BALTIMORE
GAS AND
ELECTRIC

CHARLES CENTER • P.O. BOX 1475 • BALTIMORE, MARYLAND 2120? 1475

ACCOUNTING DEPARTMENT

March 15, 1991

U. S. Nuclear Regulatory Commission
Attn: Document Control Desk
Washington, DC 20555

Gentlemen:

In accordance with the requirements of 10 CFR 50.71 (b), and 10 CFR 50.4 enclosed please find a copy of the Baltimore Gas and Electric Company's 1990 Annual Report to its shareholders.

Very truly yours.

J. E. Ringsdorf

J. E. Ringsdorf, Jr.
Supervisor
Financial Reporting

cc: R. E. Nagel
B. R Watkins
E. P. Wilson

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ANNUAL REPORT 1990

Contents

This report was printed entirely on recycled paper.

Highlights

Baltimore Gas and Electric Company and Subsidiaries

(In millions, except per share amounts)

	1990	1989	Percent Change
Common Stock Data			
Earnings Per Share			
Utility Operations	$ 1.92*	$ 2.81	(31.7)%
Diversified Activities	.18	.24	(25.0)%
Total	$ 2.10	$ 3.05	(31.1)%
Dividends Declared Per Share	$ 2.10	$ 2.075	1.2 %
Average Shares Outstanding	82.4	80.0	3.0 %
Return on Average Common Equity	8.4%	12.6%	–
Book Value Per Share–Year End	$24.87	$24.91	(0.2)%
Market Price Per Share–Year End Close	28	34½	(18.8)%
Financial Data			
Revenues			
Electric	$1,684	$1,519	10.9 %
Gas	373	412	(9.3)%
Diversified Activities	102	73	39.2 %
Total	$2,159	$2,004	7.7 %
Net Income	$ 213	$ 276	(22.8)%
Earnings Applicable to Common Stock	$ 173	$ 244	(29.1)%
Assets			
Utility	$5,669	$5,149	10.1 %
Diversified	1,041	837	24.5 %
Total	$6,710	$5,986	12.1 %
Utility Construction Expenditures	$ 535	$ 447	19.7 %
BG&E Investment in Constellation Companies	$ 253	$ 251	0.5 %
Utility Sales Data			
Electric Sales–megawatthours	24.6	24.8	(0.7)%
Gas Sales–dekatherms	102.6	110.7	(7.3)%

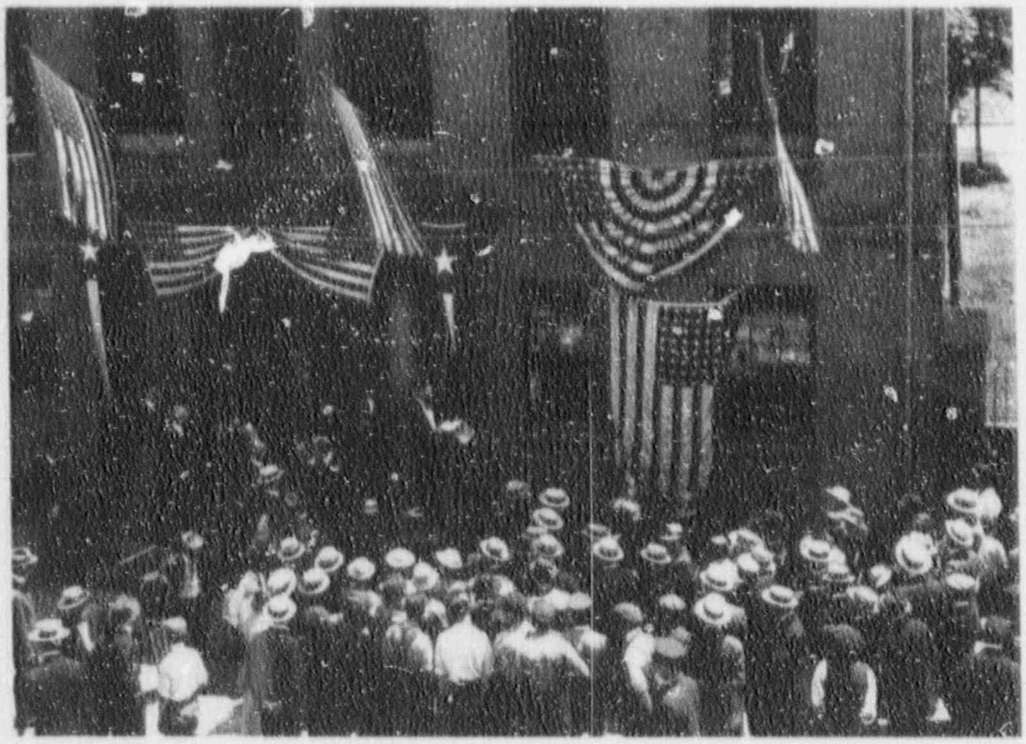
*Includes a provision for possible fuel cost disallowance and the effects of the accounting change for unbilled revenues.

