BALTIMORE
GAS AND
ELECTRIC

CHARLES CENTER • P. O. BOX 1475 • BALTIMORE, MARYLAND 21203

EDWARD A. CROOKE
VICE PRESIDENT AND SECRETARY

July 28, 1981

RECEIVED
JUL 30 1981
U.S. NUCLEAR REGULATORY COMMISSION

Mr. Jerome Saltzman, Assistant Director
State and Licensee Relations
Office of State Programs
M/S AR-2016
United States Nuclear
Regulatory Commission
Washington, D.C. 20555

Subject: Calvert Cliffs Nuclear Power Plant Units Nos. 1 and 2
Docket Nos. 50-317 and 50-318
Guarantee of Retrospective Premium

Dear Mr. Saltzman:

In accordance with Mr. B. H. Sherry's letter of June 30, 1977, our annual submittal date for the Guarantee is August 1. Accordingly, we are enclosing herewith:

Exhibit I - A copy of the 1980 Annual Report to Stockholders of Baltimore Gas and Electric Company containing certified financial statements.

Exhibit II - A copy of quarterly financial statements as of June 30, 1981.

Exhibit III - A copy of Projected Cash Flow for the twelve months ended July 31, 1982.

Exhibit IV - Narrative statement on curtailment/deferment of capital expenditures (if any) to ensure that retrospective premiums up to $10 million applicable to each of the two units would be available for payment.

Sincerely yours,

E A Crooke

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Enclosures

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Baltimore Gas and Electric Company

Annual Report 1980

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The bright lights of Baltimore's new Harborplace foreshadow a dynamic future for the city. They also signal a growing need for energy in action. This expanding energy requirement is typical of the picture throughout BG&E's service area in Central Maryland. The Baltimore Gas and Electric Company is committed to meet those requirements with appropriate actions in energy. Research and development continues to be emphasized; the latest in nuclear technology and the most efficient of coal-fired power production help BG&E meet its commitments. BG&E offers a bright energy outlook for home, office, factory and institution.

BALTIMORE
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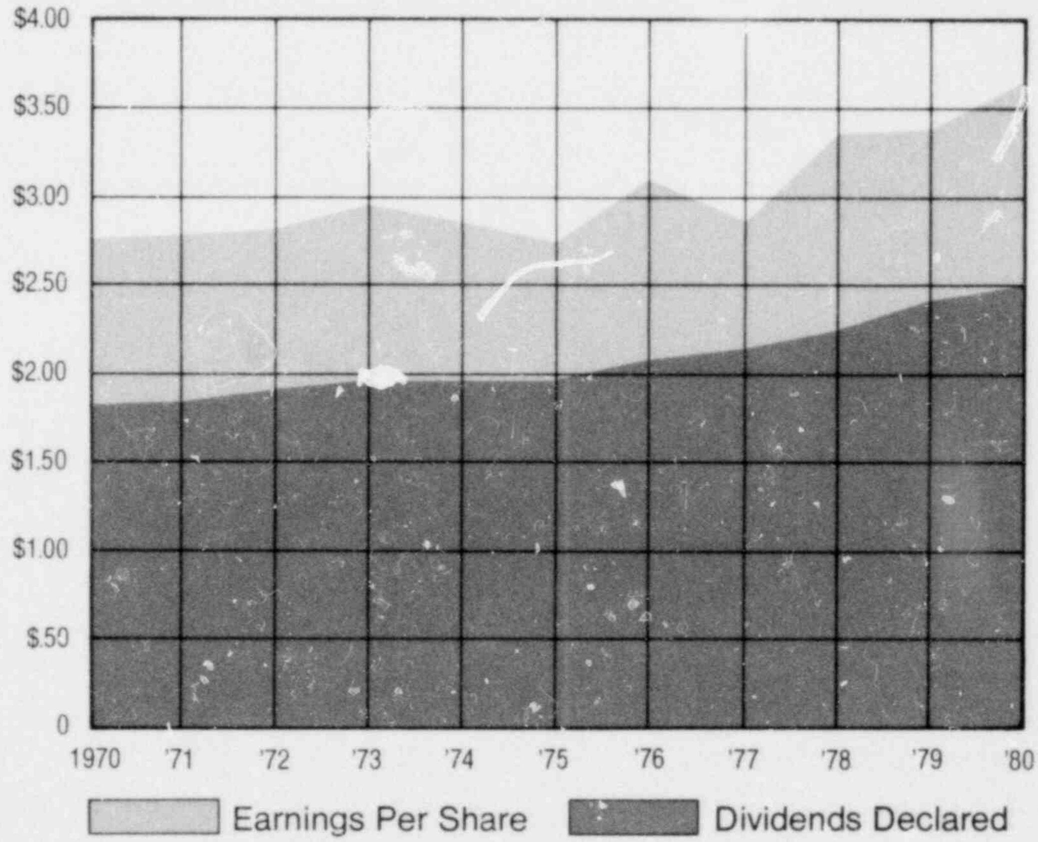
	1980	1979	1970
Earnings Per Share of Common Stock	**$3.64**	$3.40	$2.77
Average Shares of Common Stock Outstanding	**32,258,000**	31,356,000	16,645,000
Dividends Declared Per Share	**$2.50**	$2.40	$1.82
Revenues			
Electric	**$ 857,264,000**	$ 714,956,000	$ 229,063,000
Gas	**354,736,000**	287,074,000	95,920,000
Net Income Applicable to Common Stock	**$ 117,300,000**	$ 106,532,000	$ 46,082,000
Dividends — Common Stock	**80,754,000**	75,373,000	30,148,000
Earnings Reinvested in the Business	**$ 36,546,000**	$ 31,159,000	$ 15,934,000
Electric Sales — thousands of kilowatthours	**17,228,000**	16,823,000	11,971,000
Gas Sales — dekatherms*	**95,110,000**	93,450,000	85,820,000
Investment in Utility Plant	**$3,184,059,000**	$2,974,653,000	$1,257,479,000

*One dekatherm (Dth) equals 1,000,000 British thermal units, or 1,000 cubic feet (Mcf) of gas with a heating value of 1,000 Btu per cubic foot.

DIVIDENDS PAID ON THE COMMON STOCK CONTINUOUSLY SINCE 1910 — ALWAYS EARNED — NEVER REDUCED

Earnings and Dividends Declared Per Share of Common Stock



Contents

THE CHAIRMAN'S LETTER

TO OUR STOCKHOLDERS

BG&E opened the decade on a note of progress and strength. We improved earnings, increased our common stock dividend and won approval of much needed rate relief. These are no mean accomplishments in an economy as troubled as ours, yet I feel confident that our Company can sustain such achievements in the years ahead.

We have always prided ourselves on providing responsible leadership in the utility industry and, most importantly, in our community. That leadership will be more vital than ever in the 80's. Our country is in the throes of adjusting to new energy realities. Hampered by inflation, confused about the real nature of our energy problems, many Americans are fearful that our energy future must be bleak and costly. I know that need not be true. Existing and promising new technologies can provide plentiful energy at a price that will permit continued improvement in our standard of living. With wise management, nuclear power, coal and domestically produced natural gas can easily resolve our short term difficulties, reduce the need for imported oil and bridge the gap to the technology of the 21st century. As a provider of energy, the Company is committed to helping our customers understand that this country need not sacrifice growth because of a scarcity of resources.

The Company has prospered in these difficult times because we have instilled a tradition of leadership in our management team. BG&E has long recognized that for a utility to succeed, it must assert a measure of control over its destiny. We are unwilling simply to react to events that affect us. We seek instead to influence them. Yet in this increasingly volatile world we must be prepared for the unexpected. We need to remain flexible, keeping our minds and options open to change.

We must be able to alter our plans quickly when political, economic or regulatory events so dictate. 1980 was a year marked by economic uncertainties. We faced a volatile bond market, unprecedented short-term interest rates, and, of course, inflation. Yet because of the flexibility built into our financial planning, past decisions with respect to scheduling expansion of electric generating capacity, maintaining a sound capital structure and aggressively seeking rate relief, we have strengthened our financial position.

For the past few years this report has been describing the effects of inflation on the Company's expenses and earnings. In order to meet mounting costs and produce the level of earnings required to attract necessary new capital on reasonable terms, we have been forced to make repeated applications to the Public Service Commission of Maryland for higher rates. The Nation's highly inflated economy drains each of us, business and individual alike. While the Company's operating income is being affected adversely by continually higher operating costs, it is the capital intensive nature of electric utilities that makes our industry especially vulnerable to inflation. The need to meet increasing demand for our services requires the addition of new facilities at costs that are dramatically higher than the average cost of previously constructed facilities. This situation is further aggravated by the unprecedented high financing costs demanded in today's capital markets.

The Public Service Commission of Maryland recognizes that present rate proceedings do not provide an adequate remedy for the serious problem of earnings attrition. In response to our application filed in November 1979, the Commission last June granted the Company $94 million in increased rates, the largest dollar figure it has ever awarded. But even this amount represented only 64% of our actual request. Missing from the Order was a mechanism to offset inflation. As a partial solution, however, the Commission suggested in its Opinion that the Company file for additional relief under the make-whole provision of the Maryland statutes. We did so in September and on December 22, the Commission granted the Company $25 million of rate relief effective December 30, 1980.

Unfortunately, the make-whole proceeding is based upon the same flawed assumptions as the regular rate case. It utilizes past costs to determine new rates, making it mathematically certain that the Company's earnings will not be sufficient to make up for continually rising costs. We believe that the Commission appreciates our need for a more realistic mechanism to cope with inflation, and we are hopeful that such an approach will be developed. Until then, it will remain our policy to pursue rate increases actively whenever we deem them necessary.

We could not claim truly to influence our destiny if we did not participate actively in the political arena. Decisions made at the Federal, state and local levels greatly affect our Company, our shareholders, our employees, and our customers. BG&E works with community organizations, as well as legislative groups and regulatory agencies throughout the government, to protect these interests. Through our offices in Washington and in Annapolis, we are able to help develop the legislation that will affect the utility industry in general, and the Company in particular. BG&E intends that its voice and yours will be heard as the critical energy decisions of our time are made.

The next ten years will be demanding. They will require that we continue to be flexible in response to change, efficient in managing our economic resources and creative in developing and utilizing new technologies to serve our customers' needs. BG&E is prepared to grow with those challenges. Our greatest strength lies neither in our facilities nor our management philosophy. Our success rests on the efforts of the talented, motivated and loyal people who work for BG&E. The vast majority of them play a dual role for the Company as stockholders and employees. Thanks to all of them, we have achieved many of our past goals and look forward to the future with confidence. It is to the employees of BG&E that this report is dedicated.

Chairman of the Board

February 4, 1981

THE PRESIDENT'S REPORT ON OPERATIONS

TO OUR STOCKHOLDERS

Our goals at BG&E have been and always will be to furnish a reliable supply of electricity and gas at rates that are fair to both our customers and our investors. I am pleased to report that within the restrictions placed upon us by economic events beyond our control, we have met those goals during 1980.

Our strength this year came from many sources. Our Calvert Cliffs Nuclear Power Plant is ranked near the top in performance among the Nation's nuclear facilities. I cannot overstate the importance of this ranking to the Company and to Central Maryland. Calvert Cliffs supplied 59% of our customers' total electric requirements in 1980, producing fuel-cost savings of many millions of dollars for our customers. This is one of the major ways the Company is helping its customers to fight inflation. BG&E is committed to achieving the highest level of efficiency at Calvert Cliffs. The Company is also strongly committed to maintaining the safest possible operating conditions at our nuclear plant. Over the past year, we have improved safeguards and refined operating procedures, all as part of our ongoing process of review and modification at Calvert Cliffs.

Total sales of electricity in 1980 were up 2.4% over last year. On July 21, we recorded a new one-hour peak electric load of 3,969 megawatts. The new record, a direct result of Central Maryland's unusually hot summer weather, represents a 9.6% increase over the previous peak record set in 1979. Overall, the weather helped to produce a 9% increase in our residential sales. This partially compensated for the 1% drop in commercial and industrial sales which reflected the slow down in business activity in our service area.

Calvert Cliffs gives a sufficient reserve margin so that we do not have an urgent need to increase our electric generating capacity. Consequently, we have been able to develop a manageable construction program to meet our customers' growth needs over this next decade. We expect the two units at our Brandon Shores Power Plant, which will begin operating in 1984 and 1988, to meet our projected 3% annual peak-load growth for the next ten years.

During that time, BG&E will have substantially reduced the use of oil in our generation mix. These efforts are already well under way. Both Brandon Shores units are being equipped to burn coal as their primary fuel, and the test burn of both higher sulfur coal and refuse-derived fuel in the Company's Charles P. Crane Power Plant has been successfully completed. This latter accomplishment is particularly gratifying since it means that we will be able both to use lower-cost coal at Crane and assist Baltimore County with its waste disposal problem.

As a complement to our strategy to replace oil, we are planning to expand our hydroelectric generating capacity at Safe Harbor over the next few years. The Safe Harbor Water Power Corporation, which is two-thirds owned by BG&E, has received a 50-year renewal of its Federal license to operate a hydro power plant on the Susquehanna River in Pennsylvania. The license renewal also contains approval for Safe Harbor to expand its generating capacity by 150,000 kilowatts and our customers will benefit from our two-thirds share of the added hydro power.

Our realistic construction program will allow us to hold our expenditures for construction and nuclear fuel to reasonable levels. The Company expects to be able to generate internally over 50% of the funds we will need, giving us excellent flexibility to develop financing arrangements for the remainder through the capital market, the Company's Dividend Reinvestment and Stock Purchase Plan and the Employee Stock Ownership Plan.

The outlook for our gas business improved significantly in 1980. Since restrictions on our gas supply were lifted in 1979, we have been able to connect new residential customers for the first time in nearly five years. Thus, although unit gas sales increased only 1.8% this year, reflecting customer conservation efforts and the general business conditions in our area, we expect sales to improve in the future.

Although gas supplies are more plentiful, the cost of gas itself continues to increase. In past years, the Company's earnings have had to absorb the impact of frequent price increases charged by our pipeline supplier since, under the terms of the Purchased Gas Adjustment Clause of the Company's Service Tariff, we weren't able to collect the extra costs from our customers immediately. Effective October 1, 1980, the Company adopted a revised Purchased Gas Adjustment Clause which allowed us to defer those costs. As a result, we were able to defer $12.6 million of gas costs, improving our earnings per share by 21¢ in 1980.

To help our customers hold down their utility bills, we are working with them in a number of conservation and research programs. BG&E was among the first utilities in the Nation to implement a home energy audit service. By the end of 1980, we had performed a total of 4,350 audits on Central Maryland homes, all at no or nominal cost to the customer. The Company is currently trying to determine whether solar hot water heating can be a cost-effective alternative in our area. Later sections of this report will discuss our other activities in energy conservation, research and development.

I invite you to read in the pages that follow a more detailed discussion of BG&E's financial and corporate achievements in 1980 and our plans to meet the energy needs of the future. Based on the Company's performance during the past year, I believe we can look forward with confidence to the fulfillment of our goals for the 80's.

President

February 6, 1981

FINANCIAL PERFORMANCE

1980 FINANCIAL ACHIEVEMENTS

EARNINGS PER SHARE of common stock increased 7.1% over last year to $3.64.

THE QUARTERLY DIVIDEND on common stock was increased from 61¢ to 64¢ per share with the October payment, equating to an annual dividend rate of $2.56 per share.

RATE RELIEF of $93.6 million in additional revenues was received in June.

FURTHER RATE RELIEF of $24.9 million was granted to the Company in December.

Rate Relief

As a result of an application for higher base service rates, filed in November 1979, the Public Service Commission of Maryland awarded the Company $93.6 million of additional annual revenue. Of this amount, $74.0 million applied to electric, a 10.4% increase, $18.2 million was allocated to gas, a 6.3% increase, and $1.4 million, an 11.2% increase, pertained to our steam business. The new rates became effective with service rendered on June 13, 1980.

The Order, however, failed to provide a mechanism to offset our most serious financial problem, earnings attrition. To meet this problem, the Company filed a make-whole application in September 1980 to further increase base rates to produce an additional $38.4 million of annual revenue. In a make-whole rate proceeding, the Maryland law permits the Company to update its operating results by using a more recent historical test year, with no change in the rate of return and accounting practices previously authorized by the Commission. After hearings, the Commission authorized the Company to increase its rates to produce $24.9 million of added revenue. The reduction from the Company's request resulted primarily from the Commission's decision to disallow prospective increases in wages, employee benefits and payroll taxes. The new rates became effective December 30, 1980 and are designed to increase annual electric revenues by $1[illegible] million or 2.2%, gas revenues by $4.8 million or 1.4%, and steam revenues by $1.1 million or 7.6%.

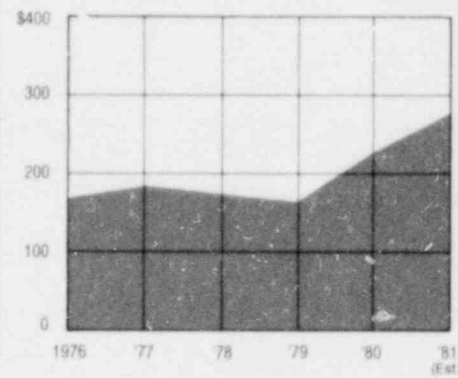
Purchased Gas Adjustment

With the advent of a series of government-instituted increases in the price of natural gas, the price of gas to the Company has been steadily increasing. The lag in collecting such price increases through our Purchased Gas Adjustment has depressed the Company's earnings to a greater degree each year. The Public Service Commission, recognizing that gas distribution companies have little or no control over the cost of gas, issued an Order in September 1980 authorizing such companies to elect a revised Purchased Gas Adjustment Clause. The revised clause adopted by the Company permits uncollected gas costs to be deferred for a 12-month period ending November 30 and recovered over the subsequent calendar year by adding an actual cost adjustment to the computed Purchased Gas Adjustment for each month of the year. This procedure matches the cost of gas with gas revenues reported within the period covered by the Statement of Income. The Company, in adopting this revised clause effective October 1, 1980, deferred $12.6 million of gas costs at year-end, improving 1980 earnings per share by 21¢.

