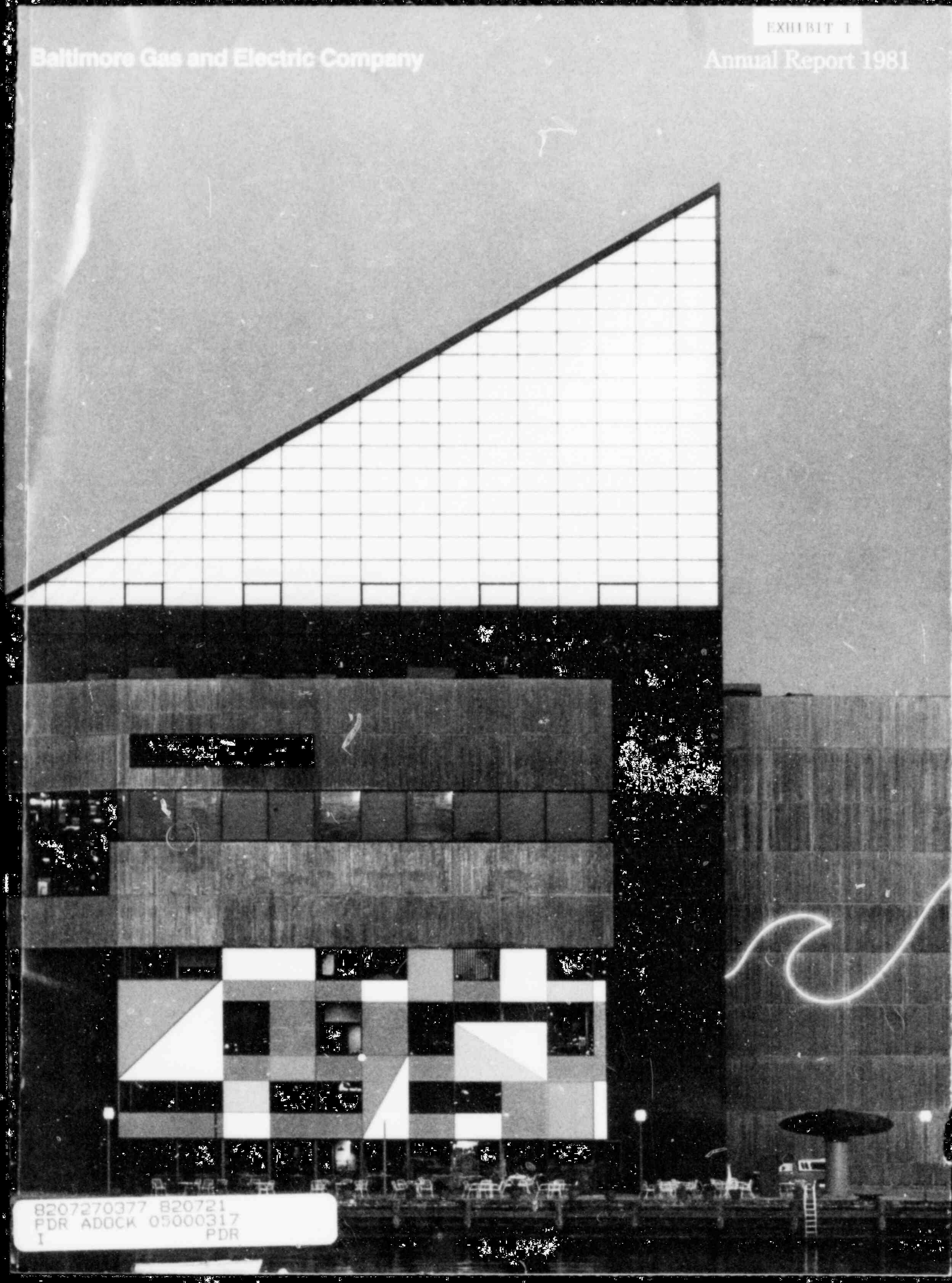
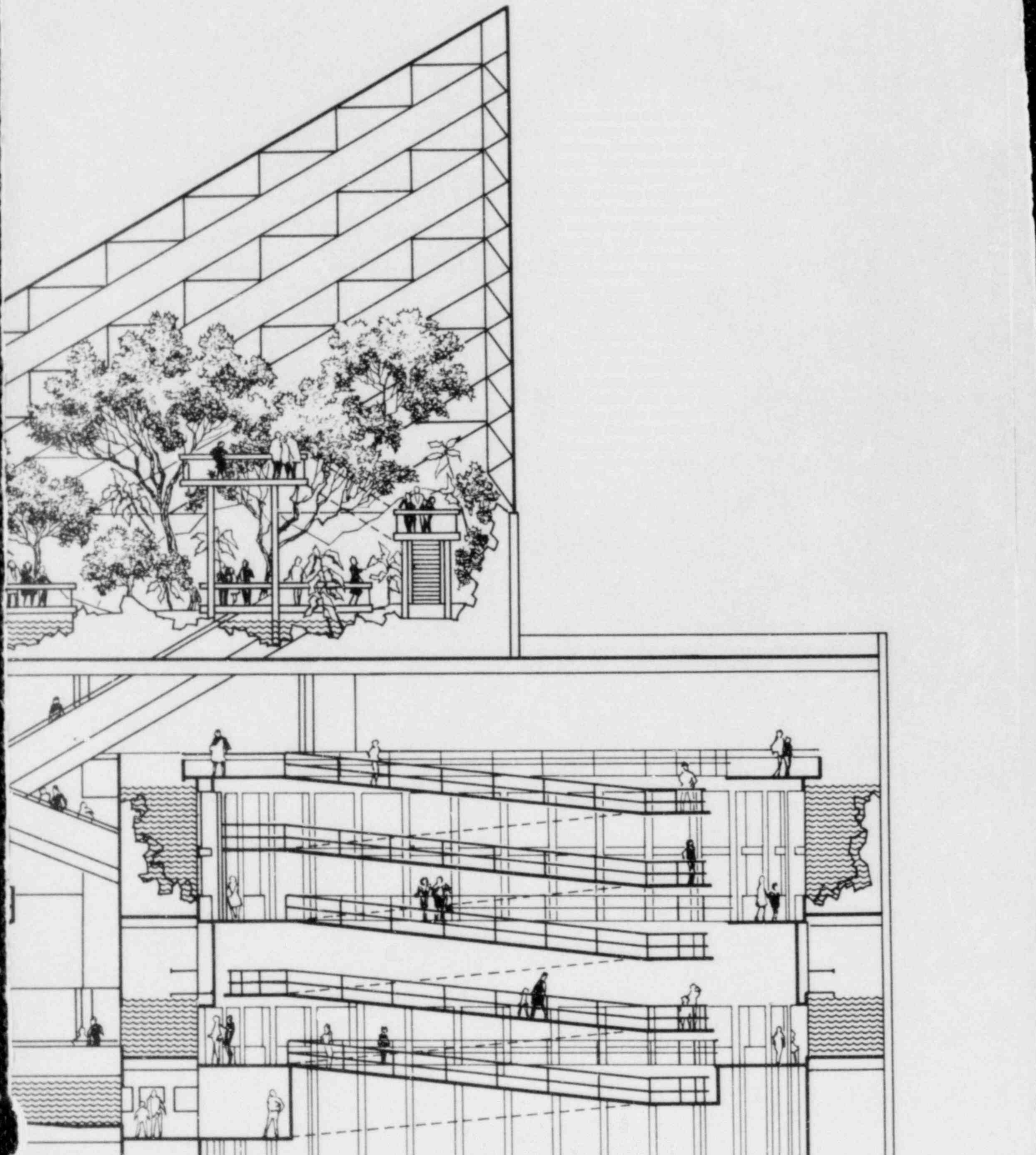
Baltimore Gas and Electric Company

Annual Report 1981





The National Aquarium in Baltimore, designated by an act of the United States Congress, is the nation's newest center of aquatic research, education and preservation. Opened in 1981, the Aquarium is on Pier 3 in Baltimore's sparkling Inner Harbor. The more than 115,000 square feet of exhibit space are briefly digested in the illustration below.

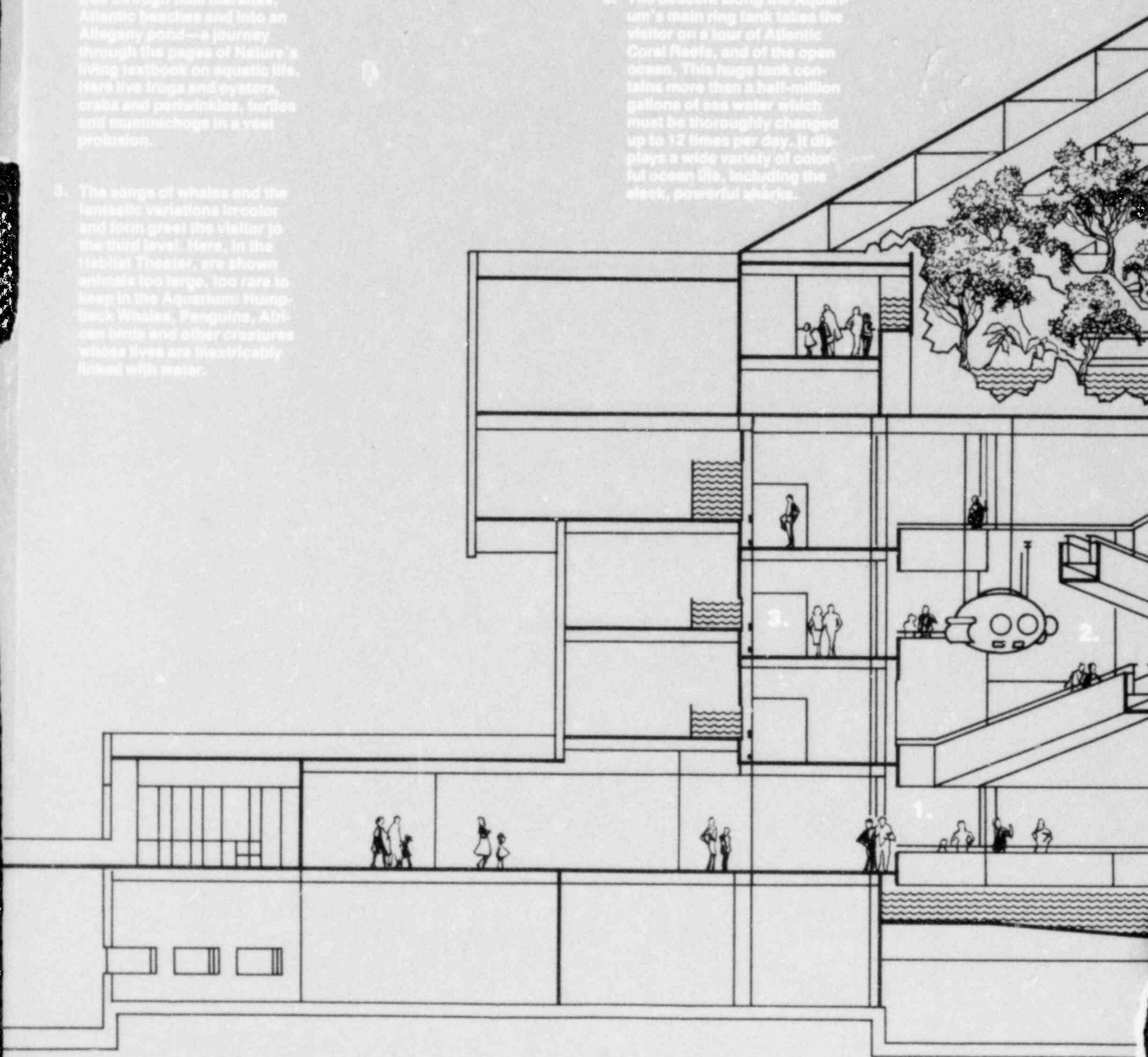
1. The Dolphin Tank, located just inside the entrance to the Aquarium, houses these sleek oceanic racehorses in an open environment that invites the visitor to become engrossed in their antics.

2. Ascending through the Aquarium the visitor takes a trek through tidal marshes, Atlantic beaches and into an Allegany pond—a journey through the pages of Nature's living textbook on aquatic life. Here live frogs and oysters, crabs and periwinkles, turtles and mummichogs in a vast profusion.

3. The songs of whales and the fantastic variations in color and form greet the visitor to the third level. Here, in the Habitat Theater, are shown animals too large, too rare to keep in the Aquarium: Humpback Whales, Penguins, African birds and other creatures whose lives are inextricably linked with water.

4. At the very top of the Aquarium lies the rain forest. A land-based environment in which every form of life depends utterly upon water, this living exhibit contains massive trees, ferns, vines, and the animals that live among them.

5. The descent along the Aquarium's main ring tank takes the visitor on a tour of Atlantic Coral Reefs, and of the open ocean. This huge tank contains more than a half-million gallons of sea water which must be thoroughly changed up to 12 times per day. It displays a wide variety of colorful ocean life, including the sleek, powerful sharks.



Financial Highlights

	1981	1980	1971
Earnings Per Share of Common Stock	$3.70	$3.64	$2.79
Average Shares of Common Stock Outstanding	33,353,000	32,258,000	19,885,000
Dividends Declared Per Share	$2.65	$2.50	$1.83¾
Revenues			
Electric	$ 934,160,000	$ 857,264,000	$ 274,587,000
Gas	467,949,000	354,736,000	105,622,000
Net Income Applicable to Common Stock	$ 123,243,000	$ 117,300,000	$ 55,390,000
Dividends—Common Stock	88,499,000	80,754,000	36,550,000
Earnings Reinvested in the Business	$ 34,744,000	$ 36,546,000	$ 18,840,000
Electric Sales—thousands of kilowatthours	17,584,000	17,228,000	12,485,000
Gas Sales—dekatherms*	105,582,000	95,110,000	91,769,000
Investment in Utility Plant	$3,437,089,000	$3,184,059,000	$1,565,781,000

*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.

The Baltimore Gas & Electric Company serves the City of Baltimore and all or portions of nine surrounding counties, an area of more than 2,300 square miles, in which more than 2.3 million people live.

BG&E Service Area

Perhaps once in every century a community creates a unique facility, one with power to change a region. The new National Aquarium is just such a facility, a symbol of Baltimore's return to the water's edge. It completes Baltimore's transformation from an old industrial city to a major tourist attraction. It fuels the momentum ignited by the addition of Harborplace, Charles Center, the Science Center and the World Trade Center.

In an era of energy consciousness, this noteworthy facility is but one of many that are being carefully engineered to be energy efficient as well as spectacular. BG&E is proud to salute these achievements.

Even as we applaud current conservation efforts, however, we are investigating sensible ways to meet the future energy needs of our service area—for the next year, the next decade, the next century. Such planning takes time. It is not simply a matter of applying the latest in energy technology to harness the most available of natural resources. Flexibility must be built in to accommodate political, social and economic uncertainties.