On Our Cover

Anniversaries are a time for reflection on the past — nostalgia for "the good old days" makes us long for a time when life seemed simpler. But this look into "BG&E's attic" reminds us how sometimes difficult it was to cook our food, clean our clothes and homes, and keep ourselves warm. These artifacts represent attempts to make life easier than it had been "in the good old days." Gas and electric appliances took the drudgery out of daily household chores. Many of these items — gas space heaters, gas irons, refrigerators, and stoves — were sold in BG&E's merchandise stores over the years. The drawings, meters, and equipment were found in collections throughout the Company. Some items are actually from our "attic," but many were lent for the photograph by employees and customers. We hope you enjoy reminiscing in BG&E's attic; a coded key identifying these artifacts appears inside our back cover.

One hundred and seventy-five years ago — before the railroads, before even the completion of the National Road connecting the East Coast to the West — artist, showman, entrepreneur and visionary, Rembrandt Peale, started the Gas Light Company of Baltimore to light the streets and homes of the city. It was the first gas utility in the New World, and we are its direct descendant. After 175 years, our gas business is still offering our customers innovative options to improve their lives. Our electric side, although the dominant element today, is a relative newcomer to our story.

Long familiarity has robbed energy of its wonder in the eyes of its consumers, but not in ours. As we plan corporate strategies for the decade ahead, we dream of technological marvels for the century to follow — and know that one day, we will build them.



THE PEALE MUSEUM — JUNE 16, 1916

IN 1816, REMBRANDT PEALE CONDUCTED THE FIRST PUBLIC DEMONSTRATION OF GAS LIGHTING IN BALTIMORE AT HIS MUSEUM ON HOLLIDAY STREET — THE OLDEST BUILDING IN THE WESTERN HEMISPHERE CONSTRUCTED SPECIFICALLY AS A MUSEUM (1814). IN JUNE 1916, 100 YEARS AFTER THE DEMONSTRATION, THE CONSOLIDATED GAS ELECTRIC LIGHT AND POWER COMPANY — AN EARLIER NAME OF BG&E — PLACED A MARKER ON THE SITE COMMEMORATING THE EVENT. THIS RARE PHOTOGRAPH, PART OF A COLLECTION DONATED TO THE PEALE MUSEUM BY BG&E, CAPTURES THE CROWDS, FLAGS, AND EVEN AN EARLY MOVING-PICTURE CAMERA AND CREW AT THE EVENT.