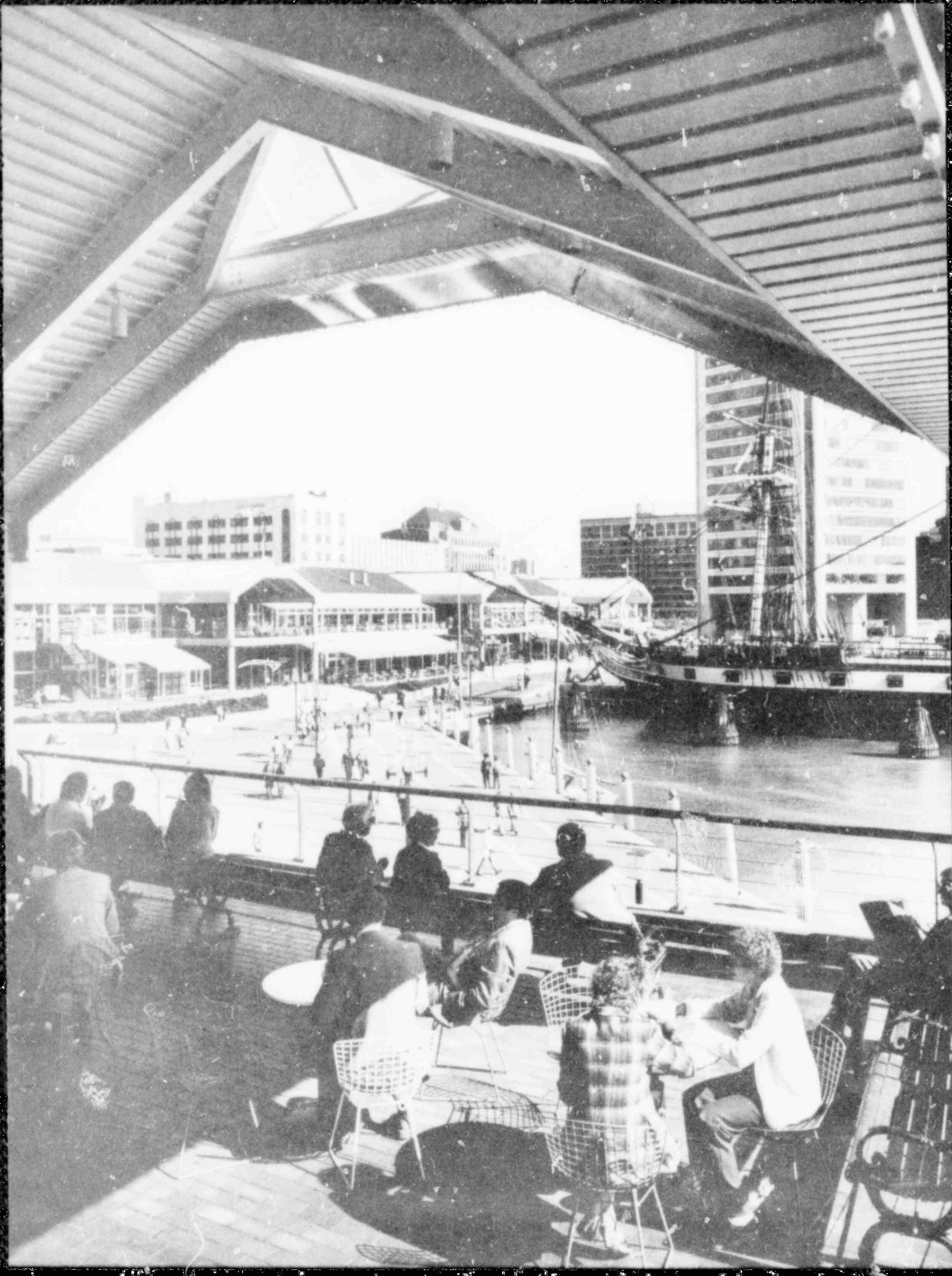
Construction Program

In 1980, we spent $225 million for construction and $57.1 million for nuclear fuel. Electric projects accounted for $185.8 million of the total amount and $21.3 million was expended for gas construction. The 1981 construction budget is estimated at $270 million and expenditures for nuclear fuel in 1981 are expected to total $44 million.

Construction Expenditures
(Millions of Dollars)



Harborplace in Baltimore, magnificent malls, and a host of new retail operations add new dimensions to Central Maryland. This growth is being matched by BG&E's electric generating capacity.



Security Transactions
In September, the Company sold $75 million of 12⅛% First Refunding Mortgage Bonds due September 15, 1990. Also during the year, the Company issued $15 million of 6.80% First Refunding Mortgage Bonds due September 15, 2004. This issuance covers a $15 million withdrawal from the Trustee and represents part of the proceeds from the sale of $20 million of 6.80% Pollution Control Revenue Bonds by Anne Arundel County in September 1979. The remainder of the proceeds will be available to the Company in 1981.

During 1980, 997,917 shares of common stock were issued to cover conversions of Convertible Cumulative Preference Stock and to provide for new shares purchased under the Dividend Reinvestment and Stock Purchase Plan and the Investment Tax Credit Employee Stock Ownership Plan.

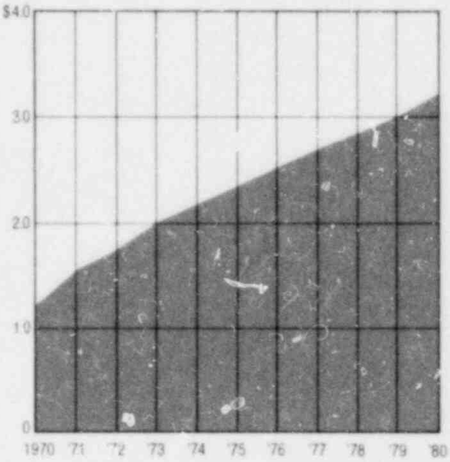
Also during the year, bonds and debentures amounting to $15.1 million were retired through sinking funds and $20.1 million of bonds were redeemed at maturity.

Short-Term Borrowings
The Company, on an interim basis, issues short-term debt to provide financing for its construction program and other corporate purposes. Short-term capital needs were financed during the year through the sale of commercial paper at interest rates ranging from 8.23% to 18.10%.

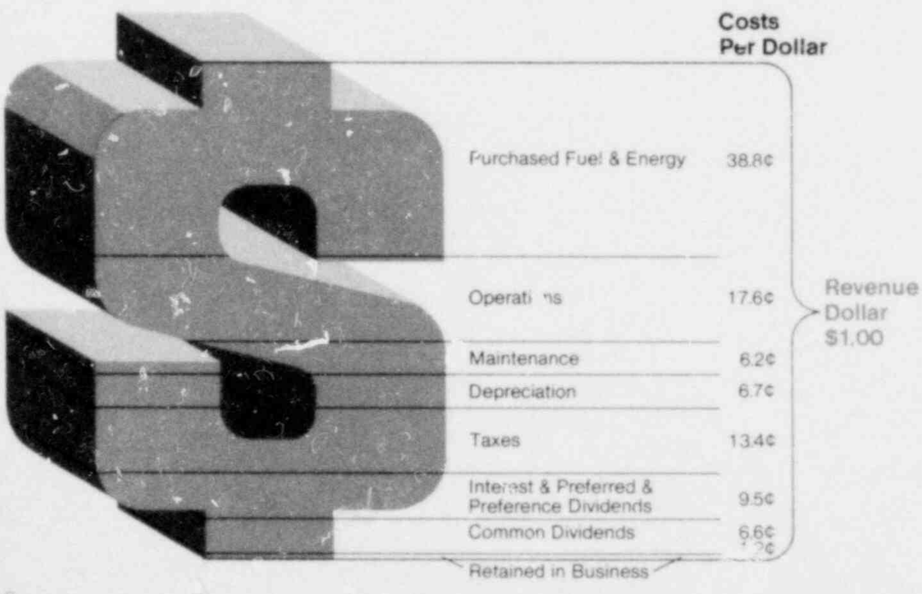
Dividend Reinvestment Plan
BG&E's Dividend Reinvestment and Stock Purchase Plan provides common stockholders the opportunity to purchase additional shares of common stock directly from the Company without brokerage fees. The Plan offers common stockholders the chance to reinvest their cash dividends in additional shares of common stock at a 5% discount on the average market price. Participants in the Plan may also make quarterly cash investments to purchase additional shares of common stock at market price. Presently, about 19.6% of common stockholders are participating in the Plan and are reinvesting dividends on 18.8% of the outstanding shares. This Plan generated a total of $16.8 million in 1980.

Employee Stock Ownership Plan
The Investment Tax Credit Employee Stock Ownership Plan enables eligible Company employees to acquire shares of the Company's common stock. The program is designed to give employees a stronger interest in the successful operation of the Company. In 1980, the Plan accounted for an additional $3.5 million in common equity.

Total Utility Plant
(Billions of Dollars)



How the Revenue Dollar for 1980 Was Spent



The installation of underground lines by BG&E crews will supply the power needs of heat pump systems and other home energy requirements. As homes go up, BG&E will be ready with service and energy guidance for new homeowners.

ENERGY AT BARGAIN PRICES

Electricity

Although its price has risen over the past decade, electricity for residential use remains a bargain in Central Maryland. This is true despite the rate increases BG&E has received to combat the effects of inflation on the Company's operating, construction and capital costs.

Until the economic difficulties of the 70's, the cost of electricity had been going down. For the period 1960 through 1970, the average unit price of electricity decreased 23% while the cost of living index for the Baltimore Metropolitan Area rose 31%. Not until 1971 did the average unit price first turn upward. By 1975, it had increased by little more than one-third over the 1960 price. During the same time, the cost of living index jumped by 85%. As the 70's progressed, the gap between the average price of electricity and the cost of living indices continued to widen. By 1980, the price of electricity was up 82% over the 1960 figure while the cost of living index had soared 178%.

Thanks largely to the efficient operation of the Company's Calvert Cliffs Nuclear Power Plant, BG&E's price for electricity over the past 20 years has increased less than half as much as the cost of living in the Baltimore area.

BG&E's average rate per kilowatthour of electricity sold to all customer categories for the year 1980 was the lowest among major East Coast cities from Norfolk to Boston. The average rates elsewhere exceeded BG&E's by percentages ranging from 6% to 111%. On an average basis for the eight cities, the cost of electricity was 36% more than in Baltimore. If New York were excluded, the seven-city average would be 26% higher than Baltimore's average rate.

Average Rate Per Kilowatthour
All Customer Categories
Full Year 1980

BALTIMORE	**4.96¢**
Washington, D.C.	5.27
Norfolk, Va.	5.43
Wilmington, Del.	5.90
Atlantic City, N.J.	6.30
Philadelphia, Pa.	6.35
Newark, N.J.	6.66
Boston, Mass.	7.70
New York, N.Y.	10.48
8-CITY AVERAGE	**6.76**

Gas

BG&E has no control over the price of natural gas received from its pipeline supplier. Price controls installed by the Federal government in 1954 have held the price of natural gas far below its true market value, creating a serious gas shortage for the Nation. This shortage prevailed through the 70's and ultimately forced a series of Government-instituted increases in the price of gas, resulting in the adoption of a phased-in price deregulation plan as a part of the National Energy Act of 1978. By 1980, the continuing annual increases under the law forced the price of gas delivered by BG&E to its residential customers to increase by 182% over the average price paid in 1960, approximating the rise in cost-of-living index for the period.

Yet when compared to fuel oil for househeating purposes, BG&E's average residential price of gas remains a bargain. Househeating oil has increased over 600% since 1960. Based on current prices, the cost of heating a home with oil is about 76% higher than the cost of heating with gas.

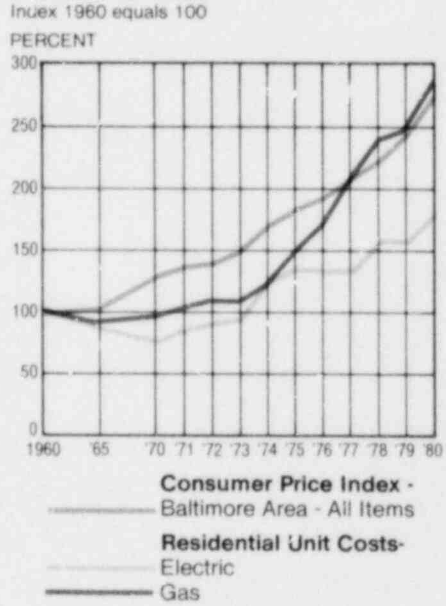
Our eight-city comparison for natural gas shows that except for Wilmington, Delaware, which is slightly lower, the average cost of gas for all uses is 5% to 48% higher elsewhere on the East Coast than in Baltimore. The seven-city average price excluding New York was 14% above the price in Baltimore.

Average Rate Per Therm of Gas
All Customer Categories
Full Year 1980

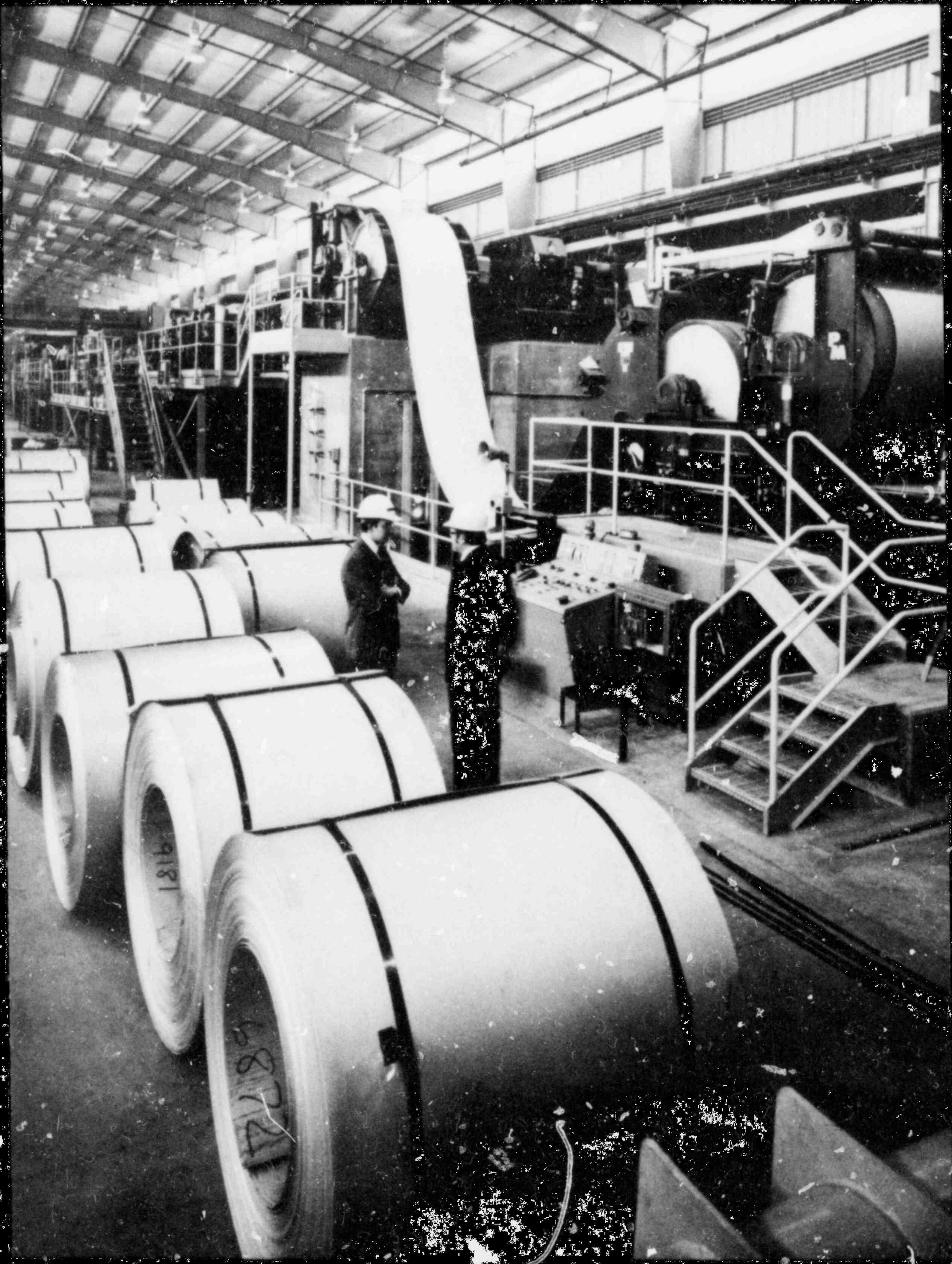
Wilmington, Del.	36.89¢
BALTIMORE	**37.04**
Norfolk, Va.	39.03
Philadelphia, Pa.	40.64
Atlantic City, N.J.	41.52
Washington, D.C.	42.14
Newark, N.J.	45.01
Boston, Mass.	50.48
New York, N.Y.	54.87
8-CITY AVERAGE	**43.82**

Residential Unit Price Compared With Cost-of-Living Baltimore Area

Index 1960 equals 100



Typical of Central Maryland's solid industrial base is Eastmet Corporation's new Essex Project. BG&E worked with the Project from its initiation, assuring that all power requirements would be met. BG&E grows with expanding industries of all sizes.



ENERGY FOR THE 80's

Most corporations need not plan decades ahead but an electric utility must. We need from 10 to 15 years to build a power plant. Therefore, we must have some idea of what the service needs of our territory will be like 20 years in the future. Since the energy crisis came into focus in the early 70's, BG&E customers with our help have been finding ways to conserve. As a result, growth in sales of electricity has slowed from a 7% growth rate in the late 60's and early 70's to an annual growth rate of 4½% since 1975. This year, while sales to residential customers rose 9%, reflecting the hot summer weather, industrial sales dropped 1% influenced primarily by reduced steel production. Our current forecasts indicate an annual growth rate of about 3.4% in total electric sales through 1990 and that electric peak loads will grow at a 3% annual rate during the same period.

Fuel Sources

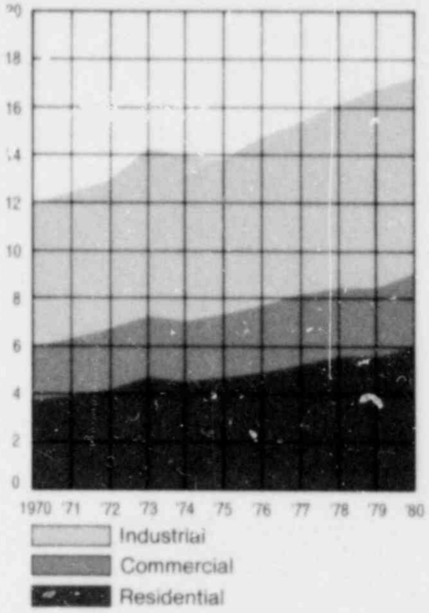
To serve this expected growth and still remain flexible will require a varied generation mix. The Company firmly believes, however, that the backbone of our Nation's fuel supply for electric generation must be nuclear power and coal. These two fuels are the only viable alternatives to expensive and unreliable foreign oil for the mass production of electricity. BG&E has been a utility industry leader in moving away from oil. By 1990, we intend to cut our consumption well in excess of the 50% initiative announced by former President Carter in 1979.

