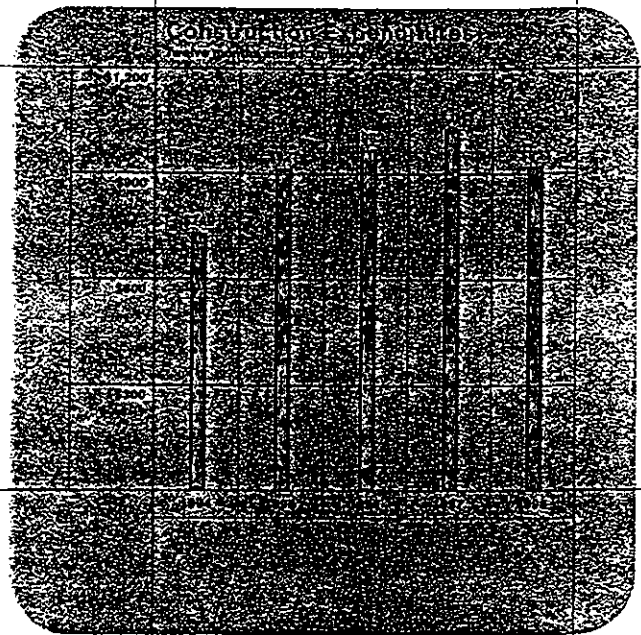
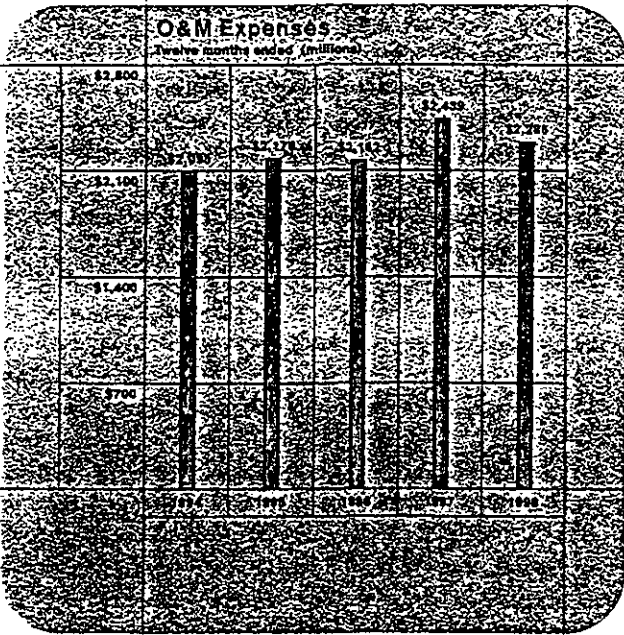
O&M expenses in 1998 also reflect a reduction of \$34 million in certain nuclear maintenance costs due to technological improvements, compared to 1997. This reduction increased operating results by \$21 million (after-tax), or \$0.09 per common share.

Effective August 1, 1998, as provided for by the 1997 Act, the Illinois electricity excise tax and certain municipal utility taxes are recorded as liabilities. Previously, similar

taxes were presented on the Statements of Consolidated Operations as revenue and expense. The reduction in operating revenues and taxes (except income) due to the change in presentation for such taxes was approximately \$95 million for 1995. This change in the presentation for such taxes did not have an effect on results of operations.

Additionally, the 1998 operating results reflect gains on the sales of certain assets of \$31 million (after-tax), or \$0.14 per common share. The sold assets consisted principally of surplus inventory of emission allowances.

The 1996 operating results reflect the effects of tax refunds related to prior years with a positive impact of \$40 million (after-tax), or \$0.19 per common share.



POOR ORIGINAL

Report of Management

The management of Unicom Corporation and its subsidiary companies (Unicom) has prepared and is responsible for the condensed consolidated financial statements and the related financial data contained in this summary annual report and the consolidated financial statements included in the 1999 Proxy Statement appendix. In its opinion, the statements have been prepared in conformity with generally accepted accounting principles.