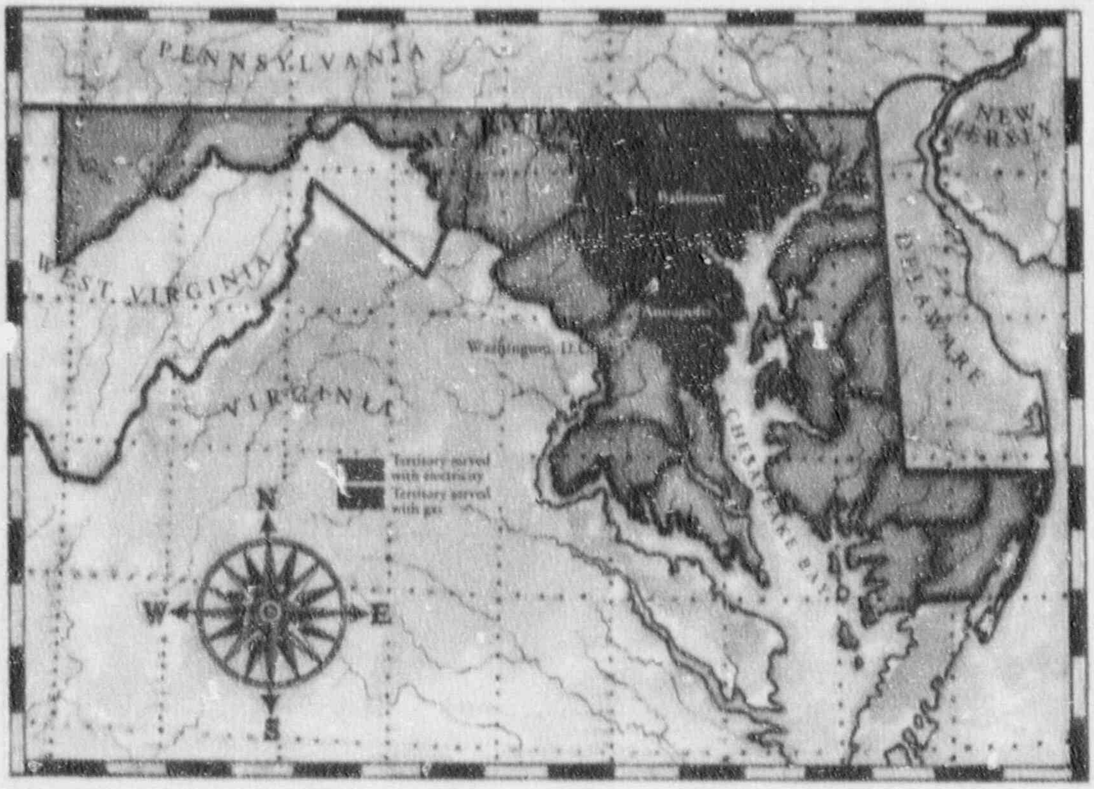
Corporate Profile

Baltimore Gas and Electric Company is an investor-owned company that combines its core utility business with diversified non-utility operations. As the first gas utility and one of the first electric utilities in the United States, we have a long tradition of superior service and reliability. Our utility strategy for the future focuses on maintaining both that tradition and our position as one of the lowest-cost producers in the mid-Atlantic region. Our diversified activities, under the direction of Constellation Holdings, are designed to provide meaningful earnings support to the Company while allowing us to take advantage of new business opportunities that use our expertise and experience. Constellation Holdings holds the stock of three companies that are involved in power generation projects, real estate development, senior living and health care, and investments and financial services.

BNG, Inc., another wholly owned subsidiary of the Company, invests in natural gas reserves and obtains gas from nontraditional sources.

The Company and its wholly owned subsidiaries have over 9,000 employees.

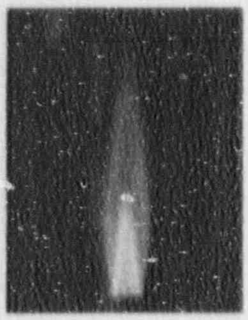
The BG&E utility service area includes Baltimore City and all or part of nine Central Maryland counties. The area served with electricity approximates 2,300 square miles with 3,478,000 residents, while the area served with gas includes 615 square miles with a population of 1,885,000.



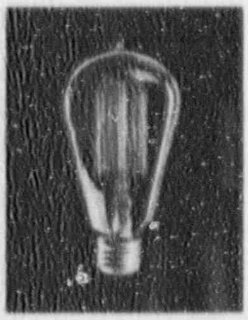
Utility Operations

Baltimore Gas and Electric Company

Gas



Electric



Central Maryland enjoys a diverse economy that provides a broad base for our business. To serve its electric needs, BG&E operates 10 electric generating plants in Central Maryland, including the Calvert Cliffs Nuclear Power Plant, which produces the lowest-cost electricity generated by BG&E. We also maintain shared ownership of three generating facilities in Pennsylvania: two minemouth plants and Safe Harbor Water Power Corporation, a producer of hydroelectric power. In addition, we belong to the Pennsylvania-New Jersey-Maryland Interconnection that affords us access to pooled capacity on favorable terms.

We meet virtually all our customers' gas requirements through purchases from pipeline suppliers and natural gas producers. As a supplement to this supply of natural gas, we maintain facilities at three plants in Central Maryland for the production and storage of liquified natural gas, substitute natural gas, and propane.

Other business includes the sale of gas and electric appliances.

Diversified Activities

Constellation Holdings

Energy and Environmental

Real Estate

Investments

The operating companies in the Constellation group focus on four major business lines. Through our ownership position in 24 power generation projects and involvement in 18 contracts for operations and maintenance services, we are not only producing current income but are also gaining valuable experience in the wholesale power generation market.