We are looking primarily to coal to fill the gap. The two-unit Charles P. Crane Power Plant, with a total capacity of 400 MW, is expected to be converted to operate on coal in 1983 and the first of the two Brandon Shores units will come on line with coal in 1984. The cost of converting Crane will involve a $55 million investment in new dust collection equipment. The net savings, after providing for an increase in operating costs and proper compensation to the Company for the additional plant investment, will be passed on to our customers. We anticipate no problems in obtaining a long-term supply of coal adequate to comply with the changes in air quality regulations approved by the Environmental Protection Agency.

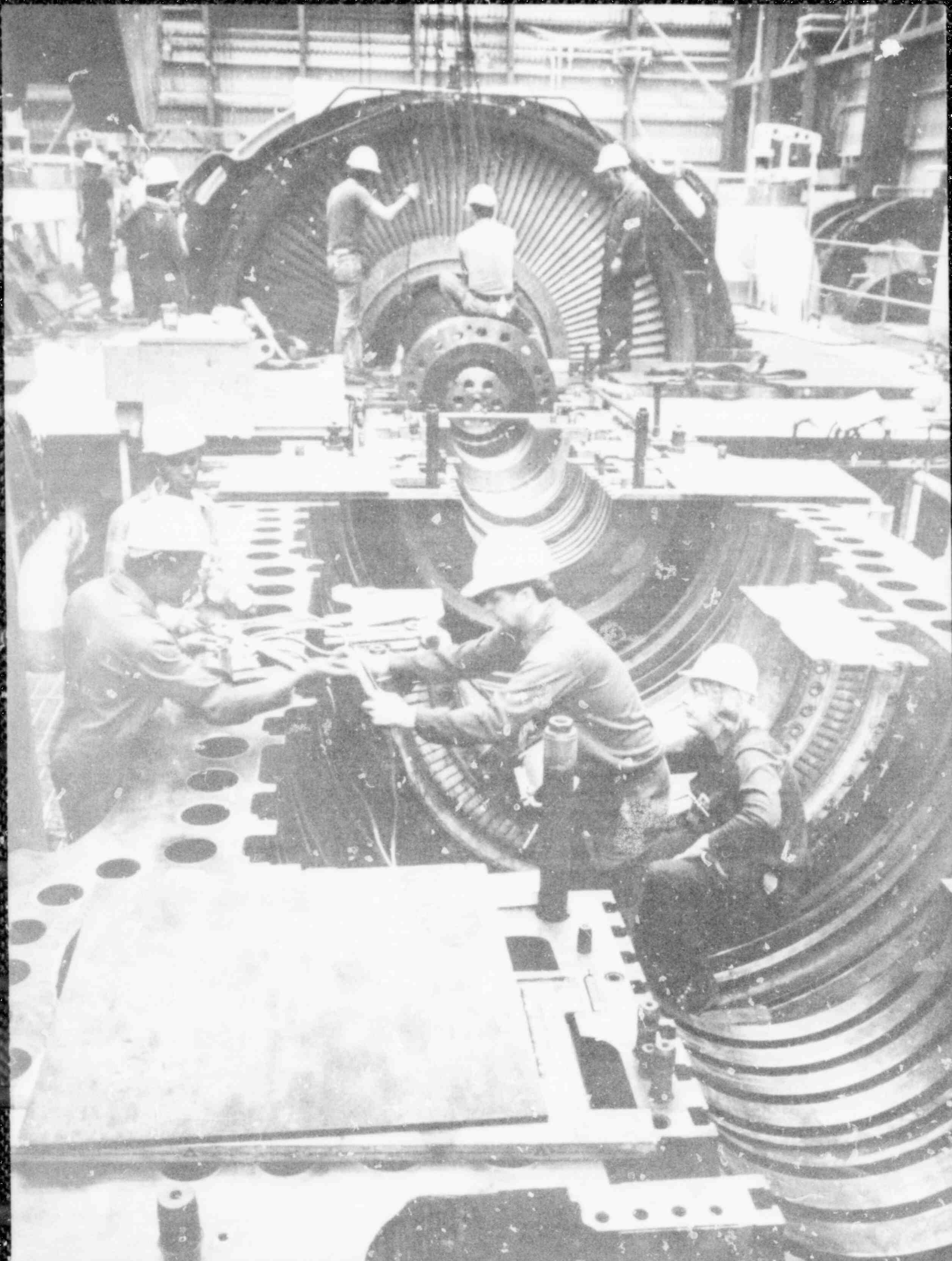
As important as coal is becoming, we believe that nuclear power offers the best solution to the Nation's current energy problem. BG&E's experience at Calvert Cliffs substantiates this position. 1980 marks the sixth year of outstanding performance for Calvert Cliffs. The two nuclear units, with a total generating capacity of 1,635,000 kilowatts—about ⅓ of the Company's total generating capacity—produced 59% of our customers' total electric requirements for the year. Since 1975, when our first nuclear unit was placed in commercial operation, the fuel savings have totaled $1.2 billion, substantially exceeding the initial plant investment of $778 million.

Economy and efficiency are not the only reasons the Company supports nuclear power. It is not a perfect technology, but we believe it is the safest and most environmentally sound way available now to produce large quantities of electricity.

Sales of Electricity
(Billions of Kilowatthours)



Sound planning to meet future energy needs requires a well planned maintenance program. Shown here is the turbine of Calvert Cliffs Unit No. 1 receiving a major overhaul during the recent refueling.



Nuclear Safeguards

To ensure that Calvert Cliffs remains safe and efficient, we are continually modifying the plant's systems as improved technology becomes available. During 1980, the Company spent $21 million on modifications to the plant's operating and safety equipment, including upgrading the plant's fire protection system. Many of the additional safeguards were ordered by the Nuclear Regulatory Commission; some we designed and implemented on our own. Additional costs were incurred for more intensified training of nuclear personnel and working with state agencies to develop emergency evacuation procedures.

A plant simulator has also been ordered for Calvert Cliffs. Scheduled to begin operation in late 1983, it will be an exact replica of the Calvert Cliffs control room. We will be able to test new operating procedures, provide initial operator training and develop refresher courses for experienced personnel, all under actual plant conditions. Perhaps most importantly, the simulator will allow us to prepare plant personnel to function effectively under emergency conditions. We know that the human factor can play a large role in the consequences of an unusual occurrence in a nuclear plant. Through the use of a digital computer, the simulator will allow our people to practice emergency procedures in "real" situations. The trainee will learn not only which procedures provide the most effective response but also how to respond to the pressures of an emergency. The chances of any significant accident occurring at Calvert Cliffs are already extremely low, and we believe that the simulator will be a vital tool in helping our operators reduce that risk even further.

Construction

The Company's reserve generating capacity of 25% is enough to meet new growth in our service territory until 1984 when we expect to operate the first of the two 620,000-kilowatt coal-fired units at Brandon Shores. When the second begins operations in 1988, we will have sufficient generating capacity to see us into the next decade. We estimate the total cost of the Brandon Shores Power Plant to be $1.1 billion. Of that figure, approximately $250 million will be spent on equipping the plant to burn coal. That amount would have been considerably higher had we not originally designed the plant in 1972 with the capability of burning either oil or coal.

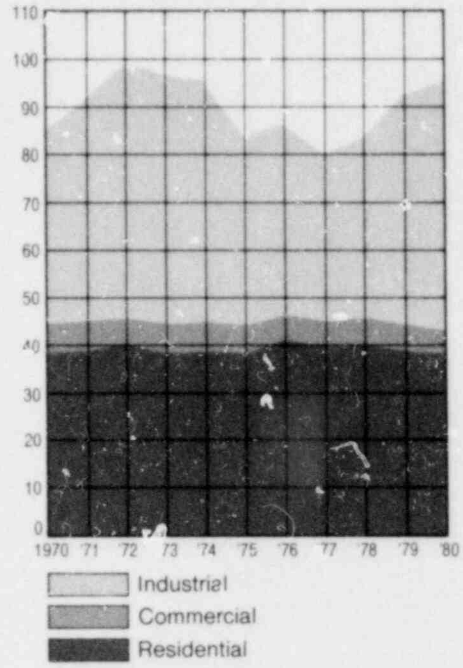
Gas

With the phased-in deregulation of natural gas prices instituted by the Federal government, the outlook for gas supply, and therefore BG&E's gas business, has significantly improved. Our pipeline supplier, Columbia Gas Transmission Corporation, has assured us that it foresees no problem in meeting its contract commitments for at least the next decade.

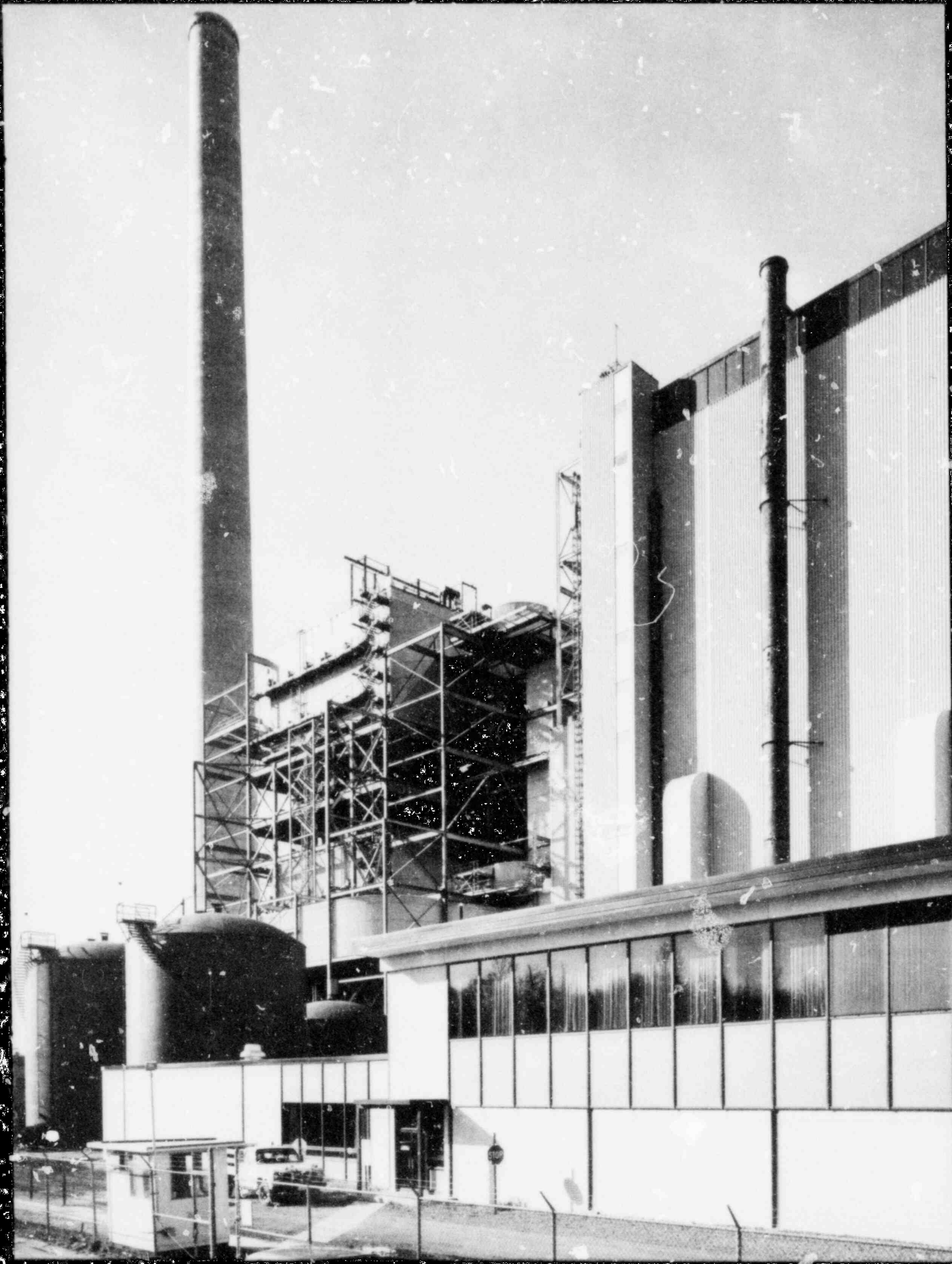
Although our therm sales of gas in 1980 increased only 1.8% over 1979, preliminary indications point to a higher growth potential over the next five years, coming from conversions to gas from other heating fuels. Conservation efforts reduced residential sales this year, but the greater availability of gas prompted a 4.7% rise in large commercial and industrial sales. In order to minimize Company investment in gas equipment, we are requiring all new customers to pay the full cost of any gas main extension.

Sales of Gas

(Millions of Dekatherms)



BG&E's Brandon Shores Power Plant Unit No. 1 is scheduled to begin operation in 1984. Its fuel source will be coal, the fuel which will aid in reducing BG&E's future need for oil.



CONSERVATION AND RESEARCH FOR TODAY...AND TOMORROW

CONSERVATION

Although we are confident that nuclear power and coal can provide an adequate and reliable supply of electric energy and we seem at present to have plenty of natural gas, this country must expend more effort to use its energy supply most efficiently. To help our customers use energy wisely, the Company has implemented a comprehensive five-year conservation plan. 1980 was the first year. The plan features five components:

The Residential Conservation Service Program

The main feature of this program is a thorough, in-home energy audit. We expect to perform up to 72,000 audits by 1985.

The National Energy Watch Program

Developed for the electric utility industry by the Edison Electric Institute, this was the country's first nationally organized conservation effort. The program uses Company inspectors to certify new homes and businesses as energy efficient if they meet a set of strict thermal guidelines. By 1985, we hope that over 25,000 homes and businesses will have qualified.

BG&E's Consumer Awareness Program

This comprises a myriad of activities designed to inform customers about the why and how of energy conservation. It includes our Speakers' Bureau, which should reach more than 60,000 people during the next few years, a Mobile Conservation Exhibit displaying materials consumers can purchase and install on their own—we plan to show the exhibit at 125 locations to an estimated audience of 100,000 customers—and bill inserts and media advertisements detailing fuel costs and ways to use energy wisely.

Customer Education Programs

These special programs are designed to fit the needs of specific industrial and commercial customers. We also give instructional courses to local officials to explain the ramifications of the Department of Energy's Building Energy Performance Standards as they evolve. We are planning over 18 different programs during the next four years.

Advisory Services

Company representatives participate on advisory committees for various official weatherization and conservation programs in Maryland and serve as energy consultants to a number of commercial and industrial associations.

Over the next few years, the Company will be performing market surveys to determine the effectiveness of conservation efforts. From BG&E's perspective, helping our customers to conserve is a big part of meeting the energy needs of the 80's.

RESEARCH AND DEVELOPMENT

Another part of BG&E's responsibility as an energy provider is to ensure that the energy supplies of the future will be available when our customers need them. Independently and in collaboration with the Electric Power Research Institute and the Gas Research Institute, the Company is working on a number of projects to identify and develop potential energy sources for commercial applications. In 1980, our research and development expenditures exceeded $5 million.

Solar Energy

Can solar power be a cost-effective alternative in Central Maryland? To answer that question, BG&E has established a solar monitoring network to measure the amount of solar radiation available at various locations within the Baltimore area. We are testing a solar water-heating system in a private residence as a supplement to an oil-fired water heater and have installed another larger test system in one of our service centers to furnish hot water for work crews. The Company has started a program of monitoring customer-owned residential solar water heaters of various designs to determine what portion of the heat is provided by solar means. Maintenance records will provide a comparison of reliability of performance

of the systems, and periodic interviews with users will assess consumer acceptability. Ultimately, we expect to monitor 30 installations for about two years. The findings from these studies will help the Company—and our customers—determine the role solar energy water heating should play in our future.

Ambient Heat

In terms of space and water heating, the Company's mission is to offer our customers the right energy source and technology to fit their needs. Preliminary results of our solar studies indicate that for at least some residents in our territory, solar hot water heating may not be economically feasible. To assist them, the Company is currently testing the heat pump hot water heater utilizing the ambient heat in the area in which the heater is located. Our researchers are hopeful that this device will be a cost-effective alternative for many of our customers.

The Fuel Cell

At the national level, the Company is participating in a three-year program sponsored by the United States Department of Energy and the Gas Research Institute to test and evaluate fuel cells for commercial use. Fueled by natural gas, these cells can effectively provide electric power and heat which can be utilized at the cell location and interconnected with an electric utility grid. The interconnection will allow the fuel cell both to take energy from the grid when its production falls short and to sell it back when excess fuel cell power is available.

Converting Coal to Liquid and Gas

Though it may be our most plentiful resource, coal does have environmental drawbacks. It is not a clean fuel. It can, however, provide the base for clean synthetic fuels. BG&E is currently investigating a number of these synfuel technologies.

In conjunction with the Electric Power Research Institute, the Company will be participating in a program to develop a successful means of converting coal into a liquid fuel. The process has been operating on a small scale at Fort Lewis, Washington, with encouraging results. The next stage of development will be a demonstration plant to be built at Morgantown, West Virginia, capable of processing 6,000 tons of coal per day. BG&E has agreed to purchase and test a portion of the plant's product liquid over a five-year period beginning in 1983.

The Company is one of approximately a dozen utilities to participate in a five-year, $135 million demonstration plant project for the conversion of coal to a low-energy gas which can be used as a fuel to generate electricity. Developed by Allis-Chalmers, the process known as Kilngas uses a rotating kiln to convert the coal to gas. The demonstration system will be capable of processing about 600 tons of coal per day. Funding will be provided by Allis-Chalmers, the State of Illinois and the participating utility companies, including BG&E.

Nuclear Research

In keeping with our commitment to nuclear energy, the Company has also participated in the Clinch River Fast Breeder Reactor Project at Oak Ridge, Tennessee. Successful completion of this project would develop the technology for construction of commercial breeder reactors, which would serve as long-term sources of nuclear fuel and provide a major opportunity toward attainment of national energy independence. This project has been delayed over the past few years due to lack of support and funding by the Federal government. It now appears that the new Administration in Washington may take a more enlightened approach to this project and, with Federal government support and funding, the Company plans to continue its participation along with other electric utilities.

Our Future Commitment

We do not yet know which research projects will eventually perfect the technologies to give this country energy independence in ways that will minimize harmful effects on our environment. We do know that BG&E will continue to play an active role in the development of clean, safe and economical energy technology.

PUBLIC LEADERSHIP

The Company's role in Central Maryland extends far beyond supplying energy. BG&E and its personnel are leaders in the business and civic life of Baltimore.

Ours is a city in renaissance, and we are proud to be involved in its progress. In the traditional areas of economic development and urban revitalization, BG&E is helping individual businesses to expand and state, county and city officials to attract new industry—and new jobs—to Maryland.