Unicom's financial statements have been audited by Arthur Andersen LLP, independent public accountants approved by the shareholders. Management has made available to Arthur Andersen LLP all of Unicom's financial records and related data, as well as the minutes of shareholders' and Directors' meetings. Furthermore, management believes that all representations made to Arthur Andersen LLP during their audit were valid and appropriate.

To meet its responsibilities for the reliability of the financial statements and the related financial data, Unicom maintains a system of internal control over financial reporting including over safeguarding of assets against unauthorized acquisition, use or disposition and supports a program of internal audits. The system of internal control contains self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified. Even an effective internal control system, no matter how well designed, has inherent limitations - including the possibility of the circumvention or overriding of controls - and therefore can provide only reasonable assurance with respect to financial statement preparation and such asset safeguarding. Further, because of changes in conditions, internal control system effectiveness may vary over time. In order to assure that the system is adequately designed and documented and that it is functioning as designed, Unicom routinely reviews its internal control system in relation to criteria for effective internal control over financial reporting described in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, it is

management's opinion that as of December 31, 1998, Unicom's system of internal control over financial reporting including over safeguarding of assets against unauthorized acquisition, use or disposition met those criteria.

The Board of Directors carries out its responsibilities for the financial statements and the related financial data through its Audit Committee, which is composed solely of outside directors. The Audit Committee meets periodically with management and the auditors to ensure that each is carrying out its responsibilities, and to discuss auditing, internal accounting control and financial reporting matters. The auditors have free access to the Audit Committee, with and without management present, to discuss the results of their audit work, the adequacy of the internal accounting control and their opinions on other financial matters.



John W. Rowe
Chairman, President and Chief Executive Officer



John C. Bukovski
Senior Vice President and
Chief Financial Officer

February 19, 1999

Report of Public Accountants

Report on Internal Accounting Controls to the Audit Committee of the Board of Directors of Unicom Corporation:

We have examined management's assertion that Unicom Corporation and subsidiary companies maintained an effective system of internal control over financial reporting including over safeguarding of assets against unauthorized acquisition, use or disposition as of December 31, 1998 included in the accompanying Report of Management.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the system of internal control over financial reporting, testing and evaluating the design and operating effectiveness of the system, and such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the system to future periods are subject to the risk that the system of internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that Unicom Corporation and subsidiary companies maintained an effective system of internal control over financial reporting including over safeguarding of assets against unauthorized acquisition, use or disposition as of December 31, 1998, is fairly stated, in all material respects, based upon criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Arthur Andersen LLP

Chicago, Illinois
February 19, 1999

Report to the Shareholders of Unicom Corporation:

We have audited, in accordance with generally accepted auditing standards, the consolidated balance sheets and statements of consolidated capitalization of Unicom Corporation (an Illinois corporation) and subsidiary companies (Unicom) as of December 31, 1998 and 1997, and the related statements of consolidated operations, retained earnings (deficit) and cash flows for each of the three years in the period ended December 31, 1998, appearing in the appendix to the proxy statement for the 1999 Annual Meeting of Shareholders of Unicom (not presented herein), in our report dated February 19, 1999, also appearing in the 1999 Proxy Statement appendix, we expressed an unqualified opinion on those consolidated financial statements. As indicated elsewhere in this summary annual report, a copy of Unicom's consolidated financial statements and our report thereon may be obtained directly from Unicom and will also be included in the 1999 Proxy Statement appendix.

In our opinion, the information set forth in the accompanying condensed consolidated balance sheets as of December 31, 1998 and 1997, and the related condensed statements of consolidated operations and cash flows for each of the three years in the period ended December 31, 1998, is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

Our report dated February 19, 1999 contained an explanatory paragraph calling attention to a change in the method of accounting for revenue recognition as discussed in Notes to Condensed Consolidated Financial Statements.

Arthur Andersen LLP

Chicago, Illinois
February 19, 1999

Unicom/ComEd Board of Directors



John W. Rowe
Chairman, President
and Chief Executive
Officer of the
Company



Edward A. Brennan
Retired Chairman and
Chief Executive
Officer
Sears, Roebuck and
Co.



Carlos H. Cantu
President and Chief
Executive Officer
The ServiceMaster
Company



James W. Compton
President and Chief
Executive Officer
Chicago Urban
League



Bruce DeMars
Admiral (retired)
United States Navy



Sue L. Gin
Chairman and Chief
Executive Officer
Flying Food Group,
Inc.