Planning for the future also takes people—people with broad vision, sharp technical expertise and steadfast commitment.

We're taking the time. We have the people. We're confident that BG&E can meet the energy needs of this dynamic service area in the future.

Contents

We're pleased to report that 1981 represented another period of positive growth for BG&E. Earnings per share were up modestly over last year. Our common stock dividend was increased; our construction program continued on schedule; and we were successful in pursuit of additional rate relief which will benefit operations during 1982.

BG&E's average rate per kilowatt hour of electricity and per therm of gas in 1981, as shown on page 7 of this report, continues to be the lowest among major East Coast cities from Norfolk to Boston. Although the rates have risen over the past decade, our customers are still receiving these services at bargain prices. We believe the Company can maintain these favorable price comparisons even with the additional rate increases we need to achieve proper financial performance for our investors.

That is why we felt confident in petitioning the Public Service Commission of Maryland in July for a rate increase totalling $186 million. The Commission responded by authorizing higher rates designed to produce an increase of $99.2 million annually. These new rates became effective in February 1982. The Commission's order increased the Company's overall rate of return to 10.96%, reflecting an increase in the authorized return on common equity to 15.5% from 13.6%. The amount of rate relief granted was disappointing. The evidence submitted by the Company fully supported a higher return on common equity and a more adequate allowance for future attrition on the Company earnings resulting from certain plant and equipment expenditures and the higher projected cost of capital. However, we believe that the authorized rate relief will protect the Company's financial integrity for the short run but additional rate relief will be required sooner than otherwise planned.


Bernard C. Trueschler

On the national scene, we are encouraged by many of the developments which have taken place during the past year. Especially promising is the long-awaited recognition that the industrial spirit of this country is being smothered by excessive regulation. Relief in this area has obvious long-term benefits for the utility industry. Of more immediate importance is the "Economic Recovery Tax Act of 1981" which represents a major change in fiscal policy of the Federal government. It demonstrates a strong shift away from a tax structure designed to further the social redistribution of income to one that creates incentives for savings and investment. The utility industry applauds these policy changes because they improve our prospects for finding the capital we so greatly need. Of particular interest in the Tax Act is the provision which allows special tax treatment beginning in 1982, for up to $1,500 of qualified public utility dividends reinvested in new issue common stock. This allowance will make it more advantageous for many individuals to invest in public utilities. BG&E's dividend reinvestment plan is a qualified plan under the Act.

We believe that 1981 may one day be viewed as a year of transition. There is a new mood in the country, a mood which is fostered by strong National leadership. This leadership offers new hope, but it is not without controversy. The new approach to changing the economic climate of the country has only begun, and stamina for the long run is essential. High inflationary pressures, which have been built into the general economy for well over a decade, will not be easily reversed. The psychology of dependence upon the Federal government is deeply ingrained but, as you know, the current administration is committed to shift responsibility from the Federal level to local governments and from the public sector to the private sector.

This shift is spawning some creative examples of local government and industry voluntarily working together to meet the needs of people, especially those with low income and the elderly. A prime example is the "Baltimore Blue Chip-In Program," an alliance between Baltimore business leaders and the City of Baltimore. Within this program, BG&E is working with the City and State of Maryland on a weatherization and energy education project that will initially encompass 1,000 low-income homes in the City over a twelve month period.

The "safety-net" concept is not new to BG&E. We are proud of our long standing record in this area. In May 1979, BG&E helped pioneer a "Fuel Fund" in Baltimore. This private, nonprofit organization is designed to help low-income customers pay their outstanding utility bills through their own funds, private charity contributions and matching BG&E bill credits. Since then this fund has spread to three adjoining counties. We have developed comprehensive programs to protect customers from utility terminations coupled with equitable bill payment arrangements that have benefited both our customers and the Company. These are but a few of many activities that demonstrate BG&E's commitment in support of the new directions being initiated by the Reagan Administration.

1982 will be a critical year in gauging the success of the Administration. Its programs and goals over the long term will be heavily influenced by the results of the 1982 elections. We urge you to exercise your right to elect congressional representatives who will provide the leadership for continued progress in resolving the vital issues that lay before us.

Finally, we know that successful achievements on the national, local or corporate level ultimately depend on the support and commitment of people. In recognition of this, we sincerely thank all of our employees for their considerable efforts and achievements in 1981.

B. C. Trueschler

Bernard C. Trueschler
Chairman of the Board

February 10, 1982

In reviewing BG&E's operations for the year 1981, it should be noted that no report could adequately describe all the activities pursued by our employees on behalf of our customers and our stockholders. It was a very busy year and, as the following highlights indicate, it was a year of significant achievement in fulfilling our commitment to meet the energy requirements of Central Maryland.

Total sales of electricity in 1981 increased by 2.1% over last year due to a 5.1% increase in industrial sales. Cooler weather this summer was partially responsible for residential sales remaining at approximately the same level as last year and for commercial sales decreasing 1.9%. Total sales of gas increased 11.0% primarily as a result of a 15.7% increase in sales to large commercial and industrial customers; sales to residential and small commercial customers were up 4.0% and 15.8%, respectively. The higher gas sales are largely attributable to conversions from oil to gas for heating and the addition of large boiler fuel loads.

In 1981, our Calvert Cliffs Nuclear Power Plant established a new performance record by generating 5% more electricity than in its previous record year of 1980. Total fuel savings from the plant have reached the rather staggering sum of over $1.8 billion—an amount equivalent to more than two times the total cost of the plant. These savings have been passed on to our customers since the first unit was placed in service in 1975.

George V. McGowan

During 1981, all major projects included in our construction program proceeded on schedule. The reconversion of Charles P. Crane Power Plant from oil to coal should be completed by the summer of 1983. The cost of modifying this 400 megawatt plant is estimated at $44 million, and the net savings from the use of lower-cost fuel will be a substantial benefit to our customers.

The construction of two new coal-fired 620 megawatt units at our Brandon Shores Power Plant is now over one-half completed, with one unit scheduled for service in 1984 and the second in 1988. The total cost of the plant is expected to be $1.1 billion, equivalent to an average cost of $900 per kilowatt of generating capacity—a relatively low cost for units completed in this decade.

In terms of hydrogeneration, we're beginning to expand the capacity of the Safe Harbor Water Power Corporation—a facility in Pennsylvania of which BG&E is a two-thirds owner. The expansion plans provide for five units increasing the total capacity by about 190 megawatts. All units are scheduled for service by the end of 1985.

The completion of these projects should enable BG&E to meet the electric energy needs of Central Maryland through the 80's. Our projections indicate additional generating capacity will not be needed before the early 90's. When that need becomes a reality, we will be prepared.

In September, we announced preliminary plans to build a future generating plant on a Company-owned site in Harford County, Maryland. We hope to incorporate new coal-derived fuel technology at this plant. Depending on actual growth in peak demand and the

possibility of purchasing generating capacity from other utilities, the tentative completion date for the plant will be sometime during the mid 90's. We are therefore incorporating maximum flexibility in the planning process for this new plant.

While we recognize the importance of and actively encourage energy conservation, we know that real economic growth cannot be sustained without expanding our energy production capabilities. This is especially true for electric utilities since they are best suited to employ our most abundant energy resources. The opposition to new central power plants espoused directly by a few activist groups and indirectly by others is naive at best and most certainly damaging to the future of our country. As you can see from the projects described in previous paragraphs, BG&E firmly rejects the no-growth agenda.

This does not mean that in building for the future, we are not actively investigating a variety of alternative energy sources. We're working with local municipalities to use solid trash to produce steam for the generation of electricity; we're heavily involved in fuel-cell research and hope to have our own test cells in operation within the next few years; and we're currently testing solar water heating systems. The common goal of all our research is finding the most cost-effective way of producing and using energy.

We made excellent progress during the year on projects designed to improve our internal operating efficiency. In October, we completed construction of our unified control center which will house our entire electric system operations function. The new center will be fully operational in late 1983. In December, we opened an extremely modern and fully equipped shop complex at Brandon Shores which includes specialized labs and shops to support our operations. And, organizationally, we restructured the Engineering and Construction Division to expand the project management approach to more projects in order to improve our control of schedules and resources.

Our gas business continues to improve with minimum additional capital requirements. The increase in the availability of gas from our supplier and the addition of new customers have been very beneficial. Partial deregulation of natural gas was initiated by the Natural Gas Policy Act of 1978. The cost of gas has increased and will continue to increase under its provisions. However, recent contracts negotiated between producers and pipeline suppliers contain gas prices which, in some cases, exceed the market value of natural gas. We are concerned with this trend and these pricing provisions. Consequently, during a period of transition from a regulated to a deregulated or competitive market environment, it appears that further modifications of the Federal regulatory procedures are necessary in order to avoid an adverse impact on gas distributors and ultimate customers.

We can look back on 1981 with pride in our accomplishments and forward to the future with cautious optimism and confidence. Our projected construction and financing requirements are moderate and manageable. And we're fortunate to be serving a revitalized territory which is now one of the most dynamic in this country. In sum, 1981 was a good year, and we expect 1982 to be even better.

George V. McGowan
President

February 10, 1982

Earnings and Dividends
Earnings per share were $3.70 in 1981 compared with $3.64 per share in 1980. The quarterly dividend on common stock was increased to $.67 from $.64 per share effective with the July 1, 1981 payment. The new rate is equivalent to an annual dividend of $2.68 per share.

Rate Relief
On February 8, 1982, the Public Service Commission of Maryland granted the Company $99.2 million of rate relief on an annual basis. The new rates are designed to increase electric revenues by $84.8 million or 9.2%; gas revenues by $13.1 million, or 3.0%; and steam revenues by $1.3 million, or 7.0%. In its Order, the Commission increased the Company's overall rate of return to 10.96% from 9.55% reflecting an increase in the return on common equity to 15.5% from the previous authorized level of 13.6%. The rate for capitalizing the Allowance for Funds Used During Construction for expenditures on the Brandon Shores Plant was increased to 9.13% compounded annually compared with a rate of 8.13% without compounding.

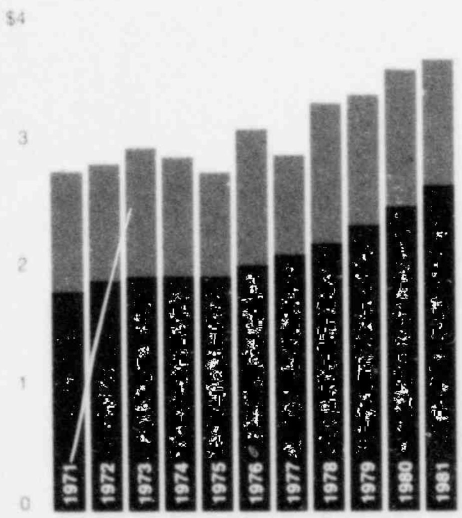
Nuclear Insurance
The Company has received approval from the Commission to include in operating expenses which the Company recovers from its customers, insurance premiums associated with Nuclear Electric Insurance Limited. This insurance is designed to reduce the impact on the Company and its customers of the extraordinary cost of generating or purchasing replacement power in the event of a prolonged outage at Calvert Cliffs. All proceeds recovered under this insurance would be used to offset the cost of purchased electricity provided to BG&E's customers. Revised rates to cover the initial premium of about $4.1 million became effective in February 1982.

Construction Program
During 1981, $267 million was spent on construction of which $224 million was expended on electric facilities, including the Brandon Shores Power Plant, and $21 million on gas projects. In addition, $40 million was spent on nuclear fuel. The Company estimates that 1982 construction expenditures will approximate $380 million with an additional $47 million being expended for nuclear fuel.

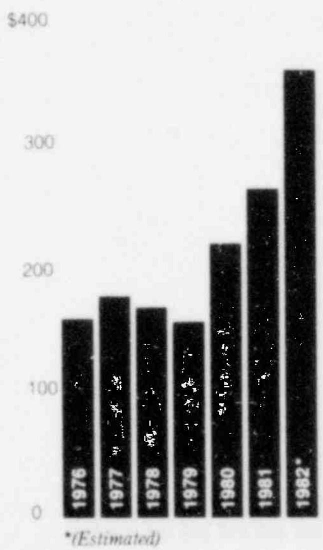
Security Transactions
During the year 1981, the following securities were issued or retired:

500,000 shares of 12% Cumulative Preference Stock ($100 par value) were sold in April. The new stock was issued in two series—340,000 shares of Series A redeemable at par in equal amounts in each year 1987-1991 and 160,000 shares of Series B redeemable in 1991.

$75,000,000 of 16¾% Series due 1991 First Refunding Mortgage Bonds were sold in September.



Earnings and Dividends Declared Per Share of Common Stock



Construction Expenditures
(Millions of Dollars)

$11,000,000 of 9% Series due 1984 First Refunding Mortgage Bonds were issued to the Trustee to secure withdrawal of funds made available to the Company from the sale of $40,000,000 of 9% Pollution Control Revenue Bonds by Baltimore County, Maryland in June. The proceeds of this sale are held by a Trustee subject to withdrawal by the Company to finance pollution control facilities at the Charles P. Crane Power Plant.

$5,000,000 of 6.80% First Refunding Mortgage Bonds were issued to the Trustee to secure the withdrawal of funds remaining from the $20,000,000 of 6.80% Pollution Control Revenue Bonds sold by Anne Arundel County, Maryland in 1979, to finance pollution control facilities at the Brandon Shores Power Plant.

$39,063,000 of Series U 2⅞% due April 1, 1981 First Refunding Mortgage Bonds were redeemed at maturity, and $16,241,000 principal amount of bonds and debentures were retired for sinking fund operations.

1,145,412 shares of common stock were issued to cover conversions of the convertible preference stock and to provide shares purchased under the Dividend Reinvestment and Stock Purchase Plan and the Investment Tax Credit Employee Stock Ownership Plan.

Short-term capital needs were financed during 1981 through the sale of commercial paper and a bank loan at interest rates ranging from 11⅜% to 20⅝%. Short-term debt is issued on an interim basis to provide funds for construction and other corporate purposes.

Dividend Reinvestment and Stock Purchase Plan

Common stockholders of the Company are provided the opportunity to acquire additional shares of common stock under the Plan by reinvesting their cash dividends and/or by making quarterly cash payments. Reinvestment purchases are made at a 5% discount from the average market price while cash payment purchases are made at market price. There are no brokerage or service fees incurred on such purchases.

The Plan's attractiveness has been enhanced by enactment of the "Economic Recovery Tax Act of 1981." This Act allows a stockholder participating in a qualified dividend reinvestment plan of a public utility during the period 1982-1985 to elect to defer taxes on dividends reinvested in new shares of common stocks with an annual limit of $750 for a single taxpayer and $1,500 for a joint return. BG&E's Plan is qualified under the Act. Because tax consequences will vary, participants should discuss specific tax questions with their own tax advisors.