The Energy Coalition

The Company has also taken some nontraditional approaches to community problems. As the energy crisis deepened, literally dozens of groups in the Baltimore area were trying to do something about it. To coordinate their efforts, BG&E initiated the Metropolitan Baltimore Energy Coalition. Today, more than 40 government, business, institutional and civic organizations are working together to develop conservation and energy education programs and policies.

Turning Waste Into Energy

Like many areas, Baltimore has a shortage of landfill space. Working with the Maryland Environmental Services and Baltimore County, the Company developed a project to turn some of the community's waste into energy. During 1980, we test burned over 2,300 tons of refuse-derived fuel—processed trash—at our Charles P. Crane Power Plant. The initial results were encouraging and BG&E is hopeful that further tests will establish RDF's potential not only as a cheap, renewable source of fuel, but as an important solution to the solid waste problem.

Effective Community Relations

The Company has long been aware of the importance of effective communications in identifying and solving problems. BG&E has experienced excellent results with its personalized, neighborhood-based approach to Customer Relations and applies the same concept to civic involvement. Company personnel at all levels meet regularly with leaders of citizens' organizations to talk with them about how they perceive the Company and what BG&E can do to help them address needs they encounter in the community.

Realizing that Company employees are leaders in a broad range of community affairs, BG&E saw the opportunity to help them aid their fellow citizens. Our Community Volunteer Program assists employees in recruiting other volunteers from the Company to participate in community organizations and provides any publicity the group might need. As usual, BG&E people have been eager to share their time and talent.

An Involved Company

Being a community leader today means involvement in the political arena. The Company works with state legislators in Annapolis during the General Assembly sessions. It has expanded its Public Affairs office in Washington, D.C. Through its work on the state and Federal levels, BG&E is contributing to the development of legislation and policies that will greatly influence the entire energy industry.

Speaking Out

But the Company is not involved in politics simply to protect its own interest. We are concerned about the economic health of our Nation and our service area. In the past, we criticized the lack of management of our energy problems on the Federal level. We spoke out sharply against the apparent efforts of the Carter Administration to decentralize energy production and to rely on as yet unproven technologies. Central station power plants fueled by nuclear power and coal are, and will continue to be for the foreseeable future, essential elements for this country's industrial growth. BG&E knows that many jobs would be lost in Central Maryland alone if the Company did not have the generating plants to produce a reliable supply of power.

As we move into the 80's, BG&E and its employees are prepared to continue the tradition of providing creative, dynamic leadership to the utility industry and to the community.

Our Nation could never function without energy. And energy will only be there as long as government and utilities work together. BG&E's cooperation with the Maryland legislature, and all other levels of government will ensure that Central Maryland has the energy needed for the future. Shown on the right is the Maryland Senate in session.

BG&E EMPLOYEES... OUR MOST VALUABLE ASSET

As a public utility, ours is essentially a business of people serving people. It takes many professions, skills and talents, all directed to a common goal, to ensure that our community has the energy it needs to grow and prosper. The 8,600 employees who work for BG&E are our most valuable asset. Unlike machinery or capital, this asset doesn't show up on the balance sheet, but it's there nonetheless. Credit for our achievements in 1980 and every year goes to the efforts of the people of BG&E.

We're proud that the community recognizes the dedication and ability of our employees. Each year, thousands of customers contact the Company to praise the performance and attitude of BG&E workers, whether they are restoring service after a storm or some other disaster or just providing normal services.

In an era when productivity in America is being criticized, BG&E employees continue to demonstrate their characteristic ingenuity and dedication. In addition to substantial untold savings which have resulted from prudent managerial and supervisory decisions made in the normal course of business, work smarter suggestions from individual employees, through the Company's Employee Proposal Plan, produced a record annual savings of $200,000 in 1980.

BG&E employees distinguished themselves also in practicing safe work procedures. Three major departments each earned the Edison Electric Institute-American Gas Association Safety Award in 1980 for working 1,000,000 man-hours without a lost-time accident.

The employee stock ownership and savings plans encourage employees to invest in the Company's future and provide a stimulus for increased individual productivity. We are proud that more than 80% of our employees are BG&E shareholders.

BG&E has always emphasized education and career development. Our employees recognize that the complexities of the modern energy industry require increasingly higher levels of knowledge, training and competence. Over the years, thousands of our men and women have made use of the Company's Educational Assistance Plan to improve job-related skills, and to prepare themselves for advancement. During 1980, 620 employees attended schools and colleges under the plan and 29 received degrees. In addition, hundreds of others participated in training programs provided within the Company. These programs provide specialized training for plant operators, linemen, welders, customer contact and service personnel and on-the-job training for a host of other occupations. Broad job-related educational courses in supervision, economics, safety and public speaking are also conducted by the Company.

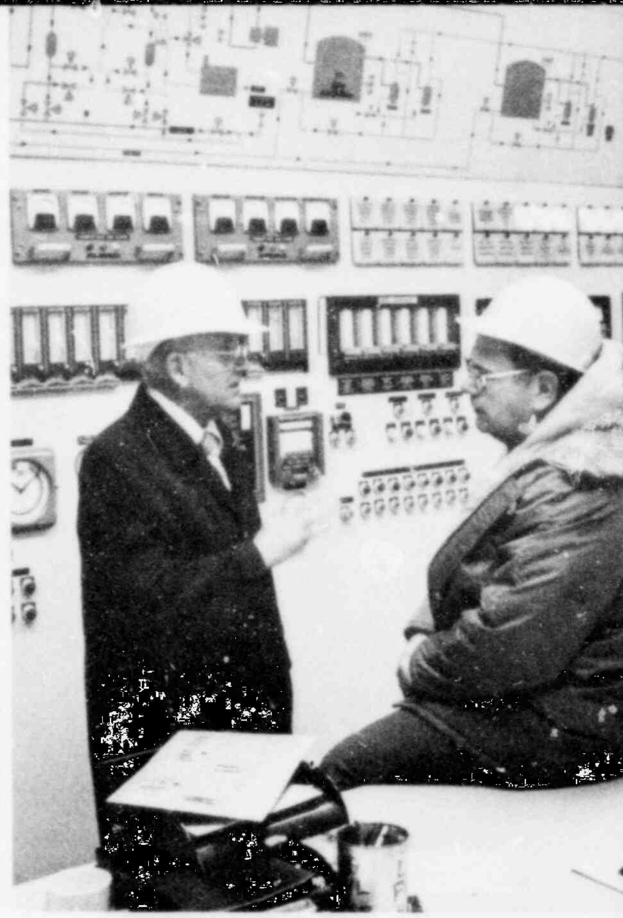
The Company has comprehensive programs to recognize and develop future managers. BG&E identifies its ablest people and provides them with a variety of experiences throughout the Company. They are also given responsibility, both to help them grow and to allow our top management to evaluate their potential. Making sure that the Company will always have a cadre of talented and experienced managers is a responsibility BG&E takes very seriously in our development of people and in our recruiting efforts.

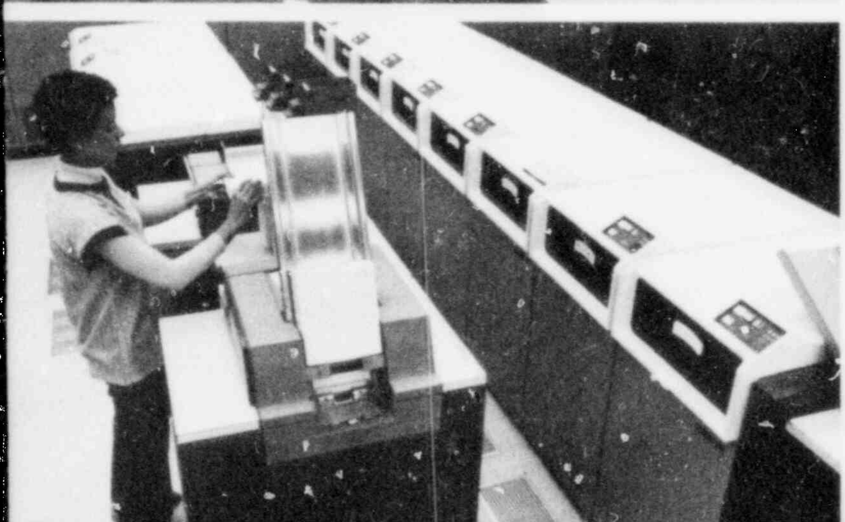
But at BG&E, career development is not just for future managers. The Company offers programs to allow its people to identify the level and kind of work right for them. In order for them to be able to reach their goals and potential, BG&E provides counseling, training programs and career planning. Further, the Job Opportunities Plan, known as job posting, keeps employees informed of opportunities throughout the Company for advancement or changes of career paths. During the year, 1,580 employees were promoted or moved to other assignments, resulting in improved productivity, higher morale, and greater self-development.

BG&E employees contribute significantly to our community, as well as to our corporate goals. Their leadership and services benefit many volunteer organizations in Central Maryland such as chambers of commerce, schools, hospitals, churches, local fire companies, and other civic and cultural endeavors. In 1980, they earned both the Honor and Achievement awards for generous giving to the United Way, increasing their contribution by more than 14% over the previous year. They donated nearly 2,750 pints of blood to the Red Cross Blood Assurance Program, raising their total donations to more than 39,000 pints.

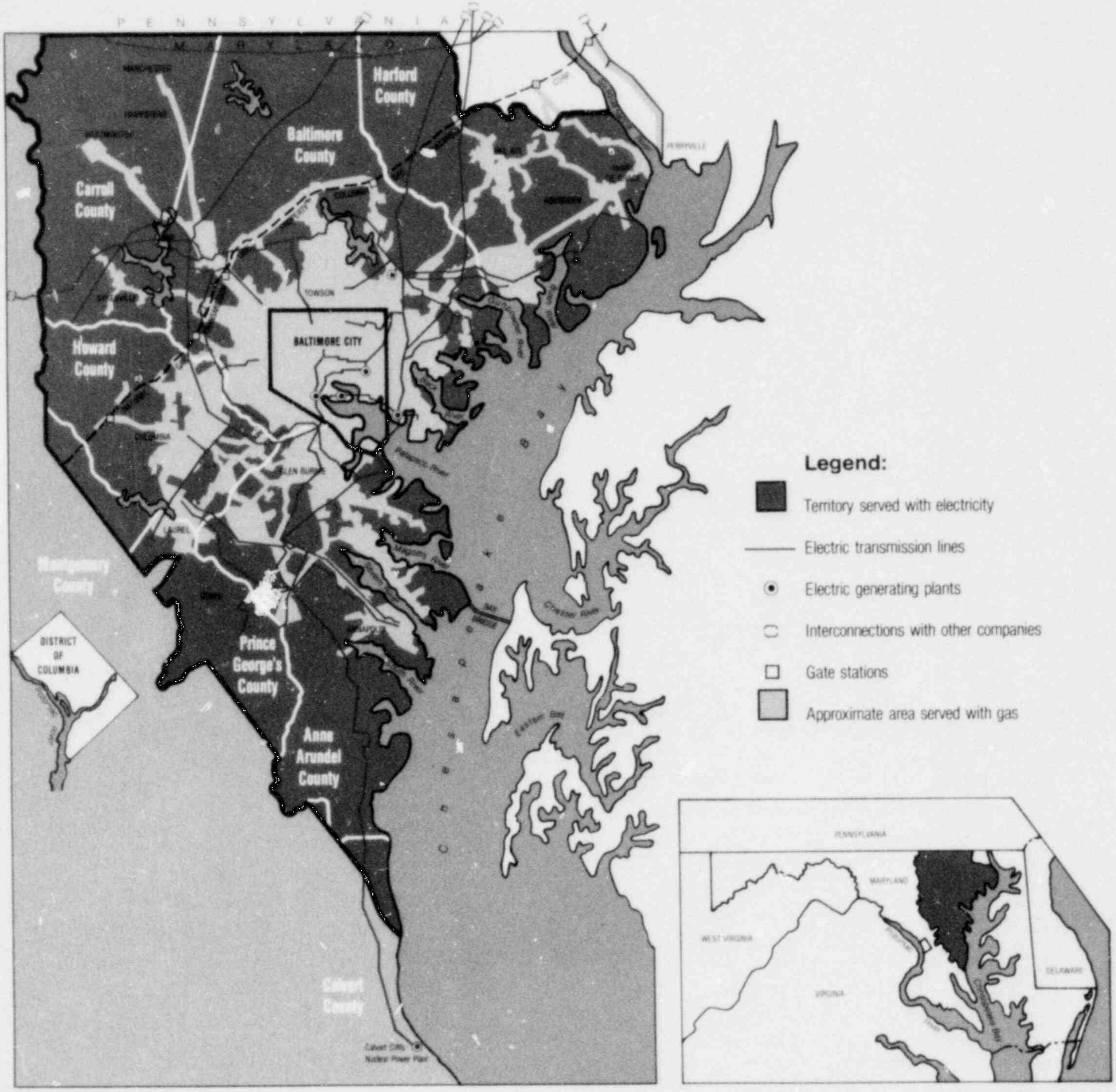
In countless ways, we are grateful to our people for their service to the Company, its customers and the community.

Our customers are served by dedicated BG&E employees. Whether it be the underground installation of lines for a new housing project, the constant monitoring of the flow of natural gas into our service area, corporate communications, courteous customer service, complex computer operations, or maintaining accounting records, the energy needs of Central Maryland will always be met with reliability and experience.


Serving Central Maryland with
ENERGY IN ACTION . . . ACTION IN ENERGY



MEETING THE GROWING DEMANDS OF A DIVERSIFIED ECONOMY

Baltimore Gas and Electric Company supplies electric, gas and steam utility service to a major metropolitan region that is noted for an economic stability founded on diversification of industry, growth in population, privately-financed urban renewal, and civic and cultural advancement.

At year-end 1980, the Company served 836,989 electric customers and 510,451 gas customers. Total revenues amounted to $1.2 billion. Our 10 largest electric customers accounted for only 10% of total 1980 electric revenues, and the 10 largest gas customers provided 21% of total 1980 gas revenues. The 20 largest customers overall were the source of 16% of corporate revenues for the year.

The diversity inherent in this broad revenue base is reinforced, moreover, by the area's exceptional economic balance of industry . . . commerce . . . educational, medical, and other service facilities . . . and government installations. This balance is reflected in the customer distribution of 1980 unit sales: on the electric side, 35% residential, 18% commercial, 47% industrial; for gas, 40% residential, 6% commercial, 54% industrial. In 1980, 70% of electric revenues and 60% of gas revenues were derived from sales outside the City of Baltimore.

The total area served, which includes the City of Baltimore and extends into nine counties, approximates, for electricity, 2,300 square miles, with some 2,271,000 residents; for gas, 600 square miles, with a population estimated at 1,778,000. Steam is produced for sale to 685 customers located in downtown Baltimore.

Balance likewise is a dominant characteristic of the Company's electric generating capability, comprising 5,010,000 kilowatts of installed capacity and firm purchases. Of this total, 33% (supplying 59% of 1980 customer requirements) is nuclear; 33% is residual fuel oil; 17% is coal; 11% is light distillate oil; 3% is gas-fueled; and 3% is hydroelectric. The Company owns nine operating Central Maryland power plants, with additional generating capacity provided by shared ownership of two mine-mouth plants and a small hydroelectric station, all in Pennsylvania, plus membership in the Pennsylvania-New Jersey-Maryland Interconnection, which affords access to pooled capacity on advantageous economic terms.

Facilities for the production and storage of liquefied natural gas, synthetic natural gas, and propane gas are maintained at three Company plants in Central Maryland, which supplement pipeline supplies of natural gas as the need arises.

A steadily increasing population, attracted by desirable living conditions coupled with exceptional cultural and recreational advantages, assures an abundant manpower supply, especially noteworthy in the professional and skilled categories, availability of which is a crucial factor in industrial expansion.

COMMON STOCK DATA

The Company's Common Stock is listed on the New York, Midwest and Pacific stock exchanges and has unlisted trading privileges on the Boston, Cincinnati and Philadelphia exchanges.

Dividend Policy

The Common Stock is entitled to dividends when and as declared by the Board of Directors. There are no limitations in any indenture or other agreements on payment of dividends; however, holders of Preferred Stock (first) and holders of Preference Stock (next) are entitled to receive, when and as declared, from the surplus or net profits, cumulative yearly dividends at the fixed preferential rate specified for each Series and no more, payable quarterly, before any dividend on the Common Stock shall be paid or set apart.

Dividends have been paid on the Common Stock continuously since 1910. Quarterly dividends were paid on the Common Stock during 1980 and 1979 in the amounts set forth in the accompanying table.

Future dividends depend upon future earnings, the financial condition of the Company and other factors.

Common Stock Dividends and Price Ranges

	1980			1979		
	Dividend Paid	Price High	Price Low	Dividend Paid	Price High	Price Low
First Quarter	**$.61**	**$22½**	**$18⅜**	$.57	$26	$24¼
Second Quarter	**.61**	**24⅜**	**19**	.57	25⅞	21½
Third Quarter	**.61**	**24⅜**	**21⅜**	.61	25¼	22¾
Fourth Quarter	**.64**	**22¼**	**18⅝**	.61	24¼	21⅛

Number of Common Stockholders of record as of December 31, 1980 . . . 89,579.