Donald P. Jacobs
Dean
J.L. Kellogg Graduate
School of
Management
Northwestern
University



Edgar D. Jannotta
Senior Director
William Blair &
Company, L.L.C.



George E. Johnson
Founder and Retired
Chairman
Johnson Products
Company, Inc.



Elizabeth Anne Moler
Partner
Vinson & Elkins L.L.P.



Richard L. Thomas
Retired Chairman
First Chicago NBD
Corporation

Unicom Corporation Officers

John W. Rowe
Chairman, President and
Chief Executive Officer

Oliver D. Kingsley, Jr.
Executive Vice President
and President and
Chief Nuclear Officer -
Nuclear Generation Group

Robert J. Manning
Executive Vice President
and President -
Competitive Operations

Pamela B. Strobel
Executive Vice President
and General Counsel

John C. Bukovski
Senior Vice President and
Chief Financial Officer

Frank M. Clark
Senior Vice President

Ruth Ann M. Gillis
Senior Vice President

Paul D. McCoy
Senior Vice President

S. Gary Snodgrass
Senior Vice President

Robert E. Berdelle
Vice President and
Comptroller

John T. Costello
Vice President

Patricia L. Kampling
Treasurer

John P. McGarrity
Associate General Counsel
and Secretary

Commonwealth Edison Company Officers

John W. Rowe
Chairman, President and
Chief Executive Officer

Oliver D. Kingsley, Jr.
Executive Vice President
and President and
Chief Nuclear Officer -
Nuclear Generation Group

Robert J. Manning
Executive Vice President
and President -
Competitive Operations

Pamela B. Strobel
Executive Vice President
and General Counsel

John C. Bukovski
Senior Vice President and
Chief Financial Officer

Frank M. Clark
Senior Vice President

Ruth Ann M. Gillis
Senior Vice President

David R. Helwig
Senior Vice President

Paul D. McCoy
Senior Vice President

S. Gary Snodgrass
Senior Vice President

Robert E. Berdelle
Vice President and
Comptroller

T. Oliver Butler
Vice President

John T. Costello
Vice President

Christopher M. Crane
Vice President

Louis O. DeGeorge
Vice President

Emerson W. Lacey
Vice President

J. Stephen Perry
Vice President

James A. Small
Vice President

H. Gene Stanley
Vice President

Patricia L. Kampling
Treasurer

John P. McGarrity
Associate General Counsel
and Secretary

Unicom Unregulated Businesses

Unicom Active Energy Management Systems

Year Established:
1998

General Offices:
2315 Enterprise Drive
Westchester, IL 60154
708/236-8300

Major Products:

- An integrated line of energy monitoring solutions and related consultative services.

Major Markets:
Primary emphasis on North America with a worldwide scope, serving multi-site customers, including: commercial, industrial, retail, hospitality, health care, banking, education, communication and municipalities.

Unicom Distributed Energy

Year Established:
1997

General Offices:
2315 Enterprise Drive
Westchester, IL 60154
888-TURBOGN
(888/337-2646)

Major Products and Related Services:

- TurboGenerator™ Power Systems
- Complete engineering analysis and feasibility study
- Complete engineering design

- Contracting for lower gas prices

- Flexible financing or leasing packages

- Complete installation and contract management services

- Unit systems testing, approval and start-up

- Scheduled maintenance and service contracts

Major Markets:

12-state Midwest region of the United States (Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin); Ontario, Canada; Puerto Rico

Unicom Energy Solutions

Year Established:
1997

General Offices:
2315 Enterprise Drive
Westchester, IL 60154
708/236-7800

Major Products:

- Turn-key Energy and Operational Solutions, including:
- Utility rate and billing analysis

- Lighting system retrofits

- HVAC and temperature control repair and replacement

- indoor air quality analysis and improvement

- Power quality and conditioning services

- Natural gas and electricity supply

- Repair and replacement of physical plant assets (boilers, chillers, generators, etc.)