During 1981, over 20% of the common stockholders reinvested $16.2 million representing 18.6% of common dividends in additional shares under the Plan. Participation had increased to 25% of stockholders and 20% of total common dividends paid on January 2, 1982.

Average Rate Per Kilowatthour of Electricity All Customer Categories
(Full Year 1981)

Baltimore	**5.30¢**
Norfolk, Va.	5.32
Washington, D.C.	6.08
Wilmington, Del.	6.55
Philadelphia, Pa.	7.14
Newark, N.J.	7.75
Atlantic City, N.J.	8.17
Boston, Mass.	9.16
New York, N.Y.	12.69
8-City Average	**7.86**

Average Rate Per Therm of Gas All Customer Categories
(Full Year 1981)

Baltimore	**43.89¢**
Norfolk, Va.	47.13
Wilmington, Del.	50.00
Philadelphia, Pa.	51.19
Washington, D.C.	51.88
Atlantic City, N.J.	52.64
Newark, N.J.	55.17
Boston, Mass.	58.34
New York, N.Y.	62.94
8-City Average	**53.66**

What will the U.S. Energy picture look like in the year 2000? Will central station solar power be a reality? Nuclear Power a publicly accepted energy source? Oil power but a distant memory?

If technological, economic and environmental considerations were the only ones at hand, then we're convinced that nuclear power would emerge as the nation's primary energy source by the year 2000, with coal as the secondary source. But the utility industry is subject to public attitudes and legislative constraints which inevitably affect the direction individual companies may take.

To cope with the complex and unpredictable nature of public attitudes and legislative behavior, BG&E is committed to a highly flexible long-range planning strategy. This strategy has produced: the coal conversion project at the Charles P. Crane Power Plant; the planned coal-fired capability of our Brandon Shores Power Plant; the expansion of our hydroelectric generating capacity at Safe Harbor; and the preliminary plans for building a coal-powered plant in Harford County, Maryland.

A flexible approach to planning is important, but it is not enough. We believe that the public and those who affect public attitudes must be presented rational solutions to energy problems—not emotional rhetoric.

New construction—to take full advantage of modern energy conserving technology—is blended with the traditional grace of old Baltimore in the new townhouses of Harbor Walk. The use of double glazing, thick insulation and heat pumps for space conditioning assures maximum efficiency in energy use.

Baltimore's grand new Convention Center is 400,000 square feet of prime meeting space ranging from small rooms to massive exhibit halls offering more than 115,000 square feet of floor space.

In 1981, BG&E continued its solid support of programs designed to communicate with the public, including legislators and regulators. Our public affairs staff in Washington works full time informing Congressmen and Federal regulatory agencies of the Company's and the industry's positions with respect to energy and other matters. This information program is also extended to state and local government. Through the Edison Electric Institute and the American Gas Association, we support other efforts at public education on energy. Through our Speakers Bureau, we discuss energy policies with civic and community groups. In addition, BG&E has sponsored or co-sponsored an energy symposium for the news media and a conference on the outlook for Nuclear Energy, distributed a booklet entitled, "Calvert Cliffs—Nuclear Power for Central Maryland," and greatly increased the number of tours of the Calvert Cliffs Nuclear Power Plant.

Energy education is not an easy process. Attitudes are slow to change, and opponents of sensible energy courses are quick to criticize. Moreover, legislators understandably tend to view energy problems with a short-term perspective, while tough energy decisions are—and must be—long-term. We shall continue the pursuit of rational energy policies for the sake of our Company and our customers.

The Lyric Theater, long a landmark in Baltimore, has received a long overdue facelift. For years this focus of Baltimore's performing arts was the City's sole house for the Baltimore Symphony, the Baltimore Opera Company, and the ballet. The new Symphony Hall, now under construction, will herald a new age in the performing arts by adding substantially to the number and diversity of performances.

More than 4 million people pass through the passenger gates of the Baltimore-Washington International Airport each year. Truly a regional gateway, BWI offers daily flights to every corner of the nation and to many parts of the world, and has grown into the area's largest air freight terminal.

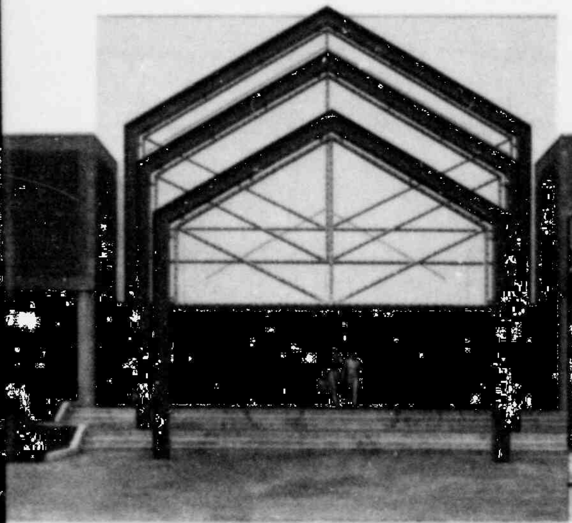
The public's view of waste disposal is all too often charged with emotion and distorted by misunderstanding. In 1981, BG&E assumed an active role in solving waste disposal problems.

Consider fly ash, a by-product of coal combustion. By 1988, when both Brandon Shores units are on line, the Company will be generating about 500,000 tons of fly ash a year. What once was considered waste is really a resource and presents exciting business opportunities for BG&E, not vexing disposal problems. Fly ash has several possible uses: as a partial substitute for cement in concrete production; as a lightweight aggregate in block and other masonry products; as a road base material; and, most notably, as an excellent structural fill and architectural landscape material.

As part of its Ash Management Program, the Company purchased in 1981 a 268-acre parcel of land adjacent to Brandon Shores. We worked with Anne Arundel County officials to change landfill regulations to permit the use of fly ash as a structural fill. Our new subsidiary—Resource & Property Management, Inc.—will develop this tract into a prime site for the development of a beautiful, modern business and residential community. The subsidiary will also be developing plans for a future site for the utilization of fly ash from our Charles P. Crane plant.

Due to the shortage of landfill space, the disposal of commercial and domestic solid waste, commonly known as "trash", has become a major problem in

The retailing core of White Marsh, a new town center in northeastern Baltimore County, is the largest enclosed shopping mall in the region. It has been designed to maximize efficient use of energy used to heat and cool. Glazing of clerestories and skylights is varied to accommodate seasonal variations in the Sun, and major department stores include demand control systems to fit electric use to actual need.

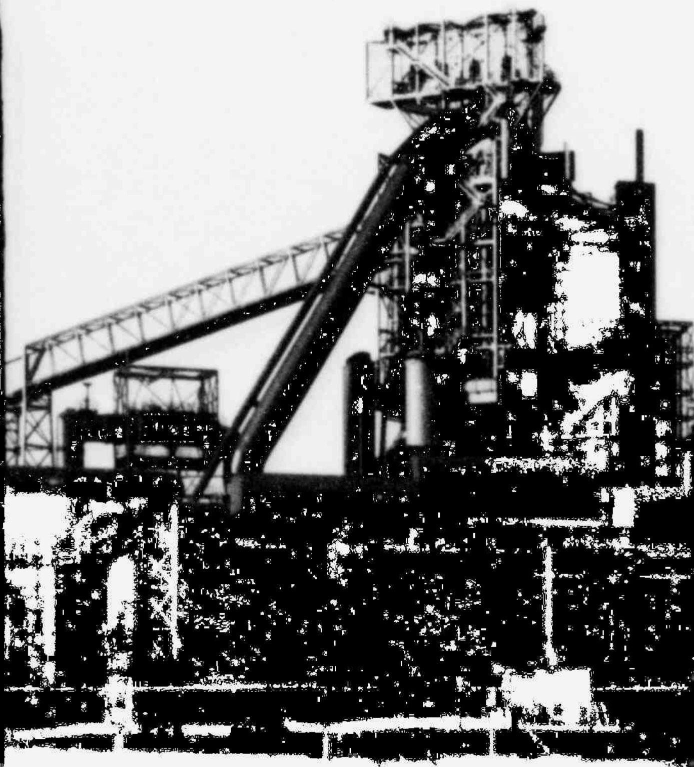


New Metro West is the Social Security Administration's main claims processing center. Operated and maintained by the General Services Administration, the building is an example of good energy planning and conservation and provides year-round comfort for the 5,200 people working there.

large urban and metropolitan areas across the Country. BG&E is working with local jurisdictions to combat this problem. In 1980, test burns of Refuse Derived Fuel or processed trash at our Charles P. Crane plant were very encouraging and after the plant is converted to burn coal, we will be conducting further tests to determine its potential as a cheap fuel. This testing is tentatively scheduled to start early in 1984. We are also engaged with local municipalities in a project of theirs to build a central waste disposal plant which will produce enough steam to generate approximately 40 megawatts of electricity. BG&E would purchase all of the electricity produced.

With respect to nuclear waste, BG&E has adequate on-site storage capacity for spent nuclear fuel into the 90's, and low-level nuclear waste is currently being handled at a site in South Carolina. But the fact remains that long-term solutions for the storage of such material are essential. Consequently we are working with the State of Maryland and other states in the region to solve the low-level nuclear waste problem and with the Federal government to develop plans for the ultimate disposition of spent fuel.

We plan to increase our efforts to find creative solutions to the problems of waste disposal, solutions that are not just passively acceptable but clearly beneficial to the Company, our country, and to the towns and cities they will affect.



Bethlehem Steel's massive "L" blast furnace at the Sparrows Point steel plant is an example of the substantial savings that accrue from industrial use of gas instead of oil. The furnace, one of the largest in the world, recently set a new record for iron produced in one day.

Homewood House, an historic landmark and symbol of famous Johns Hopkins University, is near the site of the new Space Telescope Science Institute, now under construction on the University's campus. When completed, the Institute will house film recording and data processing equipment to record and regulate images received from an orbiting telescope. Due to the sensitivity of the equipment, this facility must be free from vibrations and will require carefully filtered, dust-free air and precisely regulated temperatures.

Minimizing energy costs, maximizing energy efficiency, and maintaining an adequate level of earnings—these are the goals we have established for the benefit of our customers and our stockholders.

Despite aggressively seeking rate relief as needed, *we have succeeded in keeping energy costs down;* indeed, gas and electric prices in the Central Maryland area, as shown on page 7, remain the lowest of all major East Coast cities from Norfolk to Boston. We plan to maintain this favorable comparison by continually stressing efficiency in operations to our employees and energy conservation to our customers.

As in past years, a major factor in our ability to maintain low energy costs was the Calvert Cliffs Nuclear Power Plant which supplied 61 percent of our customers' total electric requirements in 1981. At the same time the plant, established another milestone by reaching a new level of electric generation. We're proud of Calvert Cliffs' reputation—backed by performance—as one of the nation's most efficient nuclear facilities.

BG&E's efficiency, however, extends well beyond Calvert Cliffs into all areas of the Company's operations: minimizing outages of other electric generating facilities; streamlining operating procedures;

Baltimore's newest hotel, the Hyatt, located at the Inner Harbor, offers 502 luxurious rooms. Constructed with reflective glazing on all wall surfaces, the hotel is heated by electric fan coils that provide economical heating precisely where and when it is needed.

Full electric service, including cooking and individual heat pumps for economical space conditioning, are hallmarks of this new 110-apartment building for elderly residents. Hot water needs will be served by a gas-fired boiler.

developing sound contingency plans for adequate and reliable service; and, above all, ensuring that all Company employees are well trained to perform their assigned tasks in the most efficient possible manner.

Keeping energy costs down also requires sensible use of available energy. In 1981, we took a number of steps to help our customers conserve energy. A few examples: offering educational programs to meet the needs of specific industrial and commercial customers; participating on advisory committees for various weatherization and conservation programs; conducting in-home energy audits; participating in the National Energy Watch Program by certifying new homes and businesses as energy efficient; distributing energy tips via bill inserts to residential customers; making available our conservation exhibits at locations throughout the State; and providing Company representatives to speak on energy-related topics to scores of community organizations.

We shall continue in 1982 to do our share—and more—to ensure that our customers can continue to meet their energy requirements at the lowest possible cost.

The manufacture of aerospace components is demanding; failures that occur outside the atmosphere, even in seemingly insignificant parts, can result in losses of millions of dollars. New electric autoclaves for adhesive bonding, and a new drop-bottom electric furnace for heat-treating aluminum parts are saving time, increasing production and assuring quality.

All-electric Provident Hospital, one of the first so constructed in the nation, has proven so efficient in energy use that it qualified for a National Energy Watch Award. The National Energy Watch Program, sponsored by the Edison Electric Institute, is the nation's first nationally organized energy conservation effort.

BG&E's corporate pulse beat depends in large measure on the economic life blood of the region we serve. But it takes more than a favorable location to be successful—more even than a sound financial base or efficient machinery or the latest in energy technology.

It takes people, dedicated employees, forming a dynamic team committed to the goal of helping BG&E meet the area's energy needs. As one of the State's largest private employers, we're proud to count our 9,000 employees as part of our Corporate "team."

Many of our employees have jobs that bring them in contact with the public—meter readers, line mechanics, customer representatives and personnel in our appliance stores. Most, however, work in less visible positions—as engineers, accountants, computer specialists, plant operators, secretaries and maintenance people, to name only a few.

Whether working out front or behind the scenes, our employees do more than just get the job done. There are many day-to-day problems facing both the industry and our Company in supplying service. Through the efforts of our employees, we are trying to solve some of them. Employees are working to meet the problems of productivity and changing technology by sharpening their skills and enhancing their knowledge through participation in the Company's Educational Assistance Plan. In 1981, 800 attended schools and colleges. Hundreds of others participated in Company sponsored training programs in both technical and management skills.

A major service organization like BG&E could not function for very long without a continuous and rapid supply of parts and equipment to replace worn or damaged elements of our systems. Glenn Daughton, a Materials Handler at the Company's Rutherford stores facility, is one of the men who work the front lines of supply by locating and retrieving any of the thousands of items kept ready for shipment to our crews within hours.

Engineering is the foundation upon which all of BG&E's services are built. Power generation, gas or electric distribution, energy use and conservation all focus upon the work of the engineer. Larry Noll, Project Engineer for the Company's expansion of the Safe Harbor hydroelectric facility, is working on the design and engineering phases of the expansion, which will add five 37.5 megawatt turbines to the plant.

BG&E men and women have always been known as active, informed citizens. Some 1,500 employees participate voluntarily in the year-round, educational activities conducted by the Company's Government Affairs Program. Through this program they meet regularly with Federal, State, and local officeholders and candidates of both political parties to discuss major public problems and governmental concerns. Additionally, two registered, non-partisan political action committees, BG&E PAC and BG&E State PAC, are supported by voluntary monetary contributions from 200 eligible executive and administrative employees. In accordance with applicable Federal and State laws, the funds thus donated are used exclusively to help finance the election campaigns of legislative candidates—for the U.S. Congress, the Maryland General Assembly, and City and County Councils within Central Maryland—whose public records attest to their wholehearted belief in America's private enterprise system, including investor ownership of public utilities.