OPERATING STATISTICS

BALTIMORE GAS AND ELECTRIC COMPANY

	1980	1979	1978	1977	1976	1970
			(Dollar Amounts in Thousands)			
ELECTRIC OPERATING STATISTICS						
Revenues						
Residential	**$ 342,796**	$ 274,079	$ 270,536	$ 220,904	$ 205,188	$ 87,814
Commercial	**198,936**	174,157	171,363	140,323	132,600	64,249
Industrial	**311,182**	263,319	251,966	194,811	191,920	74,547
Other	**4,350**	3,401	3,308	2,520	2,348	2,453
Total	**$ 357,264**	$ 714,956	$ 697,173	$ 558,558	$ 532,056	$ 229,063
Sales — MWH						
Residential	**6,005,110**	5,496,737	5,434,958	5,231,317	4,887,793	3,664,564
Commercial	**3,063,119**	3,052,081	3,019,633	2,910,532	2,806,247	2,349,063
Industrial	**8,159,691**	8,274,422	7,715,633	7,319,[illegible]	7,064,166	5,957,102
Total	**17,227,920**	16,823,240	16,170,224	15,461,711	14,758,206	11,970,729
Customers						
Residential	**760,203**	747,699	734,186	722,080	708,135	618,381
Commercial	**75,144**	74,575	74,626	73,345	72,080	67,657
Industrial	**1,642**	1,416	1,355	1,306	1,297	1,000
Total	**836,989**	823,690	810,167	796,731	781,512	687,038
Average use per Residential Customer — KWH	**7,956**	7,413	7,465	7,320	6,965	5,989
GAS OPERATING STATISTICS						
Revenues						
Residential	**$ 165,006**	$ 146,598	$ 146,675	$ 124,357	$ 105,[illegible]00	$ 57,952
Commercial	**24,522**	21,097	20,315	17,184	14,780	8,282
Industrial	**69,689**	54,767	54,315	44,497	38,405	17,487
Interruptible Services — Industrial and Other	**92,478**	61,816	40,569	31,502	25,817	10,313
Other	**3,041**	2,796	2,712	4,119	(588)	1,886
Total	**$ 354,736**	$ 287,074	$ 264,586	$ 221,659	$ 184,314	$ 95,920
Sales — DTH						
Residential	**38,462,204**	39,282,741	40,576,498	39,777,652	41,197,620	39,488,932
Commercial	**5,490,367**	5,320,010	5,417,140	5,335,081	5,514,194	5,260,243
Industrial	**19,501,190**	17,671,851	18,055,404	17,406,677	18,692,073	16,876,375
Interruptible Services — Industrial and Other	**31,656,568**	31,175,052	20,439,595	17,543,597	21,392,706	24,194,842
Total	**95,110,329**	93,449,654	84,488,637	80,063,007	86,796,593	85,820,392
Customers						
Residential	**476,318**	473,761	472,414	474,361	476,867	439,688
Commercial	**29,625**	28,569	28,790	29,049	29,468	28,380
Industrial	**4,315**	4,941	4,969	5,012	5,026	3,923
Interruptible Services — Industrial and Other	**193**	185	184	188	189	108
Total	**510,451**	507,456	506,357	508,610	511,550	472,099
Average use per Residential Customer — DTH	**81.1**	83.1	85.9	83.8	86.5	90.6

SELECTED FINANCIAL DATA

BALTIMORE GAS AND ELECTRIC COMPANY

	1980	1979	1978	1977	1976	1970
			(In Thousands of Dollars)			
SUMMARY OF OPERATIONS						
Operating Revenues:						
Electric	**$ 857,264**	$ 714,956	$ 697,173	$ 558,558	$ 532,056	$ 229,063
Gas	**354,736**	287,074	264,586	221,659	184,314	95,920
Steam	**14,442**	12,378	12,727	12,305	9,447	3,121
Total Operating Revenues	**1,226,442**	1,014,408	974,486	792,522	725,817	328,104
Operating Expenses:						
Purchased Fuel and Energy	**478,836**	338,464	321,266	245,469	257,645	81,100
Operations	**217,009**	182,055	161,981	140,774	124,896	62,936
Maintenance	**75,827**	64,913	55,083	49,892	35,587	19,686
Depreciation	**83,181**	80,338	78,063	68,449	59,448	27,941
Income Taxes:						
Current	**39,604**	8,987	43,619	19,649	(1,603)	30,727
Deferred	**23,352**	44,149	15,818	10,024	—	—
Investment Tax Credit Adjustments	**13,852**	16,593	17,882	13,613	27,120	588
Other Taxes	**88,482**	85,455	83,330	72,427	62,831	57,719
Total Operating Expenses	**1,020,143**	820,954	777,042	620,297	565,924	260,697
Operating Income	**206,299**	193,454	197,444	172,225	159,893	67,407
Allowance for Other Funds Used During Construction	**12,053**	9,545	4,006	2,553	9,174	4,839
Net Other Income and Deductions	**2,851**	1,698	739	2,228	624	363
Income before Interest Charges	**221,203**	204,697	202,189	177,006	169,691	72,609
Interest Charges	**93,828**	86,159	83,228	76,230	70,645	24,652
Allowance for Borrowed Funds Used During Construction	**(12,024)**	(7,778)	(3,580)	(2,318)	(7,771)	(3,690)
Net Interest Charges	**81,804**	78,381	79,648	73,912	62,874	20,962
Net Income	**139,399**	126,316	122,541	103,094	106,817	51,647
Dividends — Preferred & Preference Stock	**22,099**	19,784	18,177	18,381	18,771	5,565
Net Income Applicable to Common Stock	**117,300**	106,532	104,364	84,713	88,046	46,082
Dividends — Common Stock	**80,754**	75,373	69,467	63,743	58,985	30,148
Earnings Reinvested in the Business	**$ 36,546**	$ 31,159	$ 34,897	$ 20,970	$ 29,061	$ 15,934
Average Shares of Common Stock Outstanding (Thousands)	**32,258**	31,356	30,847	29,666	28,231	16,645
Earnings Per Average Share of Common Stock	**$3.64**	$3.40	$3.38	$2.86	$3.12	$2.77
Dividends Declared Per Share of Common Stock	**$2.50**	$2.40	$2.25	$2.14	$2.08	$1.82
OTHER FINANCIAL STATISTICS						
Capitalization:						
Common Stock, Premium, Installments and Retained Earnings	**$1,010,941**	$ 953,161	$ 906,421	$ 861,463	$ 790,716	$ 416,088
Preferred and Preference Stock (Not Subject to Mandatory Redemption)	**241,806**	242,753	245,484	247,518	252,573	119,197
Redeemable Preference Stock	**50,000**	50,000	—	—	—	—
Long-Term Debt	**1,304,970**	1,250,132	1,207,896	1,145,656	1,069,527	518,744
Total	**$2,607,717**	$2,496,046	$2,359,801	$2,254,637	$2,112,816	$1,054,029
Shares of Common Stock at end of year (Thousands)	**32,690**	31,692	31,039	30,658	28,839	18,567
Book Value Per Share of Common Stock at end of year	**$30.93**	$30.08	$29.20	$28.10	$27.42	$22.28
Common Stockholders at end of year	**89,579**	89,698	89,249	88,795	87,106	53,480
Total Utility Plant	**$3,184,059**	$2,974,653	$2,831,219	$2,669,927	$2,499,035	$1,257,479
Accumulated Provision for Depreciation	**678,819**	608,293	541,618	470,969	410,836	228,945
Total Assets	**3,073,013**	2,855,384	2,673,754	2,528,972	2,324,624	1,145,561
Expenditures for Additions to Plant	**225,003**	160,917	172,402	182,205	165,936	206,077
Employees at December 31	**8,672**	8,485	8,459	8,306	8,087	7,631

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

RESULTS OF OPERATIONS

Earnings

Earnings per share of common stock, on the increasing average number of shares outstanding in each period, were $3.64 in 1980, up over the earnings of $3.40 experienced during 1979 and $3.38 in 1978. The adoption of deferred accounting for natural gas costs increased earnings per share in 1980 by 21¢ (see Note 6). An annual base rate increase of $93.6 million authorized by the Public Service Commission of Maryland in June 1980, which increased the allowed rate of return from 9.11% to 9.55%, also contributed to the improvement. The impact of inflation on operating and capital costs, along with regulatory lag, continues to have a depressing effect upon the Company's earnings.

Electric Sales (Mwh) and Operating Revenues

The percent change from the prior year in electric sales by class of customer was as follows:

	1980	1979
Residential	**9.2%**	1.1%
Commercial	**0.4**	1.1
Industrial	**(1.4)**	7.2

The combined effect of these changes resulted in increased total electric sales of 2.4% in 1980 and 4.0% in 1979. The substantial increase in residential sales in 1980 resulted from abnormally hot weather experienced during the summer cooling period and a greater number of electrically heated dwelling units, while such sales in 1979 were adversely affected by milder weather during both the cooling and heating seasons. Industrial sales, particularly in steel related industries, were down in 1980 due to the reduced level of business activity in the Company's service territory, whereas higher industrial activity resulted in the 1979 increase.

Future electric sales will continue to be affected by the overall economic situation and level of business activity in the Company's service territory, as well as by weather conditions, heating installations and customer conservation efforts.

Electric operating revenues increased each year as follows:

	Increase (Decrease) From Prior Year	
	1980	1979
	(In Millions of Dollars)	
Attributable to:		
Base Rate Adjustments	**$ 38.3**	$11.6
Fuel Rate Adjustments	**81.2**	(8.4)
Maryland Electric Environmental Surcharge	**(0.2)**	(0.9)
Sales Volumes	**23.0**	15.5
Net Increases	**$142.3**	$17.8

See Note 6 for a discussion of the electric fuel rate clause which was implemented in October 1978.

Gas Sales (Dth) and Operating Revenues

The percent change from the prior year in gas sales by class of customer was as follows:

	1980	1979
Residential	**(2.1)%**	(3.2)%
Commercial	**3.2**	(1.8)
Industrial	**10.4**	(2.1)
Interruptible Service	**1.5**	52.5

Total gas sales increased 1.8% in 1980 and 10.6% in 1979 due primarily to higher usage by firm industrial customers during 1980 and by large interruptible industrial customers in 1979. The increases were made possible by the total removal of delivery curtailments that had been imposed by the Company's pipeline supplier since the winter of 1972-1973. In consequence, the Maryland Commission approved termination, as of May 4, 1979, of the five-year moratorium on new uses and customers that had been partially lifted in August 1978. In 1980, the increase was mitigated by lower residential customer usage resulting primarily from conservation. The 1979 increase was offset partially by decreased usage on the part of residential and small commercial customers due to both conservation and warmer weather during the heating season.

Future sales will be affected by the availability of gas and the scheduled deregulation of gas prices, in addition to the ongoing impact of such factors as weather conditions, gas conversions and conservation efforts by our customers.

Gas operating revenues increased each year as follows:

	Increase (Decrease) From Prior Year	
	1980	1979
	(In Millions of Dollars)	
Attributable to:		
Base Rate Adjustments	**$ 8.8**	$(1.0)
Gas Cost Adjustments	**56.6**	19.8
Sales Volumes	**2.3**	3.7
Net Increases	**$67.7**	$22.5

Effective in October 1980, the Maryland Commission authorized the Company to implement an Actual Cost Adjustment provision to the Purchased Gas Adjustment Clause contained in the Company's gas tariff. This change, which provides a better matching of gas expenses and associated revenues, will prevent future erosion of earnings due to the anticipated continued increase in natural gas prices stemming from phased-in deregulation (see Note 6).

Operations and Maintenance

Total purchased fuel and energy expense increased in both 1980 and 1979 as a result of higher fuel and natural gas prices, coupled with increased sales.

Increases in operations and maintenance expenses reflect the higher cost, due in large part to inflation, of payroll, employee benefits and materials. In 1980, such expenses include $4.6 million in increased costs at the Calvert Cliffs Nuclear Power Plant, resulting in part from required modifications stemming from the Three Mile Island incident, and greater scheduled maintenance at various fossil-fuel generating plants. In 1979, the increases reflected additional costs at Calvert Cliffs due to more extensive inspections, modifications and equipment repairs; more repair work related to major storms; and higher uncollectible accounts.

See Notes 6 and 7 for a discussion of deferred expenses.

Taxes

Federal Income Taxes—Current increased in 1980 due to a higher level of taxable income and a decrease in investment tax credits. The decrease in 1979 was attributable to the lower level of taxable income and the reduction in tax rate from 48% to 46%, which became effective January 1, 1979, partially offset by lower investment tax credits (see Note 3). A proposed deficiency asserted by the Internal Revenue Service in connection with an audit of the years 1974 through 1976 is being protested by the Company (see Note 14).

Federal Income Taxes—Deferred are the result of changing in 1977 from flow-through to normalization accounting for the tax benefits arising from liberalized depreciation on 1976 and subsequent years property additions and for certain other timing differences between tax and book income. The majority of the decrease during 1980 is due to the reduction of fuel expense deferrals associated with the Company's electric fuel clause partially offset by deferrals of unrecovered natural gas expenses under the Company's gas adjustment clause. The 1979 amount reflects tax deferrals applicable to maintenance expenditures at the Calvert Cliffs Nuclear Power Plant and deferred fuel expenses under the Company's electric fuel clause (see Note 3).

Investment tax credits vary from year to year as construction expenditures become eligible for the credit.

Taxes other than income taxes increased in 1980 due to higher property and capital stock taxes, payroll taxes and the Maryland Gross Receipts Tax, partially offset by a reduction in the Maryland Electric Environmental Surcharge and the repeal of the Pennsylvania Gross Receipts Tax on the sale of electricity to out-of-state customers effective January 1, 1980. The 1979 increase was primarily attributable to a higher taxable wage base for social security taxes (see Note 8).

Other Income and Income Deductions

The increases in the Allowance for Funds Used During Construction (AFC) in 1980 and 1979 are attributable to continued construction at the Brandon Shores Power Plant and to the change in the calculation method effective mid-April 1979, whereby AFC is computed on the total, instead of one-half, of the Company's investment in that plant (see Note 4).

The 1980 increase in Net Other Income and Deductions was due principally to a $1,146,000 after tax gain on debt reacquired through sinking fund operations.

Interest charges increased due to sales of additional securities. The issuance of 500,000 shares of Redeemable Preference Stock in July 1979 resulted in the increase in preferred and preference dividends in 1980 and 1979.

LIQUIDITY AND CAPITAL RESOURCES

During the period 1978-1980, the Company's internal generation of cash approximated 60% of expenditures for construction and nuclear fuel.

Expenditures for these three years and the estimated expenditures for construction and nuclear fuel for 1981 and 1982 are set forth below:

	Construction	Nuclear Fuel	Total
	(In Millions of Dollars)		
1978	$172	$57	$229
1979	161	58	219
1980	225	57	282
1981	271	44	315
1982	364	53	417

These construction expenditures include an Allowance for Funds Used During Construction (see Note 4).

Actual construction and nuclear fuel expenditures may vary from the estimates set forth above because of a number of factors such as inflation, regulation and legislation, rates of load growth, and environmental protection standards, as well as the cost and availability of capital. Assuming timely and adequate rate relief, the Company presently anticipates that about 60% of these funds required for the years 1981 and 1982 will be provided from internal sources. The remainder will be provided through the capital market, the Company's Dividend Reinvestment and Stock Purchase Plan and the Employee Stock Ownership Plan as well as short-term commercial paper on an interim basis.

In addition, the Company estimates that approximately $158 million will be required for bond maturities and sinking fund payments during the period 1981-1982.

The Company's capital structure as of December 31 is presented below:

	1980	1979
Long-Term Debt	**50.0%**	50.0%
Redeemable Preference Stock	**1.9**	2.0
Preferred and Preference Stock (not subject to mandatory redemption)	**9.3**	9.7
Common Equity	**38.8**	38.3

The high rate of inflation continues to be the Company's and the Nation's major problem. Future rate increases will be required to cover increasing operating costs and to obtain an adequate return on investment (see Note 18).

STATEMENTS OF INCOME

BALTIMORE GAS AND ELECTRIC COMPANY

	Year Ended December 31		
	1980	1979	1978
	(In Thousands of Dollars)		
OPERATING REVENUES			
Electric	**$ 857,264**	$ 714,956	$697,173
Gas	**354,736**	287,074	264,586
Steam	**14,442**	12,378	12,727
Total Operating Revenues	**1,226,442**	1,014,408	974,486
OPERATING EXPENSES			
Purchased Fuel and Energy	**478,836**	338,464	321,266
Operations	**217,009**	182,055	161,981
Maintenance	**75,827**	64,913	55,083
Depreciation	**83,181**	80,338	78,063
Income Taxes—Note 3	**76,808**	69,729	77,319
Other Taxes	**88,482**	85,455	83,330
Total Operating Expenses	**1,020,143**	820,954	777,042
OPERATING INCOME	**206,299**	193,454	197,444
ALLOWANCE FOR OTHER FUNDS USED DURING CONSTRUCTION—Note 4	**12,053**	9,545	4,006
NET OTHER INCOME AND DEDUCTIONS	**2,851**	1,698	739
INCOME BEFORE INTEREST CHARGES	**221,203**	204,697	202,189
INTEREST CHARGES	**93,828**	86,159	83,228
ALLOWANCE FOR BORROWED FUNDS USED DURING CONSTRUCTION—Note 4	**(12,024)**	(7,778)	(3,580)
NET INTEREST CHARGES	**81,804**	78,381	79,648
NET INCOME	**139,399**	126,316	122,541
DIVIDENDS — PREFERRED AND PREFERENCE STOCK	**22,099**	19,784	18,177
NET INCOME APPLICABLE TO COMMON STOCK	**$ 117,300**	$ 106,532	$104,364
EARNINGS PER SHARE OF COMMON STOCK (Based on average shares outstanding)	**$3.64**	$3.40	3.38

STATEMENTS OF RETAINED EARNINGS

BALTIMORE GAS AND ELECTRIC COMPANY

	Year Ended December 31		
	1980	1979	1978
	(In Thousands of Dollars)		
BALANCE AT BEGINNING OF PERIOD	**$335,136**	$304,261	$269,414
NET INCOME	**139,399**	126,316	122,541
Total	**474,535**	430,577	391,955
CASH DIVIDENDS DECLARED			
Preferred Stock (Cumulative)			
Series B (at the rate of 4½% per annum)	**1,003**	1,003	1,003
Series C (at the rate of 4% per annum)	**276**	276	276
Series D (at the rate of 5.40% per annum)	**1,620**	1,620	1,620
Preference Stock (Cumulative)			
Convertible (at the rate of 6½% per annum)	**519**	635	784
1970 Series (at the rate of 8.75% per annum)	**2,625**	2,625	2,625
1971 Series (at the rate of 7.88% per annum)	**3,940**	3,940	3,940
1972 Series (at the rate of 7.75% per annum)	**3,100**	3,100	3,100
1973 Series (at the rate of 7.78% per annum)	**1,556**	1,556	1,556
1974 Series (at the rate of 9.35% per annum)	**3,273**	3,273	3,273
1979 Series (at the rate of 8.375% per annum)	**4,187**	1,756	—
Common Stock (at annual rates per share, $2.16 through April 1, 1978, $2.28 through April 1, 1979, $2.44 through July 1, 1980, and $2.56 thereafter)	**80,754**	75,373	69,467
OTHER CHARGES — Expenses in connection with issuance of stock	**39**	284	50
Total Charges	**102,892**	95,441	87,694
BALANCE AT END OF PERIOD	**$371,643**	$335,136	$304,261

See notes and schedules — pages 31 through 43.