Our 34 real estate projects are heavily concentrated within the mid-Atlantic region. This growing and diversified portfolio ranging from completed office buildings and shopping centers to land assemblages will provide a blend of ongoing rental income as well as gains on future sales. Our Real Estate Group is also involved in projects associated specifically with the rapidly growing over-65 segment of our population. Through joint ventures, we have brought our financial strength and stability to the senior-living and health-care market. Teamed with a nationally known provider of health-care services, we own five nursing homes and two retirement communities.

Our positions in investments and financial services let us blend current income with the long-term capital-appreciation-type projects in our other business lines to produce the desired total corporate result. The broadly diversified investment portfolio provides year-to-year core income for all Constellation activities.

Chairman's Report to Shareholders

The past year proved to be as difficult as we thought it would be, and our financial performance reflects that characterization. Our 1990 results were influenced by factors that are largely short term in nature, rather than fundamental changes in our business. Foremost were the unavailability of our Calvert Cliffs Nuclear Power Plant for most of the year and the resulting higher fuel and energy costs incurred by the Company. At the same time, we significantly increased our resources at Calvert Cliffs to assure its safe and efficient long-term operation. The downturn in the economy depressed growth in our diversified businesses and, along with warmer-than-normal temperatures during the heating season, halted the growth in electric and gas sales experienced during recent years. Most of these conditions were neither unanticipated nor unmanageable. We had expected that 1989 and 1990 would be difficult years.

George V. McGowan
Chairman of the Board and Chief Executive Officer

Consolidated earnings were $2.10 per share, a 31% decline from 1989. Utility operations contributed $1.92, an $.89 decrease from the previous year, while diversified business activities added $.18, a $.06 decline. The Board of Directors has maintained the common stock dividends at the annual rate of $2.10 per share. This is the 81st consecutive year of uninterrupted cash dividends on our common shares.

In the 1990 financial results, we established a $35 million provision for a possible fuel cost disallowance associated with the Calvert Cliffs Nuclear Power Plant. This provision reduced 1990 net income by $.28 per common share. The action was taken as a result of our concerns that the Public Service Commission of Maryland (PSC) may not allow recovery of the full amount of replacement energy cost related to the Calvert Cliffs outages. The latest indication was the view expressed in the PSC's December 1990 base-rate order that some of the Unit 1 work conducted during 1989-1990 was avoidable. While we disagree with the Commission's conclusion with respect to that work, we determined the prudent course of action was to set up a reserve in the event a part of the replacement energy cost is subsequently

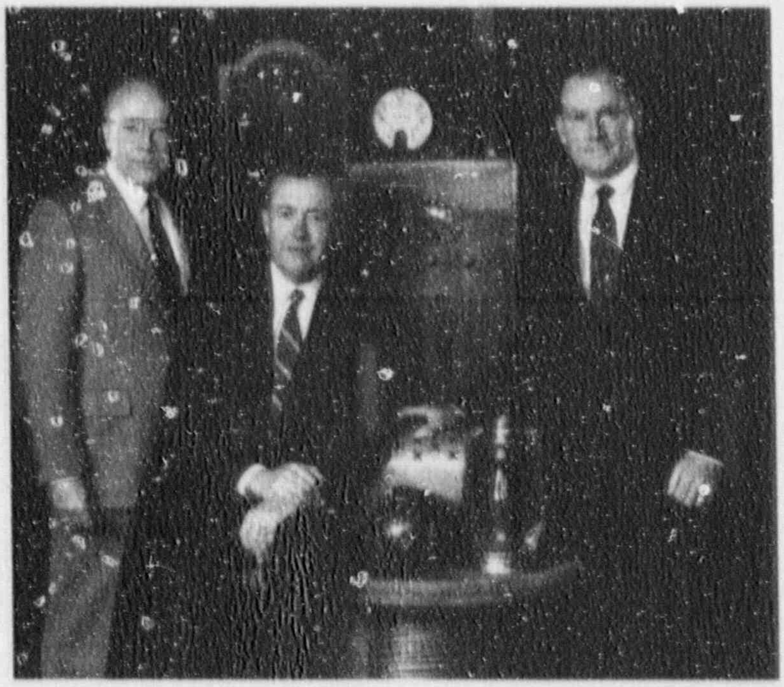
"The modernization of Calvert Cliffs, the expansion of our gas business, and the installation of our new customer information computer system represent investments in service and reliability that will produce results in the decades ahead."

CONSOLIDATED GAS ELECTRIC LIGHT AND POWER COMPANY WORK LANTERN

disallowed. Also in 1990, we changed our revenue recognition policy to provide for the accrual of revenue for utility service rendered but not yet billed to customers as of the end of each month. This change, which conforms with the predominant practice within the utility industry, increased earnings approximately $.38 per common share.