BG&E people contribute generously to the United Way campaign, setting a record in 1981, giving over 10% more than in 1980. Clearly, they make a difference to the communities in which they live as well as to the Company for which they work. We salute not just the 5 people shown below but every employee on the BG&E team.

Electricity is quiet, dependable power, and we have often taken it for granted. But, when the power fails, it is inconvenient at best—at worst, it can be a tragedy. BG&E's service operators, men like Steve Gahm, stand ready to restore power as rapidly as possible. Often working 14 or more hours daily during storms, BG&E's "trouble-men" and distribution service crews are the visible part of the overall effort as the Company moves into action.

Financial planning is vital to the health of any business, but to a public utility it is an especially important function. Earnings estimates, short- and long-term projections and forecasts keep a finger to the pulse to ensure that earnings, rate structures and service are kept in balance. Joyce Peitz, Financial Planning Analyst, evaluates financial performance for Management.

During June 1981, Nature went on a rampage. In a few short hours, tens of thousands of BG&E customers were without power as thunderstorms ripped up utility poles and sent trees crashing through lines. To assure that we can restore service quickly, each of BG&E's districts operates a Storm Center in which all of the district's activities are coordinated. JoAnn Bell, an Expediter for the Northern District, assists service crews by analyzing incoming data to pinpoint the trouble.

Coal and oil have formed the mainstays of the utility industry since its founding in the waning years of the last century. But oil, though relatively clean and straightforward in use, has ballooned faster in price than any other energy resource. And coal, though the most abundant fossil fuel, is difficult to burn cleanly and efficiently.

If we are to meet the future energy needs of our customers, we must find answers to the complex questions of energy supply, maximum efficiency and minimum environmental impact. Finding these answers requires research, and BG&E is underwriting energy research on several fronts.

The ways we consume energy in the production of electric power today may vary radically from the ways in which we will use it in the future. Our next planned electric generating plant is not scheduled to begin operation until the mid 90's, but the fuel it will burn, and the ways it will use that fuel, must be decided upon long before the plant can be constructed.

Because of its abundance, economy and ease of supply, coal is the logical choice for this plant. But current coal technology means relatively low thermal efficiency and demands the installation of costly pollution control equipment to minimize the environmental impact of the plant's emissions. Finding new ways to use coal, in an environmentally acceptable manner, is the focal point of a major research effort in which BG&E is participating.

The Sun's rays are the subject of ongoing research at BG&E. The Company monitors two major active-solar energy installations, is monitoring 30 residential installations, and is planning construction of a commercial/light industrial park on property adjoining the Brandon Shores plant. Preliminary studies are underway for this development to utilize waste heat from the generating plant and to contain buildings designed to make maximum use of passive-solar energy. Robert Diehl, Senior Engineer in Energy Services, inspects the solar installation on the roof of one of the Company's service centers.

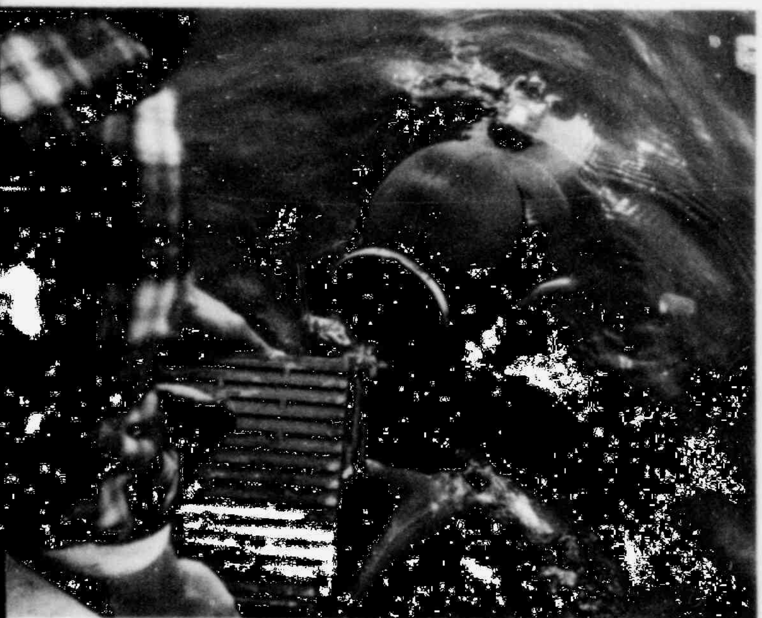
The $135 million KILnGAS demonstration project will explore the advantages of using a rotating kiln to extract clean, burnable gases from coal. The system will be able to use a variety of coal types, eliminate the need for costly pollution control equipment on smoke stacks and significantly reduce the environmental impact of electric generation plants. Shown is a view of what a rotating kiln will look like.

In the joint KILnGAS program with Allis Chalmers, the State of Illinois and several other utilities, BG&E is looking into ways in which coal can be turned into a clean burnable gas. Since the pollutants are removed in the gasification process, this gas burns with no need for emissions control.

Another new coal technology being investigated by BG&E is the fluidized-bed combustor. In this process, crushed coal is burned in a loose bed of limestone. Sulfur, the principal pollutant in coal, is absorbed by the limestone for convenient disposal or recovery.

During 1981, BG&E invested nearly $6 million in these and other research projects. Some we've undertaken on our own, others we're supporting through the Electric Power Research Institute, the Gas Research Institute or joint projects with other utilities or private industry. Some of these projects are highlighted on these pages.

Where this research will lead in the coming years is not yet clear. There are many problems and many paths. But, in the meantime, our commitment to research—to finding future answers and sound, sensible ways of meeting the energy needs of our customers—remains steadfast.



Over the last five years BG&E has invested nearly $8 million in a program to monitor the quality of water used in the operation of generating plants to ensure that the water is returned to the environment with the least impact possible. These studies have led to the development of standards and procedures which are helping to preserve the Chesapeake Bay and its tributaries. Anna Klein, a consultant benthic ecologist, is working with the Company in these studies.

The Onsite Fuel Cell Energy Systems Project, a joint effort of the Gas Research Institute, the Department of Energy and United Technologies, is designed to test the commercial potential of fuel cells in applications at the power user's site. The 40 kilowatt units convert chemical energy directly into electricity. Where both the electricity and the process heat can be used, the fuel efficiency increases dramatically. BG&E, a member of GRI, is participating in this project and will install a fuel cell at a selected location in 1983.

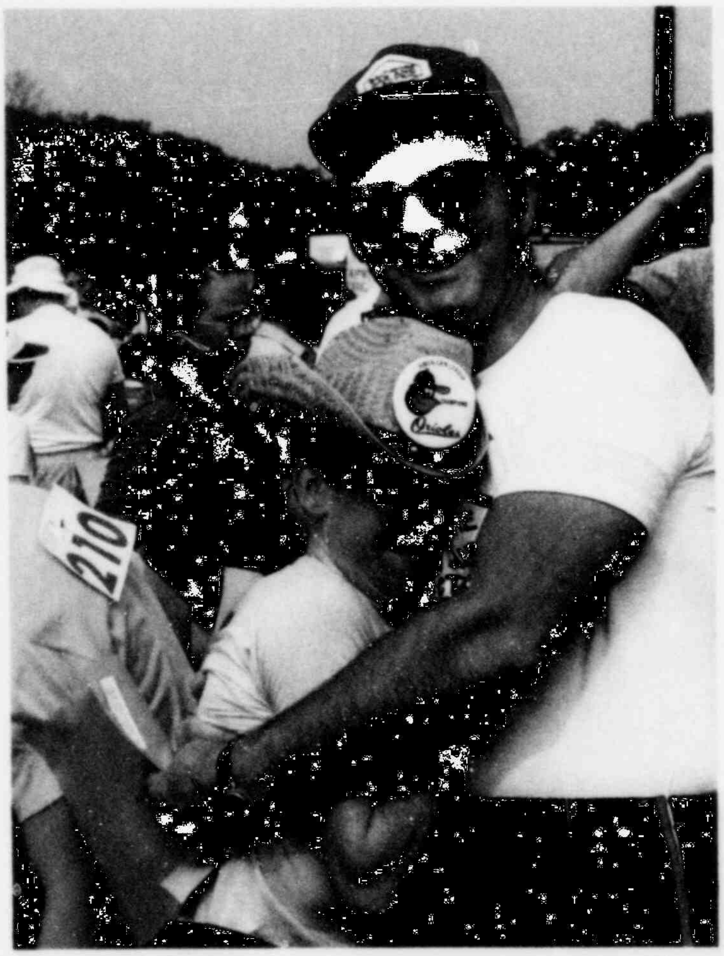
As part of the Fuel Cell Users Group of electric utilities, BG&E is also funding a portion of the Electric Power Research Institute's research into the applications of multi-megawatt fuel cells for large-scale power generation. A test plant of about 5 megawatts capacity is now under construction in New York City. Data developed by this pilot plant will assist in defining system requirements for use throughout the industry. Shown is a typical fuel cell stack in the manufacturing process.

The grand opening of the Aquarium, the irresistible magnetism of Harborplace, the unqualified success of the Convention Center—all combined to thrust Baltimore squarely into the national spotlight in 1981, to showcase the City as an example of what can happen when the public and private sectors work together toward a common goal.

BG&E believes we are now in an era in which all U.S. corporations must demonstrate good citizenship and recognize their obligations to further the well-being of the communities in which they conduct their business. We also believe we must do our full share since the economic health of our Company depends upon the social and financial health of the Central Maryland area we serve.

BG&E personnel provide active leadership for State and local chambers of commerce and other organizations directing their efforts to the overall economic development of the area. We also help individual businesses wishing to expand and State, county and city officials seeking to attract new industry to Central Maryland. BG&E further provides financial assistance to the Economic Development Council of Greater Baltimore, a private/public partnership for area development.

Through our new subsidiary—Resource & Property Management, Inc.—BG&E will become directly involved in developing land to broaden the industrial basis of the area's economy. We look forward to this venture and believe the results will benefit the Company and the community.



The annual Special Olympics is the kind of event that swells the chest with pride—both for the participants in the events and the "huggers" and helpers who, by volunteering their time, love and effort, give handicapped people a chance to accomplish something otherwise out of reach. Thomas Mostyn, Auditor in Audits and Methods, is shown as a typical BG&E "Hugger".

BG&E employees donate countless hours to voluntary community activities. Their reward: the sheer pleasure of lending a helping hand, the warm smile of a happy child, or the sure knowledge that their contribution matters. Myrna Wollenweber, Secretary in Customer Service, helps to increase the supply of vitally needed blood, a small act in itself, but it can bring large results in the lives of those who need help.

BG&E's responsibility as a corporate citizen was manifested in other important though sometimes less publicized ways. A prime example: the establishment of the Baltimore Energy Alliance Program, an offshoot of Mayor Schaefer's innovative Blue Chip-In Program. Briefly stated, the Baltimore Energy Alliance Program entails our support of nine ex-CETA workers who are insulating the attics of some 1,000 low-income customers. Customers selected for this program receive a free in-home energy audit from the Company as well as the weatherization/utilization sevices.

People, of course, are the mainstay of any community. BG&E employees and their families exemplify "Partners in Progress" by actively enhancing the social welfare of the community. They contribute their time and talents in countless ways by coaching little league teams, tutoring kids, bringing cheer to senior citizens and hope to the handicapped. They volunteer for schools, hospitals, churches, fire companies and other activities which make Central Maryland a good place to live.

We're proud of the success of these cooperative ventures and convinced that 1982 will bring even more opportunities for us to participate in developing our total community—both socially and economically.

Baltimore's annual Walk-a-Thon for the March of Dimes is the largest in the nation, and this event raises more money to combat birth defects than any other comparable event anywhere. Every year, BG&E employees turn out by the hundreds to assure the continued success of this annual tradition.

The warm smile that comes from shared happiness is a large reward to many BG&E employees as they give of themselves in hospitals, nursing homes and community centers. Clarence Shelley's red suit and white beard have brought many smiles to the faces of aged or chronically ill patients at the Company's annual Christmas parties, as have the myriad cookies, flowers or small gifts made and distributed by BG&E people. Mr. Shelley is a Job Analyst in Corporate Staff Services.

The volunteer spirit of BG&E employees is demonstrated by Althea Breeden, Service Record Clerk in Customer Records, serving as a checker for the 1981 Walk-a-Thon. This same spirit is seen in employee participation in marathon volley ball games to raise funds for the Kidney Foundation, in Christmas parties staged in area nursing homes, and in individual efforts with Meals-on-Wheels, neighborhood sports' leagues and in community centers.

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 1981, the Company served 848,253 electric customers and 512,389 gas customers. Total revenues amounted to $1.4 billion. Our 10 largest electric customers accounted for only 11% of total 1981 electric revenues, and the 10 largest gas customers provided 24% of total 1981 gas revenues. The 20 largest customers overall were the source of 17% 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 1981 unit sales: on the electric side, 34% residential, 17% commercial, 49% industrial; for gas, 38% residential, 6% commercial, 56% industrial. In 1981, 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 2,316,000 residents; for gas, 600 square miles, with a population estimated at 1,801,000. Steam is produced for sale to 652 customers located in downtown Baltimore.

Balance likewise is a dominant characteristic of the Company's electric generating capability, comprising 5,025,000 kilowatts of installed capacity and firm purchases. Of this total, 33% (supplying 61% of 1981 customer requirements) is nuclear; 33% is residual fuel oil; 17% is coal; 12% is light distillate oil; 2% 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 1981 and 1980 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

(From Composite Transactions as reported by The Wall Street Journal*)*

	1981			1980		
	Dividend Paid	Price		Dividend Paid	Price	
		High	Low		High	Low
First Quarter	$.64	$22\frac{7}{8}$	$19\frac{3}{4}$	$.61	$22\frac{1}{2}$	$18\frac{3}{8}$
Second Quarter	.64	$24\frac{1}{2}$	$21\frac{1}{4}$	.61	$24\frac{3}{8}$	19
Third Quarter	.67	$24\frac{3}{4}$	21	.61	$24\frac{7}{8}$	$21\frac{3}{8}$
Fourth Quarter	.67	$25\frac{3}{8}$	$21\frac{1}{2}$	.64	$22\frac{1}{4}$	$18\frac{5}{8}$

Number of Common Stockholders of record as of December 31, 1981 . . . 88,373.

Opposite: Baltimore's Inner Harbor seen from the air. In the foreground is one of the Harborplace pavilions and the USF Constellation—commissioned by the US Navy in 1797. Just beyond the pavilion are the World Trade Center, National Aquarium in Baltimore, Marine Museum and the Baltimore Symphony's new outdoor concert tent.