BALANCE SHEETS

BALTIMORE GAS AND ELECTRIC COMPANY

	December 31 1980	1979
	(In Thousands of Dollars)	
ASSETS		
UTILITY PLANT		
Plant in service		
Electric — at original cost	**$2,250,921**	$2,165,107
Gas — at original cost	**327,526**	310,127
Steam — at cost	**19,291**	18,753
Common — at original cost	**101,325**	92,042
Total plant in service	**2,699,063**	2,586,029
Construction work in progress — at cost	**481,257**	384,885
Plant held for future use — at cost	**3,739**	3,739
Total utility plant	**3,184,059**	2,974,653
Accumulated provision for depreciation	**(678,819)**	(608,293)
Net utility plant	**2,505,240**	2,366,360
Nuclear fuel — at cost (net of amortization of $154,759,000 and $83,893,000, respectively)	**166,955**	148,626
	2,672,195	2,514,906
OTHER INVESTMENTS	**8,008**	7,775
CURRENT ASSETS		
Cash	**2,660**	4,281
Temporary cash investments — at cost	**10,400**	5,150
Special deposits and working funds	**1,415**	996
Accounts receivable:		
Customers' (net of provision for uncollectibles of $3,060,000 in both years)	**115,657**	90,964
Miscellaneous	**2,799**	6,776
Fuel stocks — at average cost	**90,909**	76,594
Materials and supplies — generally at average cost	**55,380**	46,344
Prepayments	**40,301**	34,196
Other	**4,056**	3,672
	323,577	268,973
DEFERRED DEBITS		
Deferred fuel costs	**32,703**	28,793
Other	**36,530**	35,457
	69,233	64,250
TOTAL ASSETS	**$3,073,013**	$2,855,984
CAPITAL AND LIABILITIES		
COMMON STOCK AND RETAINED EARNINGS		
Common stock — Schedule, page 31	**$ 638,820**	$ 617,630
Installments received on capital stock — common	**321**	238
Premium on preferred stock	**157**	157
Retained earnings	**371,643**	335,136
	1,010,941	953,161
PREFERRED AND PREFERENCE STOCK NOT SUBJECT TO MANDATORY REDEMPTION		
Preferred stock — Schedule, page 31	**59,185**	59,135
Preference stock — Schedule, page 31	**175,000**	175,000
Convertible preference stock — Schedule, page 31	**7,621**	8,568
	241,806	242,753
REDEEMABLE PREFERENCE STOCK — Schedule, page 31	**50,000**	50,000
LONG-TERM DEBT		
Mortgage bonds — Schedule, page 32	**1,271,570**	1,215,732
Debentures — Schedule, page 32	**33,400**	34,400
Unamortized discount and premium	**(4,337)**	(3,[illegible]4)
Long-term debt estimated to be retired within one year	**(52,779)**	(33,214)
	1,247,854	1,213,054
CURRENT LIABILITIES		
Accounts payable	**108,875**	76,802
Vacation costs accrued	**13,744**	11,901
Taxes accrued	**59,229**	21,951
Interest accrued	**34,136**	32,085
Dividends declared	**26,441**	24,866
Long-term debt estimated to be retired within one year	**52,779**	33,214
Other	**12,886**	17,152
	308,090	217,971
DEFERRED CREDITS		
Accumulated deferred investment tax credits	**115,390**	103,941
Deferred income taxes	**93,344**	69,991
Other	**5,588**	5,113
	214,322	179,045
COMMITMENTS AND CONTINGENCIES — Note 14		
TOTAL CAPITAL AND LIABILITIES	**$3,073,013**	$2,855,984

See notes and schedules — pages 31 through 43

STATEMENTS OF CHANGES IN FINANCIAL POSITION

BALTIMORE GAS AND ELECTRIC COMPANY

	1980	1979*	1978*
	Year Ended December 31 (In Thousands of Dollars)		
SOURCE OF FUNDS			
Funds from Operations:			
Net income	**$139,399**	$126,316	$122,541
Depreciation and amortization	**119,647**	96,252	87,144
Investment tax credit adjustments	**11,450**	13,989	15,396
Deferred income taxes	**23,352**	44,149	15,818
Allowance for other funds used during construction	**(12,053)**	(9,545)	(4,006)
Subtotal	**281,795**	271,161	236,893
Funds from Outside Sources:			
Long-term debt	**88,883**	53,789	74,193
Common stock	**21,234**	15,796	10,062
Preference stock (deduction-conversions)	**(947)**	47,053	(2,035)
Short-term debt — net	**—**	—	(18,750)
Other — net	**336**	296	414
Total	**$391,301**	$388,095	$300,777
APPLICATION OF FUNDS			
Construction expenditures	**$225,003**	$160,917	$172,402
Allowance for other funds used during construction	**(12,053)**	(9,545)	(4,006)
Purchase of nuclear fuel materials	**57,135**	57,956	57,253
Deferred nuclear maintenance	**1,697**	7,275	—
Common stock dividends	**80,754**	75,373	69,467
Preferred stock dividends	**2,899**	2,899	2,899
Preference stock dividends	**19,200**	16,885	15,278
Retirement of long-term debt	**35,162**	12,764	12,760
Materials and supplies, principally fuel stock	**23,351**	19,462	(2,154)
Deferred fuel costs	**3,910**	37,197	(4,578)
Federal income taxes payable	**(34,438)**	26,758	(6,561)
Other — principally net change in other working capital items	**(11,319)**	(19,846)	(11,983)
Total	**$391,301**	$388,095	$300,777

** Restated to conform with 1980 presentation.*

See notes and schedules — pages 31 through 43.

AUDITORS' REPORT

Coopers & Lybrand

To the Stockholders of
Baltimore Gas and Electric Company

We have examined the balance sheets of Baltimore Gas and Electric Company at December 31, 1980 and 1979, and the related statements of income, retained earnings and changes in financial position for the years ended December 31, 1980, 1979 and 1978. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above (pages 28 through the notes to financial statements on page 43), present fairly the financial position of Baltimore Gas and Electric Company at December 31, 1980 and 1979, and the results of its operations and changes in its financial position for the years ended December 31, 1980, 1979 and 1978, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

Baltimore, Maryland
January 21, 1981

SCHEDULES OF OUTSTANDING STOCKS

BALTIMORE GAS AND ELECTRIC COMPANY

	December 31 1980	December 31 1979
	(In Thousands of Dollars)	
COMMON STOCK — without par value — 45,000,000 shares authorized: 32,690,093 and 31,692,176 shares, respectively, outstanding	**$638,820**	$617,630
(At the end of 1980, 263,548 shares were reserved for conversion of Convertible Preference Stock, 847,498 shares for the Investment Tax Credit Employee Stock Ownership Plan and 888,935 shares for the Dividend Reinvestment and Stock Purchase Plan.)		
PREFERRED AND PREFERENCE STOCK NOT SUBJECT TO MANDATORY REDEMPTION		
Preferred Stock (Cumulative) — $100 par value — 1,000,000 shares authorized:		
Series B 4½% — 222,9[illegible] shares outstanding (Callable at $110 per share.)	**$ 22,292**	$ 22,292
Series C 4% — 68,928 shares outstanding (Callable at $105 per share.)	**6,893**	6,89[illegible]
Series D 5.4% — 300,000 shares outstanding (Callable at $102.50 per share prior to April 1, 1982 and at lesser amounts thereafter.)	**30,000**	30,000
Total Preferred Stock	**$ 59,185**	$ 59,185
Preference Stock (Cumulative) — $100 par value — 3,000,000 shares authorized:		
Convertible, 6½% Series — 76,207 and 85,677 shares, respectively, outstanding (Callable at $100 per share; convertible into Common Stock of the Company at $28.98 per share.)	**$ 7,621**	$ 8,568
8.75%, 1970 Series — 300,000 shares outstanding (Callable at $107 per share prior to October 1, 1983 and at lesser amounts thereafter.)	**30,000**	30,000
7.88%, 1971 Series — 500,000 shares outstanding (Callable at $107 per share prior to October 1, 1981 and at lesser amounts thereafter.)	**50,000**	50,000
7.75%, 1972 Series — 400,000 shares outstanding (Callable at $105.50 per share prior to October 1, 1982 and at lesser amounts thereafter.)	**40,000**	40,000
7.78%, 1973 Series — 200,000 shares outstanding (Callable at $105.50 per share prior to December 1, 1983 and at lesser amounts thereafter.)	**20,000**	20,000
9.35%, 1974 Series — 350,000 shares outstanding (Callable at $110 per share prior to April 1, 1984 and at lesser amounts thereafter.)	**35,000**	35,000
Total Preference Stock	**$182,621**	$183,568
REDEEMABLE PREFERENCE STOCK (Cumulative) — $100 par value — 500,000 shares authorized:		
8.375%, 1979 Series — 500,000 shares outstanding	**$ 50,000**	$ 50,000

See Notes 10 and 11

SCHEDULES OF OUTSTANDING BONDS & DEBENTURES

BALTIMORE GAS AND ELECTRIC COMPANY

	December 31	
	1980	1979
	(In Thousands of Dollars)	
FIRST REFUNDING MORTGAGE BONDS		
4⅞% Series, due June 1, 1980	**$ —**	$ 9,361
Series W 2¾%, due June 15, 1980	**—**	10,695
Series U 2⅞%, due April 1, 1981	**39,063**	39,063
10% Series, due July 1, 1982	**90,202**	90,202
10⅛% Series, due September 15, 1983	**41,677**	41,932
Series V 2¾%, due December 21, 1984	**19,123**	19,123
Series X 2¾%, due January 15, 1986	**24,317**	24,317
Series Z 3%, due July 15, 1989	**36,754**	36,754
12⅛% Series, due September 15, 1990	**75,000**	—
3¼% Series, due December 1, 1990	**29,682**	29,682
4⅜% Series, due July 15, 1992	**25,000**	25,000
4% Series, due March 1, 1993	**24,095**	24,095
4½% Series, due July 15, 1994	**29,989**	29,989
5⅛% Series, due April 15, 1996	**26,680**	26,680
6⅞% Series, due August 1, 1997	**24,967**	24,967
5⅝% Installment Series, due August 15, 1998	**67,000**	67,000
7% Series, due December 15, 1998	**28,705**	28,705
8¼% Series, due September 15, 1999	**22,198**	22,198
8⅝% Series, due September 15, 2000	**11,433**	11,433
7¼% Series, due April 15, 2001	**60,000**	60,000
7⅝% Series, due September 1, 2001	**60,000**	60,000
7⅛% Series, due January 1, 2002	**50,000**	50,000
7½% Series, due July 1, 2002	**50,000**	50,000
5½% Installment Series, due July 15, 2002	**12,500**	12,500
7½% Series, due September 15, 2002	**50,000**	50,000
8⅛% Series, due February 1, 2004	**74,986**	75,000
6.80% Series, due September 15, 2004	**15,000**	—
9⅞% Series, due August 1, 2005	**15,639**	17,036
8⅜% Series, due September 15, 2006	**75,000**	75,000
8¼% Series, due September 15, 2007	**75,000**	75,000
9⅜% Series, due July 1, 2008	**62,560**	75,000
6.90% Installment Series due September 15, 2009	**55,000**	55,000
Total First Refunding Mortgage Bonds	**$1,271,570**	$1,215,732
DEBENTURES		
4⅞% Sinking Fund Debentures, due June 15, 1986	**$ 12,400**	$ 12,800
4⅝% Sinking Fund Debentures, due August 1, 1990	**21,000**	21,600
Total Debentures	**$ 33,400**	$ 34,400

See Note 12

RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management is responsible for the integrity and objectivity of the Company's financial statements. The financial statements are prepared in accordance with generally accepted accounting principles based upon currently available facts and circumstances and Management's best estimates and judgments of known conditions.

The Company maintains an accounting system and related system of internal controls which are designed to provide reasonable assurance that the financial records are accurate and that the Company's assets are protected. The Company's staff of internal auditors, which reports directly to the Chairman of the Board, conducts periodic reviews to maintain the effectiveness of internal control procedures.

Coopers & Lybrand, independent certified public accountants, are engaged to examine the financial statements and express their opinion thereon. Their examination is made in accordance with generally accepted auditing standards which include a review of internal controls. Their report appears on page 30.

The Audit Committee of the Board of Directors, which consists of three outside Directors, meets periodically with Management, internal auditors and Coopers & Lybrand to review the activities of each in discharging their responsibilities. The internal audit staff and Coopers & Lybrand have free access to the Audit Committee at any time.

NOTES TO FINANCIAL STATEMENTS

Accounting Policies:
The accounting records of the Company are maintained in accordance with the Uniform Systems of Accounts prescribed by the Federal Energy Regulatory Commission and the Public Service Commission of Maryland. The Company's principal accounting policies are described in Notes 1 through 7.

NOTE 1 — Pension Plan:
The Company maintains a noncontributory pension plan covering its regular employees. The funding of the Company's pension plan is through a deposit administration medium with an immediate participation guarantee feature, employing the aggregate cost method. In 1980, 1979 and 1978, the Company's cost for pensions totaled $16,167,000, $13,563,000 and $13,412,000, respectively, of which $13,114,000, $11,081,000 and $10,720,000, respectively, were included in expenses. The remainders were charged to construction. The increase in 1980 is the result of changes in benefits and higher payrolls, while the increase in 1979 is the net result of changes in benefits effective July 1, 1979 and higher payrolls, substantially offset by a decrease resulting from changes in actuarial assumptions effective January 1, 1979. A comparison of accumulated plan benefits and plan net assets for the Company's defined benefit plan, as of January 1, is presented below:

	1980	1979
	(In Thousands of Dollars)	
Actuarial present value of accumulated plan benefits:		
Vested	**$129,913**	$111,066
Nonvested	**6,571**	5,367
	$136,484	$116,433
Net assets available for benefits	**$206,044**	$181,256

The assumed investment rate of return used in determining the actuarial present value of accumulated plan benefits was seven percent for both 1980 and 1979. Based on the latest available actuarial report, as of January 1, 1980 there were no unfunded vested liabilities.

NOTE 2 — Depreciation and Maintenance:

The amounts set aside on the Company's books for depreciation are generally based on composite straight-line rates, determined and revised periodically by means of independent engineering studies, applied to the average investment in depreciable utility plant in service. The composite depreciation rate for nuclear electric properties includes a $36,000,000 provision for the decommissioning of the properties at the end of their useful life. Such provision is subject to periodic review for future changes in economic conditions and advances in technology.

Expenditures for maintenance and repairs, including renewals of minor items of property (as distinguished from units of property), are charged to operating expenses and/or clearing accounts, unless the replacement of a minor item of property effects a substantial betterment, in which event the excess cost of the replacement over the estimated current cost of replacement without betterment is charged to the appropriate property account. Replacements of items designated as units of property are accounted for as Plant Additions and Retirements. When depreciable property is retired or otherwise disposed of, the Accumulated Provision for Depreciation is charged with the "original cost" of such property, together with the cost of removal, and is credited with the salvage value or sale price and any other amounts recovered, such as insurance.

The investment in depreciable utility plant as of December 31 and the depreciation rates applied to each category are as follows:

	Composite Rate	**1980**	1979
		(In Thousands of Dollars)	
Electric			
— Other than Nuclear	3.26%	**$1,428,472**	$1,353,555
— Nuclear	3.45	**788,842**	777,949
Gas	2.60	**324,235**	306,832
Steam	2.75	**19,086**	18,547
Common	3.00 (a)	**93,711**	84,605
Total		**$2,654,346**	$2,541,488

(a) Except for transportation vehicles which are generally depreciated on a mileage basis.

NOTE 3 — Income Taxes:

	1980	1979	1978
	(In Thousands of Dollars)		
Income Tax expense is composed of the following:			
Included in Operating Expenses:			
Income Taxes — Current	**$39,604**	$ 8,987	$43,619
Income Taxes — Deferred	**23,352**	44,149	15,818
Investment Tax Credit Adjustments	**13,852**	16,593	17,882
Total Charged to Operating Income	**76,808**	69,729	77,319
Included in Net Other Income and Deductions — Current	**2,049**	1,047	453
Total Income Tax Expense	**$78,857**	$70,776	$77,772
Total income taxes currently payable consist of the following components:			
Federal Income Tax:			
Included in Operating Expenses	**$39,552**	$ 8,959	$43,540
Included in Net Other Income and Deductions	**1,904**	934	380
State Income Tax:			
Included in Operating Expenses	**52**	28	79
Included in Net Other Income and Deductions	**145**	113	73
Total Income Taxes Currently Payable	**$41,653**	$10,034	$44,072
The provision for deferred Federal income taxes consists of the following tax effects of timing differences between tax and book income:			
Liberalized Depreciation	**$17,796**	$20,717	$18,770
Deferred Fuel Costs	**1,798**	17,281	(2,197)
Spent Nuclear Fuel Storage Costs — Note 7	**(3,352)**	—	(2,850)
Pennsylvania Gross Receipts Tax — Note 8	**—**	—	(1,638)
Percentage Repair Allowance	**6,329**	2,804	3,733
Maintenance Expenditures — Calvert Cliffs	**781**	3,347	—
Total	**$23,352**	$44,149	$15,818
The Investment Tax Credit Adjustments, which substantially offset the reduction in Federal income taxes resulting from the Investment Tax Credits, are derived as follows:			
Reduction in Federal Income Taxes due to credits arising from:			
Eligible property	**$15,639**	$17,776	$18,554
Employee Stock Ownership Plan	**2,403**	2,604	2,486
Total	**18,042**	20,380	21,040
Credits allocated to income	**(4,190)**	(3,787)	(3,158)
Net Total	**$13,852**	$16,593	$17,882

Investment tax credits accruing to the benefit of employees result from the additional 1½% credit allowed by the Internal Revenue Code to provide stock for employees under the Investment Tax Credit Employee Stock Ownership Plan (ESOP).

All investment tax credits, except those related to ESOP, are being deferred and allocated to income ratably over the lives of the subject property with respect to the credits provided under the Revenue Act of 1971 and subsequent years, and over thirty-year periods with respect to the credits provided under prior Revenue Acts.

Total income tax expense was less than the amount computed by applying the Federal income tax statutory rate to book income before tax. The reasons for this difference are as follows:

	1980	1979	1978
	(In Thousands of Dollars)		
Tax computed at statutory rate on book income before tax (46% in 1980 and 1979 and 48% in 1978)	**$100,398**	$90,66?	$96,150
Increases (Decreases) in tax from:			
Excess of tax over book depreciation — not normalized	**(4,807)**	(7,478)	(10,990)
Allowance for Funds Used During Construction — Borrowed Funds and Other Funds	**(11,076)**	(7,969)	(3,641)
Investment Tax Credit allocated to income	**(4,190)**	(3,787)	(3,158)
Net other items	**(1,468)**	(652)	(589)
Total Income Tax Expense	**$ 78,857**	$70,776	$77,772

The tax reductions resulting from the difference between depreciation recorded on the Company's books and the depreciation taken for Federal income tax purposes amounted to $22,603,000 in 1980, $28,195,000 in 1979 and $29,760,000 in 1978 of which tax benefits arising from liberalized depreciation on property additions in 1976 and subsequent years totalling $17,796,000 in 1980, $20,717,000 in 1979 and $18,770,000 in 1978 have been normalized.