Electric sales for 1990 decreased by 1%, reflecting the effects of mild winter weather and a reduction in usage by our largest industrial customer. The rate of growth in electric residential sales slackened, mirroring a decline in home building, which had increased dramatically during the latter half of the '80s. Although we are successfully expanding our gas market, total 1990 gas sales for the year declined 7% for similar reasons.

Constellation's growth, too, has been slower than we originally anticipated, since economic conditions have inhibited the sale of several mature real estate projects and depressed the earnings of its financial investments. Constellation's Energy Group, however, has had a busy and productive year. Constellation will focus more on the power generation business for the long term. It is, after all, our business, and Constellation's activities form a strong complement to those of our core utility.



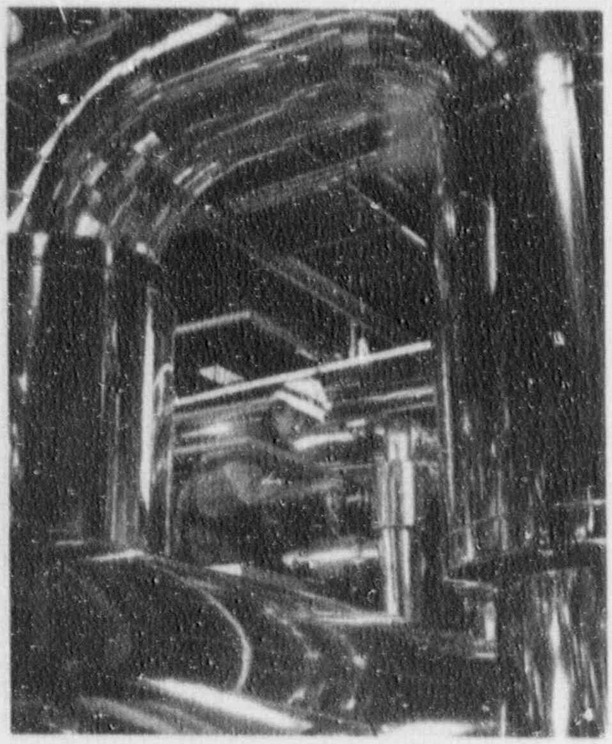
from the left:
EDWARD A. CROOKE, *President–Utility Operations;*
CHRISTIAN H. POINDEXTER, *Vice Chairman of the Board;*
BRUCE M. AMBLER, *President and Chief Executive Officer, Constellation Holdings, Inc.*

Certainly, our short-term results have been disappointing. But, just as certainly, after 175 years in this business, we're not here for the short run. The modernization of Calvert Cliffs, the expansion of our gas business, and the installation of our new customer information computer system represent investments in service and reliability that will produce results in the decades ahead. You can read more about these projects later in this report.

☛ Baltimore's business center is clearly visible through the girders of Maryland's new Camden Yards ballpark — the future home of the Baltimore Orioles baseball team. Scheduled for completion by Opening Day 1992, the stadium will generate an estimated $16 million annually in new economic growth.

At Calvert Cliffs Nuclear Power Plant, safety is our first concern in everything we do. Here, a technician checks an I.D. tag on a valve before working on a feedwater heater. The heater is part of a system to preheat water before it reaches the steam generator.

While 1991 — our 175th anniversary — will also be a demanding year, we do expect improvement in operations and earnings. Calvert Cliffs again should be our largest producer of electricity. We'll also be receiving additional revenue from the $77 million annual base-rate increase authorized in December by the Public Service Commission of Maryland, as well as from the $124 million base-rate increase that will become effective in June. This latter increase provides rate recognition for our investment and operating expenses at the 640-megawatt Brandon Shores Unit 2, which will produce annual fuel savings of more than $50 million. In addition, the PSC authorized the Company to apply for a $50 million surcharge effective October 1991 to recover contractual capacity purchases beginning at that time.