Electric Operating Statistics	1981	1980	1979	1978	1977	1971
			(Dollar Amounts in Thousands)			
Revenues						
Residential	**$ 366,903**	$ 342,796	$ 274,079	$ 270,536	$ 220,904	$ 105,243
Commercial	**211,889**	198,936	174,157	171,363	140,323	74,578
Industrial	**350,553**	311,182	263,319	251,966	194,811	92,735
Other	**4,815**	4,350	3,401	3,308	2,520	2,031
Total	**$ 934,160**	$ 857,264	$ 714,956	$ 697,173	$ 558,558	$ 274,587
Sales—MWH						
Residential	**6,006,255**	6,005,110	5,496,737	5,434,958	5,231,317	3,864,160
Commercial	**3,005,048**	3,063,119	3,052,081	3,019,633	2,910,532	2,437,477
Industrial	**8,573,161**	8,159,691	8,274,422	7,715,633	7,319,862	6,182,922
Total	**17,584,464**	17,227,920	16,823,240	16,170,224	15,461,711	12,484,559
Customers						
Residential	**770,281**	760,203	747,699	734,186	722,080	633,211
Commercial	**76,171**	75,144	74,575	74,626	73,345	68,075
Industrial	**1,801**	1,642	1,416	1,355	1,306	1,060
Total	**848,253**	836,989	823,690	810,167	796,731	702,346
Average use per Residential Customer—KWH	**7,848**	7,956	7,413	7,465	7,320	6,186
Gas Operating Statistics						
Revenues						
Residential	**$ 195,784**	$ 165,006	$ 146,598	$ 146,675	$ 124,357	$ 61,532
Commercial	**31,946**	24,522	21,097	20,315	17,184	8,713
Industrial	**125,749**	69,689	54,767	54,315	44,497	19,840
Interruptible Services—Industrial and Other	**109,845**	92,478	61,816	40,569	31,502	13,824
Other	**4,625**	3,041	2,796	2,712	4,119	1,713
Total	**$ 467,949**	$ 354,736	$ 287,074	$ 264,586	$ 221,659	$ 105,622
Sales—DTH						
Residential	**40,018,167**	38,462,204	39,282,741	40,576,498	39,777,652	39,646,242
Commercial	**6,359,071**	5,490,367	5,320,010	5,417,140	5,335,081	5,249,537
Industrial	**30,237,352**	19,501,190	17,671,851	18,055,404	17,406,677	17,569,715
Interruptible Services—Industrial and Other	**28,967,441**	31,656,568	31,175,052	20,439,595	17,543,597	29,304,002
Total	**105,582,031**	95,110,329	93,449,654	84,488,637	80,063,007	91,769,496
Customers						
Residential	**477,654**	476,318	473,761	472,414	474,361	447,480
Commercial	**29,972**	29,625	28,569	28,790	29,049	28,730
Industrial	**4,606**	4,315	4,941	4,969	5,012	4,275
Interruptible Services—Industrial and Other	**157**	193	185	184	188	145
Total	**512,389**	510,451	507,456	506,357	508,610	480,630
Average use per Residential Customer—DTH	**83.9**	81.1	83.1	85.9	83.8	89.7

Summary of Operations	1981	1980	1979	1978	1977	1971
			(In Thousands of Dollars)			
Operating Revenues:						
Electric	**$ 934,160**	$ 857,264	$ 714,956	$ 697,173	$ 558,558	$ 274,587
Gas	**467,949**	354,736	287,074	264,586	221,659	105,622
Steam	**18,947**	14,442	12,378	12,727	12,305	3,461
Total Operating Revenues	**1,421,056**	1,226,442	1,014,408	974,486	792,522	383,670
Operating Expenses:						
Purchased Fuel and Energy	**596,089**	478,836	338,464	321,266	245,469	113,487
Operations	**248,020**	217,009	182,055	161,981	140,774	69,558
Maintenance	**87,442**	75,827	64,913	55,083	49,892	23,948
Depreciation	**88,398**	83,181	80,338	78,063	68,449	30,489
Income Taxes:						
Current	**55,742**	39,604	8,987	43,619	19,649	26,497
Deferred	**8,643**	23,352	44,149	15,818	10,024	—
Investment Tax Credit Adjustments	**22,581**	13,852	16,593	17,882	13,613	1,140
Other Taxes	**87,712**	88,482	85,455	83,330	72,427	42,359
Total Operating Expenses	**1,194,627**	1,020,143	820,954	777,042	620,297	307,478
Operating Income	**226,429**	206,299	193,454	197,444	172,225	76,192
Allowance for Other Funds Used During Construction	**12,162**	12,053	9,545	4,006	2,553	11,254
Net Other Income and Deductions	**2,884**	2,851	1,698	739	2,228	1,285
Income Before Interest Charges	**241,475**	221,203	204,697	202,189	177,006	88,731
Interest Charges	**106,162**	93,828	86,159	83,228	76,230	32,816
Allowance for Borrowed Funds Used During Construction	**(14,346)**	(12,024)	(7,778)	(3,580)	(2,318)	(7,950)
Net Interest Charges	**91,816**	81,804	78,381	79,648	73,912	24,866
Net Income	**149,659**	139,399	126,316	122,541	103,094	63,865
Dividends—Preferred & Preference Stock	**26,416**	22,099	19,784	18,177	18,381	8,475
Net Income Applicable to Common Stock	**123,243**	117,300	106,532	104,364	84,713	55,390
Dividends—Common Stock	**88,499**	80,754	75,373	69,467	63,743	36,550
Earnings Reinvested in the Business	**$ 34,744**	$ 36,546	$ 31,159	$ 34,897	$ 20,970	$ 18,840
Average Shares of Common Stock Outstanding *(Thousands)*	**33,353**	32,258	31,356	30,847	29,666	19,885
Earnings Per Average Share of Common Stock	**$3.70**	$3.64	$3.40	$3.38	$2.86	$2.79
Dividends Declared Per Share of Common Stock	**$2.65**	$2.50	$2.40	$2.25	$2.14	$1.83¾

Other Financial Statistics	1981	1980	1979	1978	1977	1971
Capitalization:						
Common Stock, Premium, Installments and Retained Earnings	**$1,070,064**	$1,010,941	$ 953,161	$ 906,421	$ 861,463	$ 503,596
Preferred and Preference Stock (Not Subject to Mandatory Redemption)	**240,108**	241,806	242,753	245,484	247,518	168,998
Redeemable Preference Stock	**100,000**	50,000	50,000	—	—	—
Long-Term Debt	**1,340,666**	1,304,970	1,250,132	1,207,896	1,145,656	633,342
Total	**$2,750,838**	$2,607,717	$2,496,046	$2,359,801	$2,254,637	$1,305,936
Shares of Common Stock at end of year *(Thousands)*	**33,836**	32,690	31,692	31,039	30,658	21,186
Book Value Per Share of Common Stock at end of year	**$31.63**	$30.93	$30.08	$29.20	$28.10	$23.77
Common Stockholders at end of year	**88,373**	89,579	89,698	89,249	88,795	60,394
Total Utility Plant	**$3,437,089**	$3,184,059	$2,974,653	$2,831,219	$2,669,927	$1,565,781
Accumulated Provision for Depreciation	**756,292**	678,819	608,293	541,618	470,969	246,206
Total Assets	**3,266,403**	3,073,013	2,855,984	2,673,754	2,528,972	1,453,966
Expenditures for Additions to Plant	**266,956**	225,003	160,917	172,402	182,205	323,109
Employees at December 31	**8,915**	8,672	8,485	8,459	8,306	7,897

RESULTS OF OPERATIONS

Earnings

Earnings per share of common stock, on the increasing average number of shares outstanding in each period, were \$3.70 in 1981 compared with \$3.64 earned in 1980 and \$3.40 in 1979. Annual base rate increases of \$93.6 million in June 1980 and \$24.9 million in December 1980 authorized by the Public Service Commission of Maryland contributed to 1981 earnings along with increased electric and gas sales. Earnings were decreased in 1981 by a net 6¢ per share of common stock as the result of certain generally nonrecurring accounting adjustments which are discussed in Notes 3, 4, 7, and 8. The impact of inflation on operating and capital costs, along with regulatory lag, continues to have a depressing effect upon the Company's earnings. For a discussion of the recent Order received from the Maryland Commission which authorized increases in the Company's base rates, see the Financial Review on page 6.

Electric Sales (Mwh) and Operating Revenues

The percent increase (decrease) from the prior year in electric sales by class of customer was as follows:

	1981	1980
Residential	—%	9.2%
Commercial	(1.9)	0.4
Industrial	5.1	(1.4)
Total	2.1	2.4

Residential sales in 1981 remained essentially the same and commercial sales decreased primarily because of the milder weather during the summer cooling period versus the abnormally hot weather experienced in 1980. Industrial sales, particularly in steel related industries, increased in 1981 because of higher production levels whereas a reduced level of business activity resulted in the 1980 decrease.

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, additional heating installations and customer conservation efforts.

Electric operating revenues increased each year as follows:

	Increase (Decrease) From Prior Year	
	1981	1980
	(In Millions of Dollars)	
Attributable to:		
Base Rate Adjustments	\$55.7	\$ 38.3
Fuel Rate Adjustments	14.3	81.2
Maryland Electric Environmental Surcharge	0.8	(0.2)
Sales Volumes	6.1	23.0
Net Increases	\$76.9	\$142.3

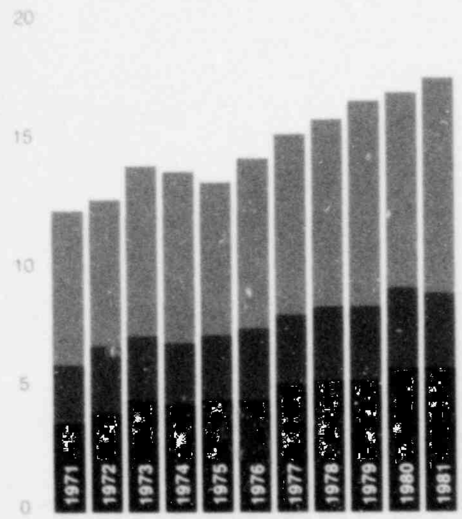
Gas Sales (Dth) and Operating Revenues

The percent increase (decrease) from the prior year in gas sales by class of customer was as follows:

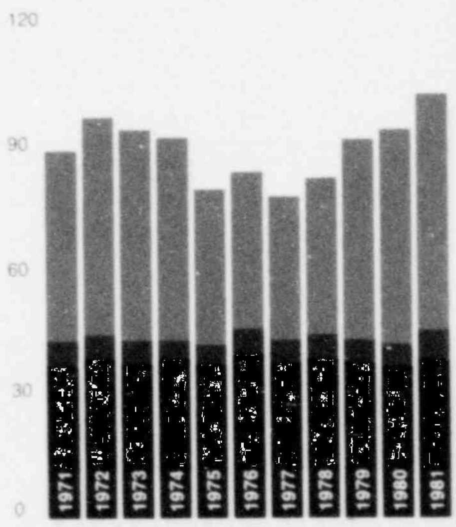
	1981	1980
Residential	4.0%	(2.1)%
Commercial	15.8	3.2
Industrial	55.1	10.4
Interruptible Service	(8.5)	1.5
Total	11.0	1.8

Total gas sales increased in 1981 and 1980 due primarily to higher usage by and the addition of firm industrial customers. The increases were made possible by the elimination of both delivery curtailments and the Maryland Commission's imposed moratorium on new uses and customers existing prior to the end of 1979. In 1980 sales to residential customers were adversely affected by lower usage resulting primarily from conservation.

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.



Sales of Electricity
(Billions of Kilowatts)



Sales of Gas
(Millions of Dekatherms)

Gas operating revenues increased each year as follows:

	Increase (Decrease) From Prior Year	
	1981	1980
	(In Millions of Dollars)	
Attributable to:		
Base Rate Adjustments	**$ 15.0**	$ 8.8
Gas Cost Adjustments	**77.7**	56.6
Sales Volumes	**20.5**	2.3
Net Increases	**$113.2**	$67.7

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 has provided a better matching of gas expenses and associated revenues and will continue to protect against future erosion of earnings due to the anticipated continued increases in natural gas prices stemming from phased-in deregulation (see Note 6).

Operations and Maintenance

Total purchased fuel and energy expense increased in both 1981 and 1980 as a result of higher fuel and natural gas prices, coupled with increased sales. These increases were affected by the deferral of over- or under-recovered fuel costs associated with the Company's electric fuel rate and purchased gas adjustment clauses resulting in a $4,545,000 decrease in 1981 and an increase of $33,287,000 in 1980.

Increases in operations and maintenance expenses reflect the higher cost, due in large part to inflation, of payroll, employee benefits and materials. In 1981 such expenses include increased costs at the Calvert Cliffs Nuclear Power Plant, greater scheduled maintenance at various fossil-fuel generating plants, more repair work related to major storms and higher uncollectible accounts. In 1980, the increases reflected additional costs at Calvert Cliffs due in part to required modifications stemming from the Three Mile Island incident, and increased maintenance costs at the fossil powered generating plants.

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

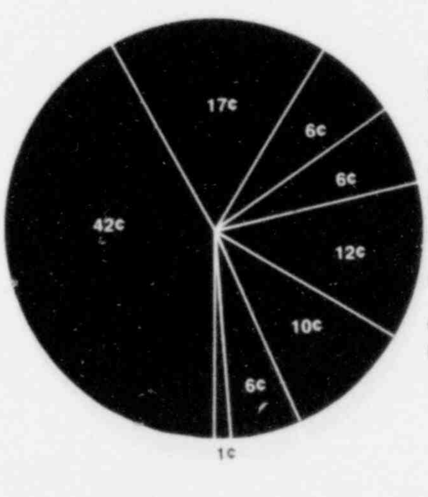
Taxes

The Economic Recovery Tax Act of 1981 (Act), signed into law by the President on August 13, 1981, made revisions to the existing tax law. Among the changes affecting the Company were revisions to depreciation rules for newly acquired property, liberalization of investment tax credit rules and repeal of the Percentage Repair Allowance. In addition, a provision of the Act allows for a more favorable tax treatment of reinvested common stock dividends beginning in 1982. Overall, the revisions did not have a significant impact on 1981 earnings, nor is one anticipated in future years. However, as a result of these changes the Company will realize additional cash flow particularly in later years with the completion of the Brandon Shores Power Plant.

Federal Income Taxes—Current increased in 1981 due to a higher level of taxable income partially offset by an increase in investment tax credits and the recording of the net tax deficiency resulting from settlement of the Internal Revenue Service audit for the years 1974–1976 (see Note 3). The increase in 1980 was due to a higher level of taxable income and a decrease in investment tax credits.