See also Note 14.

NOTE 4 — Allowance for Funds Used During Construction:
The Allowance for Funds Used During Construction, a non-cash item, is an accounting procedure by which there are accrued allowances for the costs of borrowed funds and other funds used to finance construction, segregated between other income and interest charges in conformance with an Order of the Federal Energy Regulatory Commission. Such allowances are transferred from the Statement of Income to Construction Work in Progress in the Balance Sheet. These allowances are not taxable income.

In 1978, the allowance was computed at an 8.13% rate applied to one-half of the construction expenditures for the Company's Brandon Shores Power Plant. Since April 1979, the allowance has been computed at an 8.13% rate applied to the total construction expenditures for the Brandon Shores Plant.

NOTE 5 — Safe Harbor Water Power Corporation:
Investment in Safe Harbor Water Power Corporation represents two-thirds of the capital stock of that corporation, including one-half of the voting stock, and the Company's two-thirds interest in Safe Harbor's retained earnings, pursuant to the equity method of accounting for this investment. The investment in Safe Harbor was $7,567,000 at December 31, 1980 and $7,351,000 at December 31, 1979.

The capital stock of Safe Harbor owned by the Company is pledged under the Mortgage under which the Company's Mortgage Bonds are issued.

NOTE 6 — Deferred Fuel Costs:
Since October 1978, the Company, by statute, has had in effect a zero-based electric fuel rate clause designed to recover the actual cost of fuel used in generating electricity. Actual fuel costs are recoverable so long as the Company continues to demonstrate that it has used the most economical mix of all types of generation and purchase, made every reasonable effort to minimize fuel costs and maintained the productive capacity of its generating plants at a reasonable level. As implemented by the Public Service Commission of Maryland, the fuel rate formula is based upon the latest twelve-month generation mix and the latest three-month average cost for each type of fuel. The fuel rate will not change unless the calculated fuel rate is more than 5% above or below the fuel rate then in effect. To the extent that actual accumulated fuel costs are not recovered through the fuel rate charge then in effect, they are deferred. In actual operation, the fuel rate clause will result in under-recoveries and over-recoveries due primarily to the difference between the actual generation mix compared with the latest twelve-month generation mix used in the formula. During the first nine months of 1978, the full cost of electric fuel based on estimates was recovered in the month in which such costs were charged to operations. The balance deferred as of December 31, 1980 and 1979 was $20,060,000 and $28,793,000 ($10,894,000 and $15,610,000 net after income taxes), respectively.

In October 1980, pursuant to an Order of the Maryland Commission, the Company began to defer the net over- or under-recoveries of purchased gas costs resulting from the operation of the Purchased Gas Adjustment Clause. The Commission's Order further provided that any over- or under-recoveries of purchased gas costs for the twelve months ended November 30 each year shall be credited or charged to customers over the ensuing calendar year. The deferral as of December 31, 1980 was $12,643,000 ($6,827,000 net after income taxes).

NOTE 7 — Other Deferred Debits:
Prior to May 1977, the cost of nuclear fuel reflected an assumed value for residual uranium less estimated shipping and reprocessing costs. However, starting with the monthly fuel rate in May 1977, the Company began billing as a cost of nuclear fuel the cost to provide for transportation and long-term off-site spent fuel storage, with no credit for either residual uranium or plutonium.

Beginning in October 1978, post-reactor shipping and disposal costs were deferred pursuant to an Order by the Public Service Commission of Maryland which excluded these costs from the fuel rate computation. In its June 10, 1980 Order granting the Company an increase in electric base rates, the Maryland Commission included a provision for the recovery of post-reactor shipping and disposal costs currently chargeable to operations as well as the amortization, over a three-year period, of the costs deferred since October 1978. The unamortized balance of these deferred costs as of December 31, 1980 and 1979 was $12,331,000 and $9,934,000 ($6,659,000 and $5,324,000 net after income taxes), respectively. Future fuel costs will be adjusted as spent fuel storage costs and reprocessing costs (if any) become known.

In 1979 and 1980 the Company incurred a total of $9,738,000 in maintenance expenditures for inspecting and repairing seismic pipe supports to meet Nuclear Regulatory Commission requirements at the Calvert Cliffs Nuclear Power Plant. These costs were deferred and pursuant to the June 10, 1980 Order of the Maryland Commission are being amortized over twenty-six years. The amount deferred as of December 31, 1980 and 1979 was $8,973,000 and $7,275,000 ($4,845,000 and $3,929,000 net after income taxes), respectively.

NOTE 8 — Other Taxes:

Taxes, other than taxes on income, were as follows:

	1980	1979	1978
	(In Thousands of Dollars)		
Property	$22,874	$22,015	$21,504
Capital Stock	27,357	27,057	26,896
Maryland Gross Receipts	24,117	19,915	19,170
Pennsylvania Gross Receipts (a)	—	3,728	3,413
Maryland Electric Environmental Surcharge	1,939	2,199	3,442
Social Security	13,182	11,473	9,882
Miscellaneous	1,830	1,479	1,281
	91,299	87,866	85,588
Amount included above charged principally to accounts other than taxes	(2,817)	(2,411)	(2,258)
Total Other Taxes	$88,482	$85,455	$83,330

(a) In December 1977, the Pennsylvania Gross Receipts Tax law was amended, effective retroactively to January 1, 1977, to apply to electricity produced in Pennsylvania and sold outside of that State. Counsel for the Company is of the opinion that this legislation is invalid and unconstitutional, and the matter is being contested in the courts. Legislation was enacted in the Commonwealth of Pennsylvania which repealed the tax on a prospective basis, effective January 1, 1980.

In 1978, the amount of the tax was equivalent after Federal income taxes to 6¢ per common share, based on the average number of shares outstanding. Pursuant to an Order from the Public Service Commission of Maryland, the Company began, in 1979, to defer the tax until such time as its ultimate disposition has been determined. As a result, there was no effect on 1979 earnings.

NOTE 9 — Accounts Receivable:

The balance in Customers' Accounts Receivable includes approximately $18,300,000 and $15,400,000 at December 31, 1980 and 1979, respectively, receivable from unmatured merchandise installment accounts which, in accordance with the generally recognized practice of utility companies, are classified as current assets although in part they do not mature within one year. It is not practicable to determine the amount of such installments which do not mature within one year. An annual interest rate of 18% is currently being applied to installment sales.

NOTE 10 — Changes in Common Stock and Preference Stock Not Subject to Mandatory Redemption:

	Common Stock		Cumulative Preference Stock	
	Shares	Amount	Shares	Amount
		(Dollar Amounts in Thousands)		
Balance at December 31, 1977	30,657,775	$591,772	1,883,335	$188,333
Year 1978				
Common Stock issued under:				
Dividend Reinvestment Plan	206,272	5,338	—	—
ESOP	106,354	2,806	—	—
Conversions of Convertible Preference Stock, 6½% Series, into Common Stock (decrease)	68,901	2,032	(20,346)	(2,034)
Balance at December 31, 1978	31,039,302	601,948	1,862,989	186,299
Year 1979				
Common Stock issued under:				
Dividend Reinvestment Plan	403,691	9,454	—	—
ESOP	156,002	3,509	—	—
Conversions of Convertible Preference Stock, 6½% Series, into Common Stock (decrease)	93,181	2,719	(27,312)	(2,731)
Balance at December 31, 1979	31,692,176	617,630	1,835,677	183,568
Year 1980				
Common Stock issued under:				
Dividend Reinvestment Plan	809,228	16,752	—	—
ESOP	156,164	3,494	—	—
Conversions of Convertible Preference Stock, 6½% Series, into Common Stock (decrease)	32,525	944	(9,470)	(947)
Balance at December 31, 1980	32,690,093	$638,820	1,826,207	$182,621

NOTE 11 — Redeemable Preference Stock:
In July 1979, the Company issued 500,000 shares of 8.375% Cumulative Preference Stock, 1979 Series ($100 par value). The Company will redeem at par 100,000 shares ($10,000,000) of this series of Preference Stock in each of the years 1985 through 1989. This series is junior to Preferred Stock, ranks on a parity with Preference Stock Not Subject to Mandatory Redemption and prior to Common Stock as to payment of dividends or assets available in the event of liquidation.

NOTE 12 — Long-Term Debt:
The Mortgage Bonds are secured (A) by a valid and direct first mortgage lien on substantially all of the principal properties and franchises owned by the Company and (B) by a pledge of 100,000 shares of Class A stock and 100,000 shares of Class B stock of Safe Harbor Water Power Corporation.

The Company is required to make an annual sinking fund payment to the Trustee under the First Refunding Mortgage at the end of each period of one year, accounting from the first day of August, equal to 1% of the largest amount of Mortgage Bonds at any time during such yearly period outstanding under the Mortgage. Such funds are to be used for the purchase or redemption of an indeterminate principal amount of Mortgage Bonds, excluding the Installment Series Mortgage Bonds of 1998, 2002 and 2009 and the 6.80% Series Mortgage Bonds of 2004 as provided in the Mortgage, at not exceeding the applicable redemption prices. The payment to be made on August 1, 1981 is presently estimated at $13,000,000.

The Installment Series Mortgage Bonds, due August 15, 1998 are payable as to principal on the fifteenth day of August in the years and the amounts as follows:

Years	Principal Amount Each Year (In Thousands of Dollars)
1984 through 1986	$ 1,000
1987 through 1990	2,000
1991 through 1995	3,000
1996 and 1997	4,000
1998	33,000

The Installment Series Mortgage Bonds, due July 15, 2002 are payable as to principal on the fifteenth day of July in the years and the amounts as follows:

Years	Principal Amount Each Year (In Thousands of Dollars)
1993	$ 420
1994	430
1995 through 1997	605
1998 and 1999	690
2000 and 2001	865
2002	6,725

The Installment Series Mortgage Bonds, due September 15, 2009 are payable as to principal on the fifteenth day of September in the years and the amounts as follows:

Years	Principal Amount Each Year (In Thousands of Dollars)
2005 through 2008	$ 3,250
2009	42,000

The Company is also required to make annual sinking fund payments (in cash and/or Sinking Fund Debentures) to the Trustees under the Sinking Fund Debenture Indentures. The 4⅞% Debenture sinking fund payment, to be made on or before June 14 of each year to and including 1985, is calculated to retire $400,000 principal amount of 4⅞% Sinking Fund Debentures per year; and the 4⅝% Debenture sinking fund payment, to be made on or before July 31 of each year to and including 1989, is calculated to retire $600,000 principal amount of 4⅝% Sinking Fund Debentures per year. In any year, at the Company's election, an additional sinking fund payment of up to $600,000 (noncumulative) may be made under the 4⅝% Sinking Fund Debenture Indenture.

NOTE 13 — Short-Term Borrowings:
The Company maintains bank lines of credit to provide backup financing capacity for commercial paper notes issued to satisfy interim financing requirements and to permit short-term borrowing flexibility. In support of such lines, the Company either pays commitment fees at a fixed rate or maintains compensating balances (which are not restricted as to withdrawal). Borrowings under the lines are at the bank's prime interest rate or under certain credit line arrangements at a fixed percentage over the London Interbank Offered Rate. Information concerning short-term borrowings outstanding at December 31, 1980 and December 31, 1979 and during each of the years then ended is set forth below:

	1980	1979
At December 31	(In Thousands of Dollars)	
Short-Term Borrowings Outstanding:		
Commercial Paper Notes (maturing in 90 days or less)	**$ —**	$ —
Weighted Average Interest Rate	**—**	—
Unused Lines of Credit	**$140,000**	$138,000
Compensating Balances	**$ 2,040**	$ 3,355
During the Year Ended December 31		
Maximum Aggregate Short-Term Borrowings	**$ 75,450**	$ 20,250
Average Daily Short-Term Borrowings (a)	**$ 30,922**	$ 3,109
Weighted Average Interest Rate (b)	**12.64%**	10.19%

(a) The sum of dollar days of outstanding borrowings divided by actual days in the period.
(b) Actual accrued interest during the period divided by average daily borrowings.

NOTE 14 — Commitments and Contingencies:
The Company has made substantial commitments in connection with its construction programs for 1981 and subsequent years.

Price-Anderson Act:
The Price-Anderson Act (Act) currently limits the liability of an owner of a nuclear power plant to $560,000,000 for a single nuclear incident. The Company is protected against this potential liability by a combination of private insurance carried by the Company (currently limited to $160,000,000 through the nuclear insurance pools) and Federal governmental indemnity agreements. In the event of a nuclear incident, as defined by the Act, causing damage to the public in excess of the limits of primary financial protection, the Company could be assessed up to the limit of $5,000,000 per reactor at the Company's Calvert Cliffs Nuclear Power Plant. For one nuclear incident, therefore, the Company's maximum contingent liability (retrospective assessment) would be $10,000,000. Under regulations issued pursuant to the Act, the Company's maximum contingent liability in any one calendar year for payment arising from more than one nuclear incident is limited to twice the retrospective assessment per reactor, or $20,000,000.

Income Tax Audit:
The Internal Revenue Service completed an audit of the years 1974 through 1976 and has asserted a deficiency of $16,546,000. The major issue pertains to the placed-in-service date for Unit No. 1 at the Calvert Cliffs Nuclear Power Plant resulting in a proposed deficiency of $15,906,000. The Internal Revenue Service is taking the position that the Plant initially qualified for tax depreciation in 1975, and not 1974 as claimed in the tax return. A protest to this item, which is strictly a timing difference, and other disputed adjustments has been filed and the ultimate disposition is not expected to have a material effect on earnings.

Leases:
The Company has a lease agreement for a portion of the nuclear fuel presently installed in Units No. 1 and 2 at the Calvert Cliffs Plant. Under the lease agreement, lease payments for nuclear fuel commenced upon consumption of the fuel in the operation of the Calvert Cliffs Plant and are designed to return to the lessor the accumulated investment in the nuclear fuel prior to commencement of burn-up (including original purchase price, all subsequent processing payments made and a financing charge) and a monthly carrying or financing charge on the unamortized accumulated investment. Lease payments for 1980, 1979 and 1978 totaled $13,624,000, $20,369,000 and $28,020,000, respectively. The Company is responsible for taxes, insurance and other operating costs relating to the fuel.

As of December 31, 1980, the estimated future payments under the nuclear fuel lease are not material.

If the Company had accounted for the nuclear fuel lease as a capital lease, both net assets and liabilities would have been increased by $2,080,000 and $14,901,000 at December 31, 1980 and 1979, respectively. However, no additional expenses would have been incurred.

Rental expense under other leases currently in effect is not material.

NOTE 15 — Segment Information:

		1980	1979	1978
		(In Thousands of Dollars)		
Electric	Operating Revenues	**$ 85,264**	$ 714,956	$ 697,173
	Operating Income before Income Taxes	**249,510**	236,024	240,661
	Operating Income	**182,149**	173,160	173,639
	Depreciation	**73,743**	71,355	69,415
	Construction Expenditures (a)	**198,034**	143,780	155,781
	Identifiable Assets at December 31 (a) (b)	**2,507,909**	2,350,211	2,229,415
Gas	Operating Revenues	**$ 354,736**	$ 287,074	$ 264,586
	Operating Income before Income Taxes	**33,747**	27,091	34,321
	Operating Income	**23,937**	19,973	23,570
	Depreciation	**8,886**	8,463	8,156
	Construction Expenditures (a)	**26,029**	15,858	14,875
	Identifiable Assets at December 31 (a) (b)	**292,491**	269,634	261,500
Steam	Operating Revenues	**$ 14,442**	$ 12,378	$ 12,727
	Operating Income before Income Taxes	**(149)**	68	(219)
	Operating Income	**213**	321	235
	Depreciation	**552**	520	492
	Construction Expenditures (a)	**940**	1,279	1,746
	Identifiable Assets at December 31 (a) (b)	**15,030**	14,808	14,042
Total	Operating Revenues	**$1,226,442**	$1,014,408	$ 974,486
	Operating Income before Income Taxes	**283,108**	263,183	274,763
	Operating Income	**206,299**	193,454	197,444
	Depreciation	**83,181**	80,338	78,063
	Construction Expenditures	**225,003**	160,917	172,402
	Identifiable Assets at December 31 (b)	**2,815,430**	2,634,653	2,504,957
	Other Assets	**257,583**	221,331	168,797
	Total Assets	**3,073,013**	2,855,984	2,673,754

(a) Includes allocation of Common Utility Property.

(b) Represents Utility Plant and Materials and Supplies, excluding merchandise inventory of $3,054,000, $3,272,000 $2,582,000 at December 31, 1980, 1979 and 1978, respectively; merchandising activities are reported in Other Income.

NOTE 16 — Jointly-Owned Electric Utility Plant:

The Company's ownership as a tenant in common of undivided interests in the Keystone and Conemaugh mine-mouth electric generating plants, located in western Pennsylvania, entitles the Company to 536 megawatts of rated capacity.

Financing and accounting for these properties are the same as those for any other fully-owned property. The Company's share of the direct expenses of the joint property is included in the corresponding operating expenses in the Statement of Income.

The following data as of December 31, 1980 represent the Company's proportionate share:

	Keystone	Conemaugh	Transmission Line
	(In Thousands of Dollars)		
Ownership Interest	20.99%	10.56%	7.00%
Utility Plant in Service	$43,514	$29,106	$1,486
Accumulated Provision for Depreciation	12,739	6,91?	324
Construction Work in Progress	558	490	—

NOTE 17 — Quarterly Financial Data (Unaudited): The following data are unaudited but, in the opinion of the Company, include all adjustments (comprising only normal recurring accruals) necessary for a fair statement of the operating results for the periods presented.

The business of the Company is seasonal in nature, and it is Management's opinion that comparisons between quarters of a year do not give a true indication of overall trends and changes in operations.

Quarter Ended	Total Operating Revenues	Operating Income plus AFC(a)	Net Income	Net Income Applicable to Common Stock	Earnings Per Share of Common Stock
	(In Thousands of Dollars)				
March 31, 1980	$ 316,017	$ 51,694	$ 29,348	$ 23,818	$0.75
June 30, 1980	264,973	51,025	27,905	22,377	0.70
September 30, 1980	341,898	77,844	55,997	50,474	1.56
December 31, 1980	303,554	49,813	26,149	20,631	0.63
Total Year 1980	$1,226,442	$230,376	$139,399	$117,300	$3.64
March 31, 1979	$ 292,919	$ 59,929	$ 39,085	$ 34,558	$1.11
June 30, 1979	232,443	50,796	29,897	25,378	0.81
September 30, 1979	245,377	60,445	39,284	34,082	1.08
December 31, 1979	243,669	39,607	18,050	12,514	0.40
Total Year 1979	$1,014,408	$210,777	$126,316	$106,532	$3.40

(a) Allowance for Funds Used During Construction (for Borrowed Funds and Other Funds) is added to Operating Income in determining operating income for ratemaking purposes in the State of Maryland.