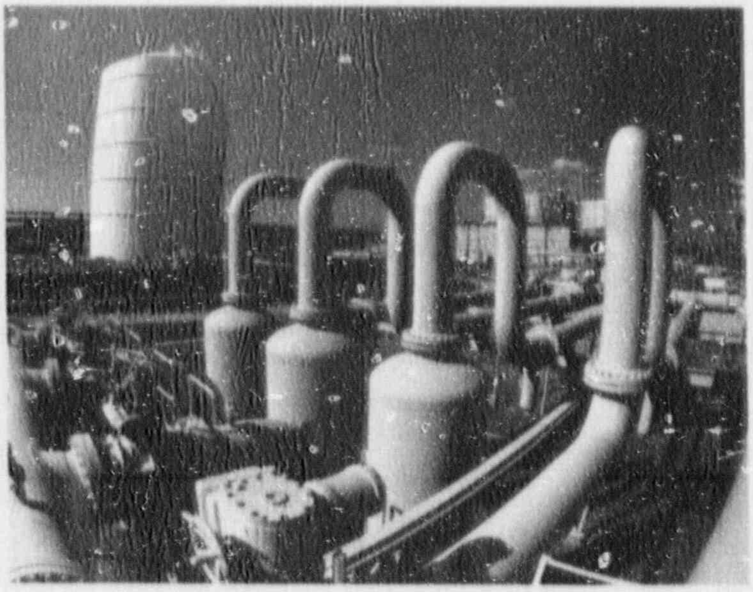


We're pleased that the PSC recognized our future capacity needs and the prudence of the Brandon Shores plant. But we are concerned with the long-range implications of the decision to deny cost recovery of certain nuclear operating and maintenance expenses. These costs were required for safety improvements and normal maintenance. We believe it is important to receive proper rate recognition on these items, and we've asked the PSC for a rehearing on these issues.

I'd like to take some time now to tell you about Calvert Cliffs. Many of you, I know, have questions about the events of the past two years. Unit 1 operated briefly in April and finally went back in normal service in October 1990. We expect Unit 2 back on-line in the first quarter of this year. This will complete Calvert Cliffs' return to normal production levels.

The question on most people's minds is, "Why have the units been off-line for so long?" The short answer is safety. In the nuclear power industry, safety must be considered in everything we do. In May 1989, during a normal refueling outage, we discovered evidence of leakage from a component of Unit 2's reactor coolant system — the pressurizer. This system is a key line of defense in nuclear safety. We had to find out if there was a similar problem on Unit 1, and so we shut it down the following day, May 6, 1989. We determined fairly quickly that there was no immediate evidence of leakage on Unit 1.

Remember that Calvert Cliffs is our lowest-cost source of generation. We wanted to get it back on-line as soon as possible, but we had to understand why we had leaks on Unit 2 and not on Unit 1 when the designs were identical. Safety was the paramount issue. Consequently, we began an exhaustive analysis to answer that question. We also decided to make efficient use of the downtime by doing additional inspections, as well as repair and modification work, jobs that could not be done while the units were operating. In the process, we discovered other problems, and we dealt with them — in spite of the fact that the work extended the already lengthy outage into 1990. Again, safety was the main consideration.



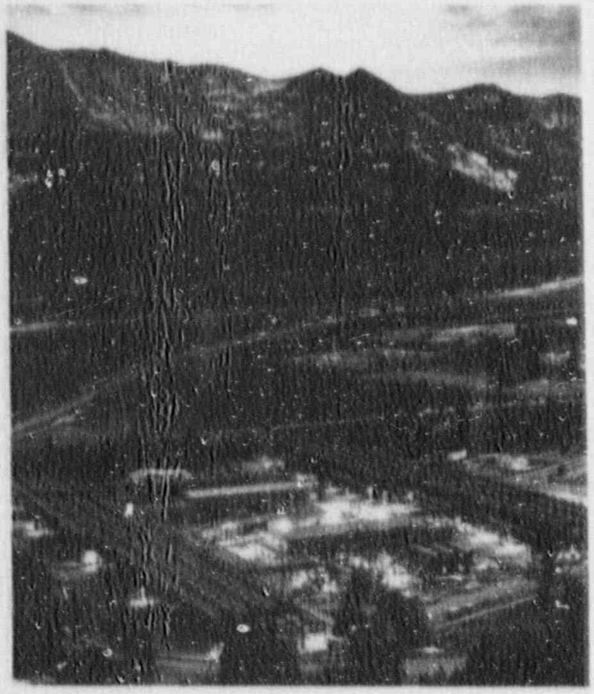
STORAGE TANKS AND PIPES CONTAINING LIQUIFIED NATURAL GAS FORM "INDUSTRIAL SCULPTURE" AT OUR SPRING GARDENS FACILITY. NATURAL GAS IS A CLEAN FUEL THAT WILL PLAY AN INCREASINGLY IMPORTANT ROLE IN OUR BUSINESS IN THE '90S. PRIOR TO 1950 WHEN THE COMPANY COMPLETED A CONVERSION TO NATURAL GAS, SPRING GARDENS HAD SERVED AS A GAS MANUFACTURING PLANT SINCE THE MID-19TH CENTURY.