Federal Income Taxes—Deferred are the result of normalization accounting for the tax benefits arising from liberalized depreciation on property additions in 1976 and subsequent years and for certain other timing differences between tax and book income. The majority of the decrease during 1981 was due to the repeal of the Percentage Repair Allowance and the deferral of Internal Revenue Service adjustments of certain timing differences associated with nuclear facilities at Calvert Cliffs in the settlement of the audit for the years 1974–1976. In 1980, the decrease was due primarily 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.

Investment Tax Credits vary from period to period as construction expenditures become eligible for the credit. A significant portion of the increase in 1981 was due to additional credits related to nuclear fuel resulting from the Economic Recovery Tax Act of 1981.



How the Revenue Dollar for 1981 Was Spent

Purchased Fuel & Energy	42¢
Operations	17¢
Maintenance	6¢
Depreciation	6¢
Taxes	12¢
Interest & Preferred & Preference Dividends	10¢
Common Dividends	6¢
Retained in Business	1¢
Revenue Dollar	$1.00

Taxes other than income taxes decreased in 1981 due to the settlement of the contested Pennsylvania Gross Receipts Tax largely offset by higher property and capital stock taxes, payroll taxes and the Maryland Gross Receipts Tax (see Note 8.) The 1980 increase was 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.

Other Income and Income Deductions

The increases in the Allowance for Funds Used During Construction (AFC) in 1981 and 1980 are attributable to continued construction at the Brandon Shores Power Plant. The 1981 increase was partially offset by a $1,578,000 reduction applicable to prior year adjustments (see Note 4).

In 1981 and 1980, Net Other Income and Deductions includes $1,190,000 and $1,146,000, respectively, after tax gains on debt reacquired through sinking fund operations. In 1979, such gains were not significant.

Interest charges increased due to sales of additional securities and to charges arising from settlement of the 1974–1976 Federal Income Tax audit (see Note 3). The issuance of 500,000 shares of Redeemable Preference Stock in April 1981 resulted in the increase in preference dividends in 1981.

LIQUIDITY AND CAPITAL RESOURCES

Expenditures for construction and nuclear fuel for 1979 through 1981 and estimated expenditures for 1982 and 1983 are set forth below:

	Construction	Nuclear Fuel	Total
	(In Millions of Dollars)		
1979	$161	$58	$219
1980	225	57	282
1981	267	40	307
1982	380	47	427
1983	377	83	460

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 and economic conditions, regulation and legislation, rates of load growth, and environmental protection standards, as well as the cost and availability of capital.

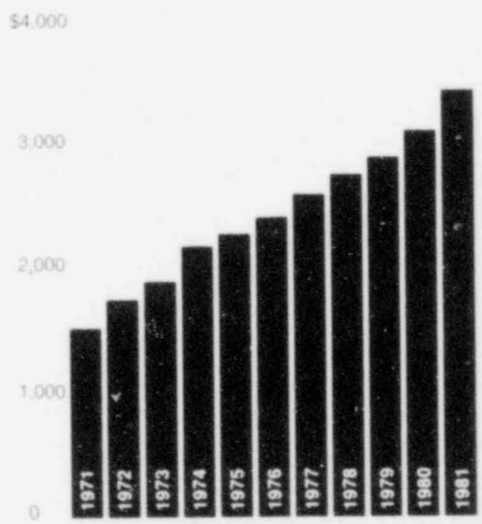
During the period 1979 through 1981, the Company's internal generation of cash approximated 60% of expenditures for construction and nuclear fuel. Assuming timely and adequate rate relief, the Company anticipates that about 50% of these funds required for 1982 and 1983 will be provided from internal 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 (see Note 13).

In addition, the Company estimates that approximately $146 million will be required for bond maturities and sinking fund payments during the period 1982–1983.

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

	1981	1980
Common Equity	**39.0%**	38.8%
Preferred and Preference Stock (not subject to mandatory redemption)	**8.8**	9.3
Redeemable Preference Stock	**3.6**	1.9
Long-Term Debt	**48.6**	50.0

The high rate of inflation continues to be the major cause of attrition for cost of service regulated entities such as the Company. The Company has specifically addressed this issue in recent rate proceedings and will continue to actively pursue alleviating the effects of attrition in the future. For more information about the impact of inflation on the Company, see Note 18.



Total Utility Plant
(Millions of Dollars)

Statements of Income

Baltimore Gas and Electric Company

(In Thousands of Dollars)	Year Ended December 31 1981	1980	1979
Operating Revenues			
Electric	$ 934,160	$ 857,264	$ 714,956
Gas	467,949	354,736	287,074
Steam	18,947	14,442	12,378
Total Operating Revenues	1,421,056	1,226,442	1,014,408
Operating Expenses			
Purchased Fuel and Energy	596,089	478,836	338,464
Operations	248,020	217,009	182,055
Maintenance	87,442	75,827	64,913
Depreciation	88,398	83,181	80,338
Income Taxes—Note 3	86,966	76,808	69,729
Other Taxes	87,712	88,482	85,455
Total Operating Expenses	1,194,627	1,020,143	820,954
Operating Income	226,429	206,299	193,454
Allowance For Other Funds Used During Construction—Note 4	12,162	12,053	9,545
Net Other Income and Deductions	2,884	2,851	1,698
Income Before Interest Charges	241,475	221,203	204,697
Interest Charges	106,162	93,828	86,159
Allowance for Borrowed Funds Used During Construction—Note 4	(14,346)	(12,024)	(7,778)
Net Interest Charges	91,816	81,804	78,381
Net Income	149,659	139,399	126,316
Dividends—Preferred and Preference Stock	26,416	22,099	19,784
Net Income Applicable to Common Stock	$ 123,243	$ 117,300	$ 106,532
Earnings Per Share of Common Stock (Based on average shares outstanding)	$3.70	$3.64	$3.40
Ratio of Earnings to Fixed Charges	3.21	3.25	3.17
Ratio of Earnings to Fixed Charges and Adjusted Preferred and Preference Stock Dividends Combined	2.31	2.40	2.37

Statements of Retained Earnings

Baltimore Gas and Electric Company

(In Thousands of Dollars)	Year Ended December 31 1981	1980	1979
Balance at Beginning of Period	$371,643	$335,136	$304,261
Net Income	149,659	139,399	126,316
Total	521,302	474,535	430,577
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)	452	519	635
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	4,187	1,756
1981 Series (at the rate of 12% per annum)	4,384	—	—
Common Stock (at annual rates per share, $2.28 through April 1, 1979, $2.44 through July 1, 1980, $2.56 through April 1, 1981, and $2.68 thereafter)	88,499	80,754	75,373
Other Charges—Expenses in connection with issuance of stock	262	39	284
Total Charges	115,177	102,892	95,441
Balance at End of Period	$406,125	$371,643	$335,136

See notes and schedules—pages 31 through 43.

	December 31 1981	1980
	(In Thousands of Dollars)	
Assets		
Utility Plant		
Plant in service		
Electric—at original cost	**$2,353,687**	$2,250,921
Gas—at original cost	**345,537**	327,526
Steam—at cost	**19,899**	19,291
Common—at original cost	**119,583**	101,325
Total plant in service	**2,838,706**	2,699,063
Construction work in progress—at cost	**592,574**	481,257
Plant held for future use—at cost	**5,809**	3,739
Total utility plant	**3,437,089**	3,184,059
Accumulated provision for depreciation	**(756,292)**	(678,819)
Net utility plant	**2,680,797**	2,505,240
Nuclear fuel—at cost (net of amortization of $238,630,000 and $154,759,000 respectively)	**150,986**	166,955
	2,831,783	2,672,195
Other Investments	**11,122**	8,008
Current Assets		
Cash	**3,085**	2,660
Temporary cash investments—at cost	**—**	10,400
Special deposits and working funds	**4,120**	1,415
Accounts receivable:		
Customers' (net of provision for uncollectibles of $3,720,000 and $3,060,000, respectively)	**139,090**	115,657
Miscellaneous	**4,456**	2,799
Fuel stocks—at average cost	**86,232**	90,909
Materials and supplies—generally at average cost	**62,602**	55,380
Prepayments	**48,380**	40,301
Other	**5,032**	4,056
	352,997	323,577
Deferred Debits		
Deferred fuel costs	**41,135**	32,703
Other	**29,366**	36,530
	70,501	69,233
Total Assets	**$3,266,403**	$3,073,013

See notes and schedules—pages 31 through 43.

	December 31 1981	1980
	(In Thousands of Dollars)	
Capital and Liabilities		
Common Stock and Retained Earnings		
Common stock—Schedule, page 31	$ 663,425	$ 638,820
Installments received on capital stock—common	357	321
Premium on preferred stock	157	157
Retained earnings	406,125	371,643
	1,070,064	1,010,941
Preferred and Preference Stock Not Subject to Mandatory Redemption		
Preferred stock—Schedule, page 31	59,185	59,185
Preference stock—Schedule, page 31	175,000	175,000
Convertible preference stock—Schedule, page 31	5,923	7,621
	240,108	241,806
Redeemable Preference Stock—Schedule, page 31	100,000	50,000
Long-Term Debt		
Mortgage bonds—Schedule, page 32	1,309,145	1,271,570
Debentures—Schedule, page 32	31,521	33,400
Unamortized discount and premium	(5,027)	(4,337)
Long-term debt estimated to be retired within one year	(103,393)	(52,779)
	1,232,246	1,247,854
Current Liabilities		
Notes payable	20,850	—
Accounts payable	100,126	108,875
Vacation costs accrued	14,657	13,744
Pension costs accrued	17,643	1,315
Taxes accrued	40,951	59,229
Interest accrued	40,875	34,136
Dividends declared	27,114	26,411
Long-term debt estimated to be retired within one year	103,393	52,779
Other	14,961	11,571
	380,570	308,090
Deferred Credits		
Accumulated deferred investment tax credits	134,667	115,390
Deferred income taxes	101,986	93,344
Other	6,762	5,588
	243,415	214,322
Commitments and Contingencies—Note 14		
Total Capital and Liabilities	$3,266,403	$3,073,013

See notes and schedules—pages 31 through 43.

Statements of Changes in Financial Position

Baltimore Gas and Electric Company

	Year Ended December 31		
	1981	1980	1979*
	(In Thousands of Dollars)		
Sources of Funds			
Funds from Operations:			
Net income	**$149,659**	$139,399	$126,316
Depreciation and amortization	**149,437**	119,647	96,252
Investment tax credit adjustments	**19,277**	11,450	13,989
Deferred income taxes	**8,643**	23,352	44,149
Allowance for other funds used during construction	**(12,162)**	(12,053)	(9,545)
Subtotal	**314,854**	281,795	271,161
Funds from Outside Sources:			
Long-term debt	**89,424**	88,883	53,789
Common stock	**24,588**	21,234	15,796
Preference stock (net of conversions)	**48,092**	(947)	47,053
Short-term debt—net	**20,850**	—	—
Other—net	**345**	336	296
Total	**$498,153**	$391,301	$388,095
Applications of Funds			
Construction expenditures	**$266,956**	$225,003	$160,917
Allowance for other funds used during construction	**(12,162)**	(12,053)	(9,545)
Purchase of nuclear fuel materials	**40,073**	57,135	57,956
Deferred nuclear maintenance	**(49)**	1,697	7,275
Common stock dividends	**88,499**	80,754	75,373
Preferred stock dividends	**2,899**	2,899	2,899
Preference stock dividends	**23,517**	19,200	16,885
Retirement of long-term debt	**55,304**	35,162	12,764
Materials and supplies	**2,545**	23,351	19,462
Deferred fuel costs	**8,432**	3,910	37,197
Federal income taxes payable	**10,537**	(34,438)	26,758
Investment in subsidiary	**2,649**	—	—
Other—principally net change in other working capital items	**8,953**	(11,319)	(19,846)
Total	**$498,153**	$391,301	$388,095

*Restated to conform with 1980 presentation.

See notes and schedules—pages 31 through 43.

Auditor's 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, 1981 and 1980, and the related statements of income, retained earnings and changes in financial position for the years ended December 31, 1981, 1980 and 1979. 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 (page 27 through the notes to financial statements on page 43), present fairly the financial position of Baltimore Gas and Electric Company at December 31, 1981 and 1980, and the results of its operations and changes in its financial position for the years ended December 31, 1981, 1980 and 1979, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

Baltimore, Maryland
January 20, 1982

	December 31	
	1981	1980
	(In Thousands of Dollars)	
Common Stock—without par value—45,000,000 shares authorized: 33,835,505 and 32,690,093 shares, respectively, outstanding	**$663,425**	$638,820
(At the end of 1981, 208,617 shares were reserved for conversion of Convertible Preference Stock, 709,207 shares for the Investment Tax Credit Employee Stock Ownership Plan, and 2,940,585 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%—222,921 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**	6,893
Series D 5.40%—300,000 shares outstanding (Callable at $102.50 per share prior to April 1, 1982 and at a lesser amount thereafter.)	**30,000**	30,000
Total Preferred Stock	**$ 59,185**	$ 59,185
Preference Stock (Cumulative)—$100 par value—2,500,000 shares authorized:		
Convertible, 6½% Series—59,230 and 76,207 shares, respectively, outstanding (Callable at $100 per share; convertible into Common Stock of the Company at $28.45 per share.)	**$ 5,923**	$ 7,621
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 $104 per share prior to October 1, 1986 and at a lesser amount 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	**$180,923**	$182,621
Redeemable Preference Stock (Cumulative)—$100 par value—1,000,000 shares authorized:		
8.375%, 1979 Series—500,000 shares outstanding	**$ 50,000**	$ 50,000
12%, 1981 Series A—340,000 shares outstanding	**34,000**	—
12%, 1981 Series B—160,000 shares outstanding	**16,000**	—
Total Redeemable Preference Stock	**$100,000**	$ 50,000

See notes 10 and 11.

	December 31 1981	1980
	(In Thousands of Dollars)	
First Refunding Mortgage Bonds		
Series U 2⅞%, due April 1, 1981	$ —	$ 39,063
10% Series, due July 1, 1982	90,138	90,202
10⅛% Series, due September 15, 1983	41,677	41,677
9% Series, due July 1, 1984	11,000	—
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	60,703	75,000
3¼% Series, due December 1, 1990	29,682	29,682
16¾% Series, due October 1, 1991	75,000	—
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
6⅛% 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	74,986
6.80% Series, due September 15, 2004	20,000	15,000
9⅞% Series, due August 1, 2005	15,638	15,639
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	62,560
6.90% Installment Series, due September 15, 2009	55,000	55,000
Total First Refunding Mortgage Bonds	$1,309,145	$1,271,570
Debentures		
4⅞% Sinking Fund Debentures, due June 15, 1986	$ 11,706	$ 12,400
4⅝% Sinking Fund Debentures, due August 1, 1990	19,815	21,000
Total Debentures	$ 31,521	$ 33,400

See note 12.