NOTE 18 — Supplementary Information to Disclose the Effects of Changing Prices (Unaudited): The following supplementary information is supplied in accordance with the requirements of Financial Accounting Standards Board Statement No. 33, Financial Reporting and Changing Prices, for the purpose of providing certain information about the effects of changing prices. It should be viewed as an estimate of the approximate effect of inflation, rather than as a precise measure.

Constant dollar amounts represent historical costs stated in terms of dollars of equal purchasing power, as measured by the Consumer Price Index for All Urban Consumers. Current cost amounts reflect the changes in specific prices of plant from the date the plant was acquired to the present, and differ from constant dollar amounts to the extent that specific prices have increased more or less rapidly than prices in general.

The current cost of utility plant, comprising all plant in service, construction work in progress, and plant held for future use, represents the estimated cost of replacing existing plant assets and was determined by indexing the surviving plant by the Handy-Whitman Index of Public Utility Construction Costs. The current year's provision for depreciation on the constant dollar and current cost amounts of utility plant was determined by applying the Company's depreciation rates to the indexed plant amounts.

Statement of Income From Continuing Operations Adjusted for Changing Prices
For the Year Ended December 31, 1980

(In Thousands of Dollars)

	Conventional Historical Cost	Constant Dollar Average 1980 Dollars	Current Cost Average 1980 Dollars
Operating Revenues	$1,226,442	$1,226,442	$1,226,442
Purchased Fuel and Energy	478,836	484,569	479,469
Operations and Maintenance	292,836	292,836	292,836
Depreciation	83,181	176,448	198,727
Taxes	165,290	165,290	165,290
Total Operating Expenses	1,020,143	1,119,143	1,136,322
Operating Income	206,299	107,299	90,120
Other Income (including AFC)	14,904	14,904	14,904
Income Before Interest	221,203	122,203	105,024
Interest Expense (net of AFC)	81,804	81,804	81,804
Income From Continuing Operations (excluding adjustment to net recoverable cost)	$ 139,399	$ 40,399(a)	$ 23,220
Increase in Specific Prices (Current Cost) of Utility Plant and Nuclear Fuel Held During the Year (b)			$ 363,130
Adjustment to Net Recoverable Cost		$ (208,976)	28,874
Effect of Increase in General Price Level			(583,877)
Excess of Increase in General Price Level Over Increase in Specific Prices After Adjustment to Net Recoverable Cost			(191,873)
Gain from Decline in Purchasing Power of Net Amounts Owed		163,751	163,751
Net		$ (45,225)	$ (28,122)

(a) Including the adjustment to net recoverable cost, the loss from continuing operations on a constant dollar basis would have been $168,577,000.

(b) At December 31, 1980, current cost of utility plant and nuclear fuel, net of accumulated depreciation and amortization, was $5,117,360,000, while historical cost or net cost recoverable through depreciation and amortization was $2,672,195,000.

Nuclear fuel material and its related effect on purchased fuel and energy expense has been adjusted in a manner similar to utility plant for constant dollar amounts and at current market prices for current cost.

Fuel inventories (other than nuclear fuel), the cost of fuel used in generation and gas purchased for resale generally represent recent acquisitions and have not been restated from their historical cost in nominal dollars. The ratemaking process limits the recovery of fuel and purchased gas costs to historical cost. For these reasons, fuel inventories (other than nuclear fuel) have been classified as monetary assets.

As prescribed in Statement No. 33, income taxes were not adjusted.

Under the ratemaking prescribed by the Public Service Commission of Maryland, the Company is generally limited to the recovery of historical cost of plant in service and nuclear fuel in revenues as depreciation and amortization. During periods of inflation, such amounts will be recovered in dollars having less purchasing power than the historical dollars invested. Therefore, the excess of the cost of plant stated in terms of constant dollars or current cost over the historical cost of plant is not presently recoverable in rates, and is reflected as an adjustment to net recoverable cost. While the ratemaking process gives no recognition to the current cost of replacing utility plant and nuclear fuel, based on past practices, the Company believes it will be allowed to earn on the increased cost of its net investment when replacement of facilities actually occurs.

To properly reflect the economics of rate regulation in the Statement of Income from Continuing Operations, the adjustment to net utility plant and nuclear fuel should be combined with the gain from the decline in purchasing power of net amounts owed. During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The gain from the decline in purchasing power of net amounts owed is primarily attributable to the substantial amount of long-term debt outstanding which will be repaid with dollars that are worth less than the dollars received when such securities were issued.

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for Changing Prices

(In Thousands of Dollars)

	1980	1979	1978	1977	1976
Operating Revenues					
Historical	**$1,226,442**	$1,014,408	$ 974,486	$ 792,522	$ 725,817
In Average 1980 Dollars	**$1,226,442**	$1,152,058	$1,231,323	$1,078,092	$1,051,051
Historical cost information adjusted for general inflation (in average 1980 dollars)					
Income from Continuing Operations (excluding adjustment to net recoverable cost)	**$ 40,399**	$ 56,689			
Income Per Common Share (after dividend requirements on preferred and preference stock and excluding adjustment to net recoverable cost)	**$ .57**	$1.09			
Net Assets at Year-End at Net Recoverable Cost	**$1,195,144**	$1,284,346			
Current cost information (in average 1980 dollars)					
Income from Continuing Operations (excluding adjustment to net recoverable cost)	**$ 23,220**	$ 23,644			
Income Per Common Share (after dividend requirements on preferred and preference stock)	**$ .03**	$ .04			
Excess of Increase in General Price Level Over Increase in Specific Prices After Adjustment to Net Recoverable Cost	**$ 191,873**	$ 227,461			
Net Assets at Year-End at Net Recoverable Cost	**$1,195,144**	$1,284,346			
General information					
Gain from Decline in Purchasing Power of Net Amounts Owed (in average 1980 dollars)	**$ 163,751**	$ 182,767			
Cash Dividends Declared Per Common Share					
Historical	**$ 2.50**	$ 2.40	$ 2.25	$ 2.14	$ 2.08
In Average 1980 Dollars	**$ 2.50**	$ 2.73	$ 2.84	$ 2.91	$ 3.01
Market Price Per Common Share at Year-End					
Historical	**$19.75**	$22.13	$24.38	$26.63	$26.75
In Average 1980 Dollars	**$18.84**	$23.76	$29.66	$35.32	$37.89
Average Consumer Price Index	**246.9***	217.4	195.4	181.5	170.5
Year-End Consumer Price Index	**258.8***	229.9	202.9	186.1	174.3

* Estimated

DIRECTORS

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LESLIE B. DISHAROON
Chairman of the Board and President, Monumental Corporation, Baltimore (Insurance)

SISTER KATHLEEN FEELEY, S.S.N.D.
President, College of Notre Dame of Maryland, Baltimore (Education)

JEROME W. GECKLE
Chairman of the Board and President, PHH Group, Inc., Baltimore (Vehicle and Personnel Services)

RALPH G. HOFFMAN
Attorney-at-Law, Westminster

JOHN A. LUETKEMEYER
Director, Equitable Trust Company (former Chairman of the Board, Equitable Bancorporation), Baltimore (Banking)

GEORGE V. McGOWAN
President of the Company, Baltimore

CHARLES S. SANFORD, JR.
Executive Vice President, Bankers Trust Company, New York (Banking)

JOHN P. SIPPEL
Vice Chairman of the Board, The Citizens National Bank, Laurel (Banking)

HENRY F. SNYDER, JR.
General Manager, Product Line Planning and Management, Western Electric Company, Morristown, N.J. (Communications Equipment)

WALTER SONDHEIM, JR.
Chairman of the Board, Charles Center-Inner Harbor Management, Inc., Baltimore (Downtown Renewal Projects)

BERNARD C. TRUESCHLER
Chairman of the Board of the Company, Baltimore

C. EDWARD UTERMOHLE, JR.
Chairman of the Executive Committee of the Board, Baltimore

GEORGE W. VELENOVSKY
Chairman of the Board, The Annapolis Banking and Trust Company, Annapolis (Banking)

HARRY K. WELLS
Chairman of the Board, McCormick & Company, Inc., Baltimore (Food Processing, Spices, etc.)

OFFICERS

BERNARD C. TRUESCHLER
Chairman of the Board and Chief Executive Officer

GEORGE V. McGOWAN
President and Chief Operating Officer

NORMAN J. BOWMAKER
Vice President, Management and Staff Services

RAYMOND C. BRYANT
Vice President, Consumer Services

EDWARD A. CROOKE
Vice President, Finance and Accounting, and Secretary

VERNON R. EVANS
Vice President, General Services

JOHN W. GORE, JR.
Vice President, Electric Interconnection and Operations

ARTHUR E. LUNDVALL, JR.
Vice President, Supply

HENRY H. MILLER
Vice President, Distribution

CHRIS H. POINDEXTER
Vice President, Engineering and Construction

ALFRED H. INNERS
Treasurer and Assistant Secretary

HENRY E. LENTZ
Assistant Secretary and Assistant Treasurer

CHARLES W. SHIVERY
Assistant Treasurer

NEW DIRECTOR

At its November meeting, the Board of Directors elected Jerome W. Geckle, Chairman of the Board and President of PHH Group, Inc., to fill the vacancy created by the death of Julian S. Neal. Mr. Neal was an outstanding director of our Company for 15 years.

NEW OFFICERS

Effective September 1, Alfred H. Inners was elected Treasurer and Assistant Secretary and effective November 1, Charles W. Shivery was elected Assistant Treasurer.

Executive Offices
Gas and Electric Building, Charles Center, P.O. Box 1475, Baltimore, Maryland 21203

Annual Meeting
The annual meeting of stockholders will be held at 2:00 P.M. on April 24, 1981, at the Company's Executive Offices, Baltimore, Maryland.

Conversion Agents
Convertible Preference Stock
Chemical Bank, New York
Maryland National Bank, Baltimore

Registrars
Preferred and Preference Stock
The Chase Manhattan Bank, N.A., New York
Union Trust Company of Maryland, Baltimore
Common and Convertible Preference Stock
Morgan Guaranty Trust Company of New York
Union Trust Company of Maryland, Baltimore

Transfer Agents
Preferred, Preference, Convertible
Preference and Common Stock
Chemical Bank, New York
Maryland National Bank, Baltimore

Upon written request to Alfred H. Inners, Treasurer, P.O. Box 1475, Baltimore, Md. 21203, the Company will furnish without charge a copy of its Form 10-K annual report after it is filed with the Securities and Exchange Commission in March, 1981.

BALTIMORE GAS AND ELECTRIC COMPANY

STATEMENT OF INCOME

	Three Months Ended June 30		Six Months Ended June 30		Twelve Months Ended June 30	
	1981	1980	1981	1980	1981	1980
			(Thousands of Dollars)			
Operating Revenues						
Electric	$208,665	$187,236	$426,135	$373,604	$ 909,795	$ [illegible]
Gas	102,404	75,055	260,580	198,852	416,465	317,3[illegible]
Steam	3,083	2,682	11,877	8,534	17,784	13,124
Total Operating Revenues	$314,152	$264,973	$698,592	$580,990	$1,344,044	$1,070,036
Operating Expenses						
Purchased Fuel and Energy	$125,732	$ 98,415	$297,052	$ 240,363	$ 535,524	$ 398,222
Operations	59,287	51,402	117,672	102,568	232,115	196,210
Maintenance	22,323	16,469	42,325	35,989	82,164	72,352
Depreciation	19,725	19,381	41,199	39,503	84,876	80,797
Income Taxes:						
Current	14,253	24,462	22,908	18,683	43,828	426
Deferred	(2,603)	(13,515)	11,619	2,396	32,576	39,851
Investment Tax Credit Adjustments	5,247	2,909	9,364	7,479	15,[illegible]	16,221
Other Taxes	21,048	20,330	46,075	42,8[illegible]	91,[illegible]	85,215
Total Operating Expenses	$265,012	$219,853	$588,214	$489,813	$1,118,544	$ 889,294
Operating Income	$ 49,140	$ 45,120	$110,378	$ 91,177	$ 225,500	$ 180,742
Allowance for Other Funds Used During Construction	3,434	2,993	6,750	5,85[illegible]	12,953	11,628
Net Other Income and Deductions	328	322	1,191	1,310	2,732	2,049
Income Before Interest Charges	$ 52,902	$ 48,435	$118,319	$ 98,337	$ 241,185	$ 194,419
Interest Charges	$ 24,885	$ 23,442	$ 50,128	$ 46,776	$ 97,180	$ 90,234
Allowance for Borrowed Funds Used During Construction	(3,425)	(2,912)	(6,733)	(5,692)	(13,065)	(10,402)
Net Interest Charges	$ 21,460	$ 20,530	$ 43,395	$ 41,084	$ 84,115	$ 79,832
Net Income	$ 31,442	$ 27,905	$ 74,924	$ 57,253	$ 157,070	$ 114,587
Dividends—Preferred and Preference Stock	6,897	5,528	12,413	11,058	23,455	21,795
Net Income Applicable to Common Stock	$ 24,545	$ 22,377	$ 62,511	$ 46,195	$ 133,615	$ 92,792
Common Shares Outstanding (Thousands)						
Average During Period	33,213	32,140	33,070	31,998	32,794	31,775
At End of Period	33,277	32,212	33,277	32,212	33,277	32,212
Earnings Per Common Share (Average Shares)	$ 0.74	$ 0.70	$ 1.89	$ 1.44	$ 4.07	$ 2.92

SALES VOLUMES (Thousands)

Electric—MWH	4,030	3,833	8,636	8,280	17,585	16,776
Gas—DTH	23,936	19,901	62,226	55,935	101,402	93,783
Steam—M lb.	376	362	1,143	1,141	1,995	1,956

The above interim statements contain apportionments and estimates of some items subject to final adjustment at the calendar year-end.

BALANCE SHEET

	June 30	
	1981	1980
	(Thousands of Dollars)	
ASSETS		
Utility Plant	$3,441,483	$3,213,861
Less Accumulated Depreciation	714,544	640,614
	$2,726,939	$2,573,247
Other Investments	$ 8,125	$ 7,890
Current Assets		
Cash	$ 2,509	$ 4,187
Accounts Receivable	125,883	111,874
Materials and Supplies	146,674	134,809
Other	11,846	12,181
	$ 286,912	$ 263,051
Deferred Fuel Costs	$ 45,142	$ 9,813
Other Deferred Debits	$ 39,139	$ 42,144
Total Assets	$3,106,257	$2,896,145
CAPITAL AND LIABILITIES		
Common Stock and Retained Earnings		
Common Stock	$ 651,467	$ 629,035
Premium on Preferred Stock	157	157
Retained Earnings	390,526	342,203
	$1,042,150	$ 971,395
Preferred and Preference Stock Not Subject to Mandatory Redemption		
Preferred Stock	$ 59,185	$ 59,185
Preference Stock	175,000	175,000
Convertible Preference Stock	7,214	8,033
	$ 241,399	$ 242,218
Redeemable Preference Stock	$ 100,000	$ 50,000
Long-Term Debt		
Mortgage Bonds and Debentures	$1,269,865	$1,239,076
Unamortized Discount and Premium	(4,271)	(3,935)
Long-Term Debt estimated to be retired within one year	(13,166)	(51,721)
	$1,252,428	$1,183,420
Current Liabilities		
Notes Payable	$ 26,250	$ 35,900
Accounts Payable	68,777	57,276
Taxes Accrued	22,458	33,083
Interest Accrued and Dividends Declared	63,017	57,212
Long-Term Debt estimated to be retired within one year	13,166	51,721
Other	35,753	21,126
	$ 229,421	$ 256,318
Deferred Investment Tax Credits	$ 122,994	$ 109,773
Deferred Income Taxes	$ 104,963	$ 72,387
Other Deferred Credits	$ 12,902	$ 10,634
Total Capital and Liabilities	$3,106,257	$2,896,145

Internal Cash Flow Projection for Calvert Cliffs Nuclear Power Station

Percentage Ownership in All Operating Nuclear Units	Calvert Cliffs Unit No. 1	100.00%
	Calvert Cliffs Unit No. 2	100.00%
Maximum Total Contingent Liability ($000)		$20,000

	Twelve Months Ended 6/30/81	Twelve Months Ended 7/31/82
Non-Cash Expenses ($000)		
Depreciation and Amortization	$133,792	$155,525
Deferred Income Taxes and Investment Tax Credits	45,797	28,923
Total	$179,589	$184,448
Percentage of Total to Maximum Total Contingent Liability	897.9%	922.2%
Retained Earnings ($000)		
Net Income After Taxes	$157,070	
Less Allowance for Funds Used During Construction	26,018	
Less Dividends Paid	85,039	
Total	$ 46,013	
Total Internal Cash Flow	$225,602	
Percentage of Total Internal Cash Flow to Maximum Total Contingent Liability	1128.0%	

State of Maryland)
)SS:
City of Baltimore)

Mr. E. A. Crooke makes oath and says that he is Vice President of Baltimore Gas and Electric Company; that the above Projected Cash Flow was prepared under his direction and in good faith in accordance with the stated Underlying Assumptions; that he has examined the above projection, and to the best of his knowledge it is a fair representation of cash flow for the twelve months ended July 31, 1982.

E A Crooke

Subscribed and sworn to before me, a Notary Public, in and for the State and City above named, this 28th day of July, 1981.

My Commission expires July 1, 1982.

Ruth H. Griese

Baltimore Gas and Electric Company

Underlying Assumptions for Projected Cash Flow

(1) Projected Cash Flow does not include an estimate of retained earnings. However, Internally Generated Funds without retained earnings are well in excess of the maximum possible retroactive premiums. The Company is expected to realize retained earnings net of Allowance for Funds Used During Construction during the projected period.

(2) Depreciation accruals based on composite straight line rates of 3.26% for electric property other than nuclear, 3.45% for nuclear property, 2.6% for gas, 2.75% for steam and 3% for common utility property.

(3) Estimates of Federal income taxes and other tax expense are based upon existing tax laws and any known changes thereto.

(4) Accounting policies consistent with those in effect June 30, 1981.

Baltimore Gas and Electric Company

Curtailment of Capital Expenditures

Estimated construction expenditures including nuclear fuel for the twelve months ended July 31, 1982 are $350 million. To insure that retrospective premiums under the Price Anderson Act would be available during the aforementioned twelve month period without additional funds from external sources, construction curtailments would affect all construction expenditures rather than impacting a specific project.