Complicating the issue was the fact that we knew we had to shut down Unit 1 in the spring of 1990 to conduct some required periodic surveillance tests and safety inspections. Many inspection intervals are based on calendar time, not necessarily operating time. We seriously considered combining the outages, but we decided there was one important reason to get Unit 1 back on-line and operate it for as long as possible before the inspection outage. Having been off-line for so long with major work accomplished, the unit needed a trial period of operation to identify other problems that could only be detected in operation. That's why we decided to bring the unit on-line

1900S LINE CREW HARD HAT

IWANTU GAS IRON

briefly. As events unfolded, we were only able to operate it for a few days in April before the surveillance outage began. During the surveillance and testing outage, we also did unplanned work on systems that had remained in service during the earlier shutdown. As before, when we discovered new problems, we had to deal with them. Unit 1 returned to service in October.



THE MAMMOTH LAKES GEOTHERMAL FACILITY IS LOCATED IN CALIFORNIA. CONSTELLATION ENERGY PL , TWO 12-MEGAWATT UNITS IN SERVICE DURING 1990 AND PURCHASED AN INTEREST IN AN EXISTING EIGHT-MEGAWATT UNIT.

While this activity was going on with Unit 1, we were also repairing the pressurizer sleeves that had caused leakage in Unit 2. We had determined that the cause of the problem was a fabrication technique that had only been used in Unit 2. Once we understood the cause, we designed the repair process. Although the job was lengthy and complicated, the process went smoothly, and the repair was completed in July 1990. Since then we have been performing maintenance and safety corrections on Unit 2 similar to the work that we did earlier on Unit 1. Near the end of 1990, we completed refueling on Unit 2, and it should be generating full power in the near future.

That is why the plant has been out of service for so long. As the licensee, the Company — not its regulators — is ultimately responsible for safety, and the modifications we've made over the past two years as well as the ongoing maintenance program will keep Calvert Cliffs running safely and productively for many years to come. Later in this report, I hope you'll read about the modernization of the management systems at Calvert Cliffs that has been a parallel effort to our work on the physical plant.

The American energy industry is moving in a number of exciting directions. Competition in the bulk power market and the expansion of non-utility generators serve to increase the options for all of us. As we pursue those options in an effort to supply the energy needs of our territory, we have to answer several basic questions facing our industry: How do we produce and market energy in an environmentally conscious world? What will the fuels of the future be? And who is going to build the

"... certainly, after 175 years in this business, we're not here for the short run."

plants of the future? Our planning in the past and the work we accomplished this year put us in an excellent position to deal with those issues.

Perhaps the most encouraging indicators of our future are the people who work for BG&E today. A recent survey indicated that the overwhelming majority of our people feel personally responsible for helping the Company operate safely and productively. That kind of commitment translates into quality service for our customers, and service is the bedrock of success.

We have good reason to celebrate our 175th anniversary and look forward to the milestones ahead. This report marks the occasion by combining an illustrated time line that recalls key events in our corporate and community history with a discussion of 1990's strategic projects. As I look both to the past and the future, I see a continuum of values: a belief in managing prudently while preparing for change, a commitment to serving our investors and our customers well, and a sense of caring about our employees and our community. Those values have supported our achievements for the better part of two centuries, and they are the foundation for many accomplishments to come.

The stacks of Brandon Shores are seen here from the deck of Unit 2's recently completed high-efficiency cooling tower. Unit 2 is scheduled to be placed in service in the spring of 1991.

George V. McGowan

Chairman of the Board
and Chief Executive Officer

February 19, 1991

Financial Review

Earnings

Consolidated earnings per share for 1990 were $2.10 , a decline of 31% from the $3.05 earned in 1989. This decline resulted from lower earnings from both BG&E's utility business and its diversified business activities. Earnings per share are summarized below:

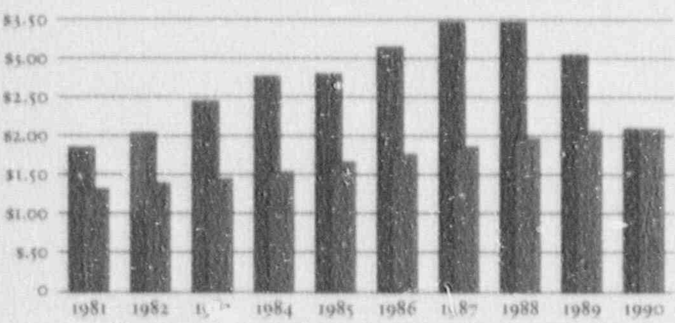
	1990	1989
Utility operations	**$1.92**	$2.81
Diversified activities	.18	.24
Total	**$2.10**	$3.05