Management is responsible for the information and representations contained in 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 1981, 1980, and 1979, the Company's cost for pensions totaled $17,915,000, $16,167,000, and $13,563,000, respectively, of which $14,594,000, $13,114,000, and $11,081,000, respectively, were included in expenses. The remainders were charged to construction. The increase in 1981 was primarily the result of higher payrolls whereas the increase in 1980 was due to higher payrolls and changes in benefits. A comparison of accumulated plan benefits and plan net assets for the Company's defined benefit plan, as of January 1, is presented below:

	1981	1980
	(In Thousands of Dollars)	
Actuarial present value of accumulated plan benefits:		
Vested	$149,465	$129,913
Nonvested	7,722	6,571
	$157,187	$136,484
Net assets available for benefits	$241,938	$206,044

The assumed investment rate of return used in determining the actuarial present value of accumulated plan benefits was seven percent for both 1981 and 1980. Based on the latest available actuarial report, as of January 1, 1981 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	1981	1980
		(In Thousands of Dollars)	
Electric			
—Other than Nuclear	3.26%	$1,501,938	$1,428,472
—Nuclear	3.45	818,065	788,842
Gas	2.60	342,247	324,235
Steam	2.75	19,694	19,086
Common	3.00(a)	114,059	93,711
Total		$2,796,003	$2,654,346

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

Note 3. Income Taxes

	1981	1980	1979
		(In Thousands of Dollars)	
Income tax expense is composed of the following:			
Included in Operating Expenses:			
Income Taxes—Current	$55,742	$39,604	$ 8,987
Income Taxes—Deferred	8,643	23,352	44,149
Investment Tax Credit Adjustments	22,581	13,852	16,593
Total Charged to Operating Income	86,966	76,808	69,729
Included in Net Other Income and Deductions—Current	1,923	2,049	1,047
Total Income Tax Expense	$88,889	$78,857	$70,776
Total income taxes currently payable consist of the following:			
Federal Income Tax:			
Included in Operating Expenses	$55,476	$39,552	$ 8,959
Included in Net Other Income and Deductions	1,806	1,904	934
State Income Tax:			
Included in Operating Expenses	266	52	28
Included in Net Other Income and Deductions	117	145	113
Total Income Taxes Currently Payable	$57,665	$41,653	$10,034
The provision for deferred Federal Income Taxes consists of the following tax effects of timing differences:			
Liberalized Depreciation	$15,316	$17,796	$20,717
Deferred Fuel Costs	3,879	1,798	17,281
Spent Nuclear Fuel Storage Costs—Note 7	(7,222)	(3,352)	—
Pennsylvania Gross Receipts Tax—Note 8	1,639	—	—
Percentage Repair Allowance	(559)	6,329	2,804
Maintenance Expenditures—Calvert Cliffs	(23)	781	3,347
Settlement of I.R.S. Audit for Years 1974–1976	(4,387)	—	—
Total Federal Income Taxes Deferred	$ 8,643	$23,352	$44,149
The Investment Tax Credit Adjustments are derived as follows:			
Reduction in Federal Income Taxes due to credits arising from:			
Eligible Property	$25,180	$15,639	$17,776
Employee Stock Ownership Plan	3,304	2,403	2,604
Total	28,484	18,042	20,380
Credits allocated to income	(5,903)	(4,190)	(3,787)
Net Total	$22,581	$13,852	$16,593

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).

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:

	1981	1980	1979
		(In Thousands of Dollars)	
Tax computed at 46% statutory rate on book income before tax	**$109,732**	$100,398	$90,662
Increases (Decreases) in tax from:			
Excess of tax over book depreciation—not normalized	**(2,647)**	(4,807)	(7,478)
Allowance for Funds Used During Construction—Borrowed Funds and Other Funds	**(12,194)**	(11,076)	(7,969)
Investment Tax Credit allocated to income	**(5,903)**	(4,190)	(3,787)
Net other items	**(99)**	(1,468)	(652)
Total Income Tax Expense	**$ 88,889**	$ 78,857	$70,776

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 $17,962,000 in 1981, $22,603,000 in 1980, and $28,195,000 in 1979 of which tax benefits arising from liberalized depreciation on property additions in 1976 and subsequent years totalling $15,315,000 in 1981, $17,796,000 in 1980, and $20,717,000 in 1979 have been normalized.

In September 1981, the Company entered into a settlement agreement with the Internal Revenue Service for the 1974–1976 income tax audit which resulted in an increase in current taxes partially offset by deferred taxes attributable to the deferral of certain timing differences associated with the placed-in-service date for Unit No. 1 at the Calvert Cliffs Nuclear Power Plant. The settlement of this audit, including the related interest charges, decreased 1981 earnings after Federal income taxes by 7¢ per common share, based on the average number of shares outstanding.

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.

For ratemaking purposes, the Public Service Commission of Maryland, in its Order dated June 1980, eliminated $1,578,000 from the Company's rate base pertaining to retroactive accruals of Allowance for Funds Used During Construction stemming from rate case findings occurring between November 1972 and December 1978. Furthermore, as a result of a Federal Energy Regulatory Commission audit finding in October 1981, the Company reduced the Allowance for Funds Used During Construction capitalized as a cost of the Brandon Shores project and decreased the Allowances for Borrowed Funds and Other Funds Used During Construction by $788,000 and $790,000, respectively. The total reduction of $1,578,000 represents a decrease in 1981 earnings of 5¢ per common share based on the average number of shares outstanding.

Note 5. Other Investments

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 $7,949,000 at December 31, 1981 and $7,567,000 at December 31, 1980.

The Company also uses the equity method to account for the investment in its fully-owned subsidiary, Resource & Property Management, Inc. This subsidiary was formed on December 31, 1981 primarily to develop land used in the Company's fly ash management program. The investment in Resource & Property Management, Inc. was $2,649,000 at December 31, 1981.

The capital stock of Safe Harbor and Resource & Property Management, Inc. 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, effective September 1, 1981, the fuel rate formula is based upon the latest eighteen-month generation mix (prior to September 1, 1981, it was based on 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 eighteen-month generation mix used in the formula. The balance deferred as of December 31, 1981 and 1980 was $38,555,000 and $20,060,000 ($20,881,000 and $10,894,000 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 deferrals as of December 31, 1981 and 1980 were $2,603,000 and $12,643,000 ($1,406,000 and $6,827,000 net after income taxes), respectively.

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 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, 1981 and 1980 was $7,399,000 and $12,331,000 ($3,995,000 and $6,659,000 net after income taxes), respectively. Future fuel costs will be further adjusted as changes in spent fuel storage costs and reprocessing costs (if any) become known.

In 1979 through 1981 the Company incurred a total of $10,146,000 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 1980 Order of the Maryland Commission are being amortized over twenty-six years. The amount deferred as of December 31, 1981 and 1980 was $8,923,000 and $8,973,000 ($4,818,000 and $4,845,000 net after income taxes), respectively.

During 1978, the Company entered into a joint venture with Intercontinental Energy Corporation for the purpose of mining uranium. In light of the currently depressed market price of uranium, the venture is no longer economically feasible. Accordingly, the $2,048,000 ($1,106,000 net after income taxes) which had been accumulated in Other Deferred Debits as a result of the joint venture was charged to Operations Expense in 1981. This charge resulted in a decrease in 1981 earnings after Federal income taxes of 3¢ per common share, based on the average number of shares outstanding.

Note 8. Other Taxes

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

	1981	1980	1979
	(In Thousands of Dollars)		
Property	$24,021	$22,874	$22,015
Capital Stock	27,894	27,357	27,057
Maryland Gross Receipts	27,891	24,117	19,915
Pennsylvania Gross Receipts (a)	(9,267)	—	3,728
Maryland Electric Environmental Surcharge	2,776	1,939	2,199
Social Security	15,382	13,182	11,473
Miscellaneous	2,242	1,830	1,479
	90,939	91,299	87,866
Amount included above charged principally to accounts other than taxes	(3,227)	(2,817)	(2,411)
Total Other Taxes	$87,712	$88,482	$85,455

(a) In December 1981, the Company and the Commonwealth of Pennsylvania agreed to a settlement of the contested liability related to the 1977–1979 Gross Receipts Tax applied to electricity produced in Pennsylvania and sold outside of that State, which tax was repealed effective January 1, 1980. The settlement whereby Pennsylvania conceded approximately 90% of the tax improved 1981 earnings after Federal income taxes by 9¢ per common share, based on the average number of shares outstanding.

Note 9. Accounts Receivable

The balance in Customers' Accounts Receivable includes approximately $20,500,000 and $18,300,000 at December 31, 1981 and 1980, 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, 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	156,062	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
Year 1981				
Common Stock issued under:				
Dividend Reinvestment Plan	948,350	19,887	—	—
ESOP	138,291	3,033	—	—
Conversions of Convertible Preference Stock, 6½% Series, into Common Stock (decrease)	58,771	1,685	(16,977)	(1,698)
Balance at December 31, 1981	33,835,505	$663,425	1,809,230	$180,923

Note 11. Redeemable Preference Stock

In 1981, the Company issued 340,000 shares of 12% Cumulative Preference Stock, 1981 Series A ($100 par value) and 160,000 shares of 12% Cumulative Preference Stock, 1981 Series B ($100 par value). The Company will redeem at par 68,000 shares ($6,800,000) of Series A in each of the years 1987 through 1991. The Company will redeem at par all shares ($16,000,000) of the Series B on July 1, 1991.

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.

The Redeemable Preference Stock 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, (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, and (C) by a pledge of 10,000 shares of common stock of Resource & Property Management, Inc., the Company's fully-owned subsidiary.

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, the 6.80% Series Mortgage Bonds of 2004 and the 9% Series Mortgage Bonds of 1984, as provided in the Mortgage, at not exceeding the applicable redemption prices.

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

The combined aggregate requirements for bond maturities and estimated sinking fund payments for each of the next five years are as follows:

Year	Requirement (In Millions of Dollars)
1982	$103
1983	43
1984	77
1985	28
1986	63

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 banks' prime or base interest rates 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, 1981 and December 31, 1980 and during each of the years then ended is set forth below:

	1981	1980
	(In Thousands of Dollars)	
At December 31		
Short-Term Borrowings Outstanding:		
Commercial Paper Notes (maturing in 90 days or less)	$ 20,850	$ —
Weighted Average Interest Rate	12.54%	—%
Unused Lines of Credit	$163,000	$140,000
Compensating Balances	$ 1,960	$ 2,040
During the Year Ended December 31		
Maximum Aggregate Short-Term Borrowings	$101,865	$ 75,450
Average Daily Short-Term Borrowings (a)	$ 33,890	$ 30,922
Weighted Average Interest Rate (b)	16.27%	12.64%

(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 1982 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.

Nuclear Electric Insurance Limited:
The Company is a member of Nuclear Electric Insurance Limited (NEIL), an industry mutual insurance company. NEIL provides both nuclear property damage insurance and insurance coverage for a portion of the extra costs incurred in obtaining replacement power during a prolonged outage at a nuclear generating facility. The Company's maximum contingent liability for a retrospective assessment in any one policy year which can arise from an outage at any member's nuclear facility, under the terms of the property damage and replacement power policies is $8,510,000 and $16,600,000, respectively.

Note 15. Segment Information

	1981	1980	1979
		(In Thousands of Dollars)	
Electric			
Operating Revenues	$ 934,160	$ 857,264	$ 714,956
Operating Income before Income Taxes	268,891	249,510	236,024
Operating Income	196,159	182,149	173,160
Depreciation	78,052	73,743	71,355
Construction Expenditures (a)	239,225	198,034	143,780
Identifiable Assets at December 31 (a)(b)	2,645,331	2,507,909	2,350,211
Gas			
Operating Revenues	$ 467,949	$ 354,736	$ 287,074
Operating Income before Income Taxes	42,230	33,747	27,091
Operating Income	28,880	23,937	19,973
Depreciation	9,766	8,886	8,463
Construction Expenditures (a)	26,988	26,029	15,858
Identifiable Assets at December 31 (a) (b)	315,564	292,491	269,634
Steam			
Operating Revenues	$ 18,947	$ 14,442	$ 12,378
Operating Income before Income Taxes	2,274	(149)	68
Operating Income	1,390	213	321
Depreciation	580	552	520
Construction Expenditures (a)	743	940	1,279
Identifiable Assets at December 31 (a) (b)	15,818	15,030	14,808
Total			
Operating Revenues	$1,421,056	$1,226,442	$1,014,408
Operating Income before Income Taxes	313,395	283,108	263,183
Operating Income	226,429	206,299	193,454
Depreciation	88,398	83,181	80,338
Construction Expenditures	266,956	225,003	160,917
Identifiable Assets at December 31 (b)	2,976,713	2,815,430	2,634,653
Other Assets	289,690	257,583	221,331
Total Assets	3,266,403	3,073,013	2,855,984

(a) Includes allocation of Common Utility Property.
(b) Represents Utility Plant and Materials and Supplies, excluding merchandise inventory of $3,904,000, $3,054,000, and $3,272,000 at December 31, 1981, 1980, and 1979, 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, 1981 represent the Company's proportionate share:

	Keystone	Conemaugh	Transmission Line
		(Dollar Amounts in Thousands)	
Ownership Interest	20.99%	10.56%	7.00%
Utility Plant in Service	$44,359	$29,655	$1,486
Accumulated Provision for Depreciation	13,908	7,745	358
Construction Work in Progress	1,235	382	—

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, 1981	**$ 384,440**	**$ 67,862**	**$ 43,482**	**$ 37,966**	**$1.15**
June 30, 1981	**314,152**	**55,999**	**31,442**	**24,545**	**0.74**
September 30, 1981	**366,404**	**76,985**	**50,530**	**43,520**	**1.30**
December 31, 1981	**356,060**	**52,091**	**24,205**	**17,212**	**0.51**
Total Year 1981	**$1,421,056**	**$252,937**	**$149,659**	**$123,243**	**$3.70**
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

(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.

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, 1981 *(In Thousands of Dollars)*

	Conventional Historical Cost	Constant Dollar Average 1981 Dollars	Current Cost Average 1981 Dollars
Operating Revenues	$ 1,421,056	$ 1,421,056	$ 1,421,056
Purchased Fuel and Energy	596,089	604,656	601,491
Operations and Maintenance	335,462	335,462	335,462
Depreciation	88,398	197,723	216,719
Taxes	174,678	174,678	174,678
Total Operating Expenses	1,194,627	1,312,519	1,328,350
Operating Income	226,429	108,537	92,706
Other Income (including AFC)	15,046	15,046	15,046
Income Before Interest Charges	241,475	123,583	107,752
Interest Charges (net of AFC)	91,816	91,816	91,816
Income From Continuing Operations (excluding reduction to net recoverable cost)	$ 149,659	$ 31,767(a)	$ 15,936
Increase in Specific Prices (Current Cost) of Utility Plant and Nuclear Fuel Held During the Year (b)			$ 447,680
Reduction to Net Recoverable Cost		$ (116,635)	(92,562)
Effect of Increase in General Price Level			(456,048)
Excess of Increase in General Price Level Over Increase in Specific Prices After Reduction to Net Recoverable Cost			(100,930)
Gain from Decline in Purchasing Power of Net Amounts Owed		126,353	126,353
Net		$ 9,718	$ 25,423

(a) Including the reduction to net recoverable cost, the loss from continuing operations on a constant dollar basis would have been $84,868,000.
(b) At December 31, 1981, current cost of utility plant and nuclear fuel, net of accumulated depreciation and amortization, was $5,590,245,000, while historical cost or net cost recoverable through depreciation and amortization was $2,831,783,000.