- Building automation systems

- Project financing

Major Markets:

13-state Midwest Region of the United States (Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin)

Unicom Gas Services

Year Established:
1997

General Offices:
2315 Enterprise Drive
Westchester, IL 60154
708/236-7900

Major Products:

- Natural Gas

Major Markets:

Illinois, Michigan, Ohio

UT Holdings Inc.

Year Established:
1993

General Offices:
30 W. Monroe
Suite 500
Chicago, IL 60603
312/634-3200

Major Products:

- Developer and operator of retail district energy systems and site-specific thermal energy projects.

Major Markets:

Chicago, Boston, Houston, Las Vegas, Toronto and Windsor, Ontario, Canada

Shareholder Information

Shareholder Inquiries

First Chicago Trust Company, a division of EquiServe, is Dividend Disbursing Agent, Dividend Reinvestment Agent and Transfer Agent for all classes of Unicom Corporation and Commonwealth Edison Company stock and warrants.

Questions and communications concerning your account, payment of dividends, the dividend reinvestment plan, and transfer of stock should be directed as follows:

By Telephone

Toll-free number:
1-800-950-2377

By Mail

Unicom/Commonwealth Edison Company
c/o First Chicago Trust Company
Post Office Box 2500
Jersey City, New Jersey
07303-2500

Walk-In Service

Walk-in service for shareholders is provided by First Chicago Trust Company at the following location:
One North State Street,
Ninth Floor
Chicago, Illinois

Additional Information

The 1998 Form 10-K Annual Report to the Securities and Exchange Commission and the 1998 Financial Review will be available in April. To obtain a copy of each, or to receive information about the Shareholders Action Alliance, write to: John P. McGarrity, Secretary Unicom Corporation/ComEd Post Office Box A-3005 Chicago, Illinois 60690-3005

More detailed financial data, Management's Discussion and Analysis of Financial Condition and Results of Operations and other traditional information will be sent to you with the company's proxy statement. Shareholders who wish to obtain a copy of the additional information prior to the proxy mailing may do so by writing to the Corporate Secretary listed above.

The company maintains a telephone information service known as Shareholder Direct, which enables shareholders to obtain currently available information on financial performance, company news and shareholder services. It also allows shareholders to request written information. Shareholders may utilize this service by calling the company's regular toll-free number, 1-800-950-2377.

Visit the Unicom homepage at www.ucm.com

Year 2000 Readiness Disclosure

Portions of this report contain information and statements designated as "Year 2000 Readiness Disclosures" under the Year 2000 Information and Readiness Disclosure Act.

Please Note:

Except for historical information, the information in this document constitutes forward-looking statements. Forward-looking statements are inherently uncertain, subject to risks and should be viewed with caution. Actual results or experience could differ materially from the forward-looking statements as a result of many factors. Please refer to the Company's Periodic Report on Form 8-K dated February 19, 1999 for a discussion of factors that could affect the actual results or experience.

© 1999 Unicom Corporation. Unicom and ComEd are registered trademarks. This annual report has been printed entirely on recycled paper.

Application of PECO Energy Company Seeking PUC Approval of its Restructuring and Merger with Unicom

PECO Energy has filed an application with the Pennsylvania Public Utility Commission (PUC) to approve a corporate restructuring and merger with Unicom Corporation. The merger will result in a holding company with headquarters in Chicago and PECO Energy headquarters in Philadelphia. The transmission and distribution of electricity and gas to your homes and businesses will still be handled by PECO Energy in the same manner as it is today.

More specifically, the PUC is being asked to approve:

- Formation of a holding company and a technical change in control of PECO Energy;
- Merger of the newly formed holding company with Unicom;
- Various affiliated interest agreements;
- Transfer of certain assets to affiliated companies;
- Findings needed for the new generating company affiliate to obtain "exempt wholesale generator" status; and
- Findings that the merger is in the public interest and will not result in anticompetitive or discriminatory conduct or the unlawful exercise of market power.

Please promptly contact the PUC at P.O. Box 3265, Harrisburg, PA 17105-3265 if you wish to comment on the Application or participate in hearings. For more information about the application or the merger please contact PECO Energy at 1-800-494-4000.

PECO Energy Company