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 a reduction 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)*

	1981	1980	1979	1978	1977
Operating Revenues					
Historical	**$1,421,056**	$1,226,442	$1,014,408	$ 974,486	$ 792,522
In Average 1981 Dollars	**$1,421,056**	$1,353,161	$1,270,576	$1,357,997	$1,189,001
Historical Cost Information Adjusted for General Inflation (in average 1981 dollars)					
Income from Continuing Operations (excluding reduction to net recoverable cost)	**$ 31,767**	$ 44,555	$ 65,521		
Income Per Common Share (after dividend requirements on preferred and preference stock and excluding reduction to net recoverable cost)	**$ .16**	$ .63	$1.20		
Net Assets at Year-End at Net Recoverable Cost	**$1,267,804**	$1,320,135	$1,416,474		
Current Cost Information (in average 1981 dollars)					
Income from Continuing Operations (excluding reduction to net recoverable cost)	**$ 15,936**	$ 25,608	$ 26,076		
Income Per Common Share (after dividend requirements on preferred and preference stock)	**$ (.32)**	$ .04	$ .04		
Excess of Increase in General Price Level Over Increase in Specific Prices After Reduction to Net Recoverable Cost	**$ 100,930**	$ 211,612	$ 250,861		
Net Assets at Year-End at Net Recoverable Cost	**$1,267,804**	$1,320,135	$1,416,474		
General Information					
Gain from Decline in Purchasing Power of Net Amounts Owed (in average 1981 dollars)	**$ 126,353**	$ 180,597	$ 201,569		
Cash Dividends Declared Per Common Share					
Historical	**$ 2.62**	$ 2.50	$ 2.40	$ 2.25	$ 2.14
In Average 1981 Dollars	**$ 2.62**	$ 2.76	$ 3.01	$ 3.14	$ 3.21
Market Price Per Common Share at Year-End					
Historical	**$23.13**	$19.75	$22.13	$24.38	$26.63
In Average 1981 Dollars	**$22.38**	$20.81	$26.21	$32.72	$38.96
Average Consumer Price Index	**272.3***	246.8	217.4	195.4	181.5
Year-End Consumer Price Index	**281.4***	258.4	229.9	202.9	186.1

*Estimated

Bernard C. Trueschler
Chairman of the Board and Chief Executive Officer

George V. McGowan
President and Chief Operating Officer

Norman J. Bowmaker
Vice President, General Services

Raymond C. Bryant
Vice President, Consumer Services

Edward A. Crooke
Vice President, Finance and Accounting, and Secretary

Jon M. Files
Vice President, Management and Staff 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

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, 1982.

New Director

At the Annual Meeting held in April 1981, stockholders elected Paul G. Miller to membership on the Company's Board of Directors. Mr. Miller is the Chairman of the Board and Chief Executive Officer of Commercial Credit Company and a member of the Board of Directors of its parent corporation, Control Data Corporation. He succeeds Walter Sondheim, Jr., who had attained the age of Board retirement after 17 years of dedicated service to the Company.

New Officers

The Board elected Jon M. Files, Vice President, Management and Staff Services, succeeding Norman J. Bowmaker who assumed the responsibilities of Vice President, General Services. Both officers assumed their new duties as of June 1, 1981.

Vernon R. Evans

It is with profound sorrow that we report the sudden death of Vernon R. Evans, Vice President, General Services, in April 1981. Mr. Evans served the Company with outstanding ability for more than 40 years.

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 23, 1982, 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 Agent

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

Board of Directors

Bernard C. Trueschler
Chairman of the Board of the Company, Baltimore

George V. McGowan
President of the Company, Baltimore

J. Owen Cole
Chairman of the Board, First Maryland Bancorp, Baltimore (Bank Holding Company)

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
Retired, (Former Chairman of the Board, Equitable Bancorporation), Baltimore (Banking)

Paul G. Miller
Chairman of the Board, Commercial Credit Company, Baltimore (Financing, Insurance etc.)

Charles S. Sanford, Jr.
Executive Vice President, Bankers Trust Company, New York (Banking)

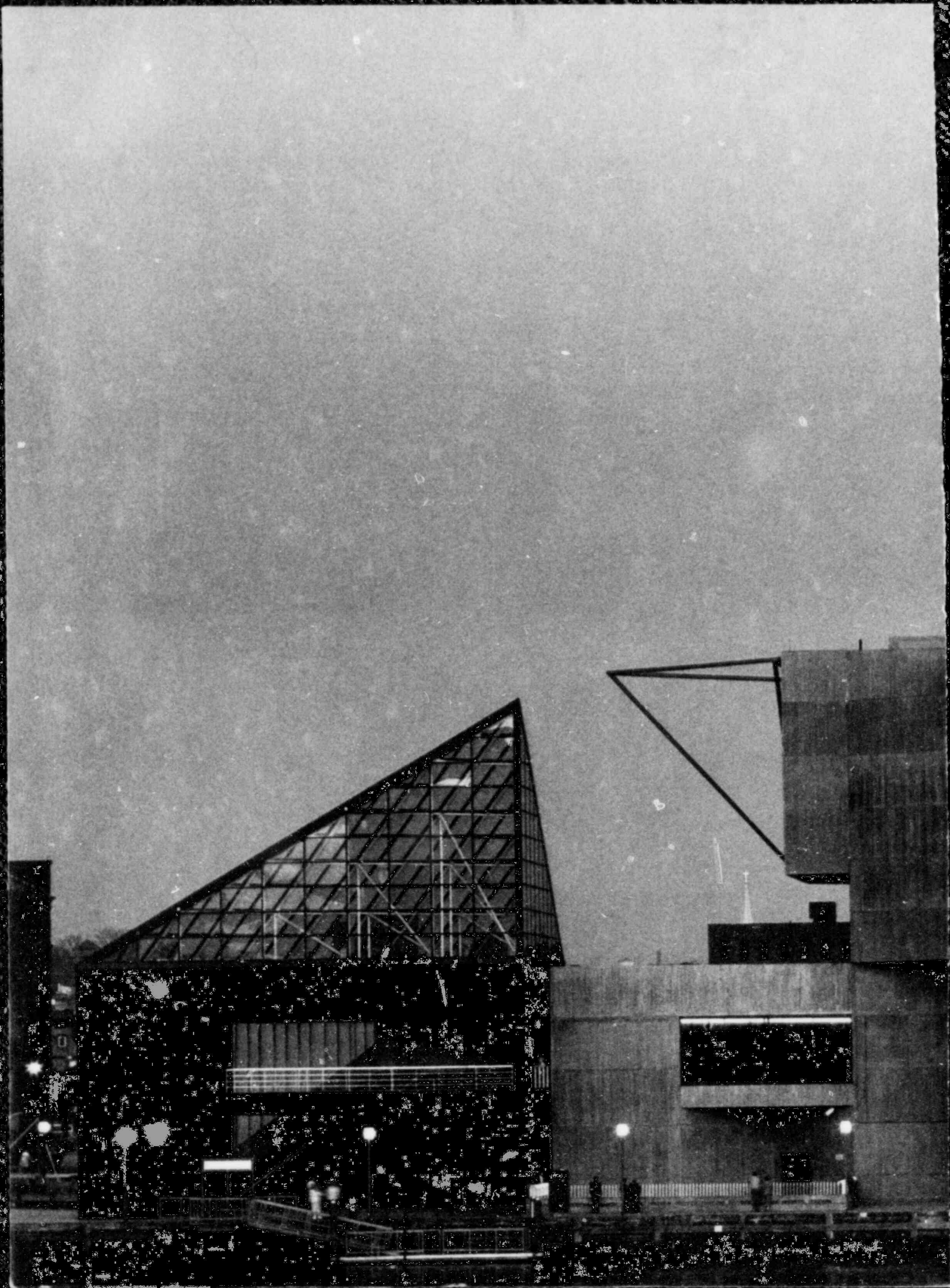
John P. Sippel
Vice Chairman of the Board, The Citizens National Bank, Laurel (Banking)

Henry P. Snyder, Jr.
General Manager, Product Line Planning and Management, Western Electric Company, Morristown, N.J. (Communications Equipment)

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.)



BALTIMORE GAS AND ELECTRIC COMPANY

STATEMENTS OF INCOME

	Three Months Ended June 30, 1982	Three Months Ended June 30, 1981	Six Months Ended June 30, 1982	Six Months Ended June 30, 1981	Twelve Months Ended June 30, 1982	Twelve Months Ended June 30, 1981
	(Thousands of Dollars)					
Operating Revenues						
Electric	$239,600	$208,665	$492,637	$426,135	$1,000,662	$ 909,795
Gas	122,138	102,404	324,024	260,580	531,392	416,465
Steam	4,317	3,083	12,586	11,877	19,656	17,784
Total Operating Revenues	366,055	314,152	829,247	698,592	1,551,710	1,344,044
Operating Expenses						
Purchased Fuel and Energy	155,137	125,732	389,366	297,052	688,403	535,524
Operations	69,482	59,287	137,258	117,672	267,605	232,115
Maintenance	24,476	22,323	41,918	42,325	87,034	82,164
Depreciation	21,466	19,725	45,371	41,199	92,570	84,876
Income Taxes:						
Current	16,200	14,253	53,301	22,908	86,136	43,828
Deferred	(1,839)	(2,603)	(15,169)	11,619	(18,146)	32,576
Investment Tax Credit Adjustments	4,202	5,247	7,240	9,364	20,458	15,737
Other Taxes	24,210	21,048	52,855	46,075	94,492	91,724
Total Operating Expenses	313,334	265,012	712,140	588,214	1,318,552	1,118,544
Operating Income	52,721	49,140	117,107	110,378	233,158	225,500
Allowance for Other Funds Used During Construction	5,989	3,434	10,745	6,750	16,158	12,953
Net Other Income and Deductions	1,243	328	2,379	1,191	4,072	2,732
Income Before Interest Charges	59,953	52,902	130,231	118,319	253,388	241,185
Interest Charges	26,834	24,885	55,828	50,128	111,862	97,180
Allowance for Borrowed Funds Used During Construction	(4,927)	(3,425)	(9,506)	(6,733)	(17,118)	(13,065)
Net Interest Charges	21,907	21,460	46,322	43,395	94,744	84,115
Net Income	38,046	31,442	83,909	74,924	158,644	157,070
Dividends—Preferred and Preference Stock	6,984	6,897	13,971	12,413	27,973	23,455
Net Income Applicable to Common Stock	$ 31,062	$ 24,545	$ 69,938	$ 62,511	$ 130,671	$ 133,615
Common Shares Outstanding (Thousands)						
Average During Period	36,180	33,213	35,129	33,070	34,383	32,794
At End of Period	36,543	33,277	36,543	33,277	36,543	33,277
Earnings Per Common Share (Average Shares)	$0.86	$0.74	$1.99	$1.89	$3.80	$4.07

SALES VOLUMES (Thousands)

	Three Months 1982	Three Months 1981	Six Months 1982	Six Months 1981	Twelve Months 1982	Twelve Months 1981
Electric—MWH	3,908	4,030	8,576	8,636	17,524	17,585
Gas—DTH	22,100	23,936	62,882	62,226	106,238	101,402
Steam—M lb	387	376	1,135	1,143	1,888	1,995

BALANCE SHEETS

	June 30, 1982	June 30, 1981
	(Thousands of Dollars)	
ASSETS		
Utility Plant	$3,718,068	$3,441,483
Less Accumulated Depreciation	797,592	714,544
	2,920,476	2,726,939
Other Investments	12,724	8,125
Current Assets		
Cash	1,959	2,509
Temporary Cash Investments	55,054	—
Accounts Receivable	146,269	125,883
Materials and Supplies	132,466	146,674
Other	24,823	11,846
	360,571	286,912
Deferred Fuel Costs	(3,038)	45,142
Other Deferred Debits	26,033	39,139
Total Assets	$3,316,766	$3,106,257
CAPITAL AND LIABILITIES		
Common Stock and Retained Earnings		
Common Stock	$ 731,724	$ 651,467
Premium on Preferred Stock	157	157
Retained Earnings	427,224	390,526
	1,159,105	1,042,150
Preferred and Preference Stock		
Not Subject to Mandatory Redemption		
Preferred Stock	59,185	59,185
Preference Stock	175,000	175,000
Convertible Preference Stock	5,474	7,214
	239,659	241,399
Redeemable Preference Stock	100,000	100,000
Long-Term Debt		
Mortgage Bonds and Debentures	1,346,498	1,269,865
Unamortized Discount and Premium	(4,865)	(4,271)
Long-Term Debt estimated to be retired within one year	(104,278)	(13,166)
	1,237,355	1,252,428
Current Liabilities		
Notes Payable	—	26,250
Accounts Payable	87,759	68,777
Taxes Accrued	47,467	22,458
Interest Accrued and Dividends Declared	71,254	63,017
Long-Term Debt estimated to be retired within one year	104,278	13,166
Other	28,199	35,753
	338,957	229,421
Deferred Investment Tax Credits	139,818	122,994
Deferred Income Taxes	86,817	104,963
Other Deferred Credits	15,055	12,902
Total Capital and Liabilities	$3,316,766	$3,106,257

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

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 6/30/82	Twelve Months Ended 7/31/83
Non-Cash Expenses ($000)		
Depreciation and Amortization	$157,709	$160,924
Deferred Income Taxes and Investment Tax Credits	(1,475)	56,385
Total	$156,234	$217,309
Percentage of Total to Maximum Total Contingent Liability	781.2%	1,086.5%
Retained Earnings ($000)		
Net Income After Taxes	$158,644	
Less Allowance for Funds Used During Construction	33,276	
Less Dividends Paid	90,271	
Total	$ 35,097	
Total Internal Cash Flow	$191,331	
Percentage of Total Internal Cash Flow to Maximum Total Contingent Liability	956.7%	

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, 1983.

E A Crooke

Subscribed and sworn to before me, a Notary Public, in and for the State and City above named, this 21st day of July, 1982.

My Commission expires July 1, 1986.

Ruth N. Grese

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, 2.74% for gas, 2.75% for steam and 3.39% 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, 1982.

Baltimore Gas and Electric Company

Curtailment of Capital Expenditures

Estimated construction expenditures including nuclear fuel and Allowance for Funds Used During Construction for the twelve months ended July 31, 1983 are $385 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.