The decline in the utility's 1990 earnings was primarily the result of higher operations and maintenance expenses, particularly at the Calvert Cliffs Nuclear Power Plant, higher financing costs, and the effects on sales of less favorable weather as compared to last year. Also contributing to lower utility earnings were increased costs resulting from the purchase of additional generating capacity and from lower sales of high voltage transmission capability. Finally, the 1990 decline reflects the recording of a provision for the possible disallowance of certain replacement energy costs. The decrease in utility earnings was partially offset by the effect of the change in the Company's accounting policy for unbilled revenues.

Earnings from diversified activities represent primarily the results of operations of Constellation Holdings, Inc. and its subsidiaries. The decline in Constellation's 1990 earnings was due to softness in the real estate market and lower earnings from financial investments.

During 1990, common stock dividends were declared at the quarterly rate of 52½ cents per share, equivalent to an annual rate of $2.10 per share.

Earnings and Dividends Declared Per Share of Common Stock



Earnings (Consolidated)
Dividends Declared

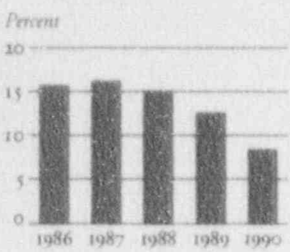
Earnings (Consolidated)
$1.85 $2.04 $2.48 $2.77 $2.80 $3.15 $3.47 $3.47 $3.05 $2.10

Dividends Declared
$1.325 $1.40 $1.46 $1.55 $1.675 $1.775 $1.875 $1.975 $2.075 $2.10

Rate Matters

On December 17, 1990, the Public Service Commission of Maryland (Maryland Commission) issued an order authorizing Baltimore Gas and Electric Company an immediate electric base rate increase of $77 million annually, equivalent to 4.7% of total electric revenues. In addition, the Maryland Commission authorized a $124 million base rate increase to provide rate recognition for the Company's investment and operating expenses at the 640 MW coal-fired Brandon Shores Unit 2 upon that Unit's commercial operation in May 1991. This second increase in base rates will be accompanied by a reduction in the fuel rate to reflect the currently estimated $52 million of expected annual fuel cost savings resulting from the commercial operation of Brandon Shores Unit 2. The Maryland Commission also authorized the Company to apply for a surcharge to base rates for approximately $50 million of purchased capacity costs beginning when the expenses are incurred

Return on Average Common Equity



Actual
15.7% 16.2% 15.1% 12.6% 8.5%

in October 1991. Based on the Company's financial performance at that time, the Maryland Commission has agreed to authorize the surcharge if it determines that the Company would otherwise be unable to achieve its authorized return.

Provision for Possible Fuel Cost Disallowance

In its 1990 financial results, the Company established a $35 million provision, equivalent to 28¢ per share, for a possible fuel cost disallowance associated with its Calvert Cliffs Nuclear Power Plant. This action was taken as a result of concerns that the Maryland Commission may not allow the Company to recover all such costs resulting from outages at the Calvert Cliffs Nuclear Power Plant. The latest indication was the view expressed in the Maryland Commission's December 1990 Base Rate Order that some of the work conducted at Unit 1 during 1989-1990 was avoidable. While the Company disagrees with the Maryland Commission's conclusion with respect to that work, it determined the prudent course of action was to set up a reserve in the event a part of the replacement energy cost is subsequently disallowed. The Company has filed a request for rehearing of the Maryland Commission's base rate decision regarding the Calvert Cliffs issues.

Accounting Change

During 1990, BG&E changed its utility revenue recognition policy to provide for the accrual of revenue for utility service rendered but unbilled as of the end of each month. Prior to 1990, utility revenues were recognized at the time customers' meters were read on a monthly basis. This change, which was made to provide a better matching of revenues and expenses and to conform with the predominant practice within the utility industry, increased 1990's earnings per common share by 38 cents.

Utility Construction Expenditures

The utility's construction expenditures totaled $535 million in 1990, including $53 million in Allowance for Funds Used During Construction (AFC). Electric expenditures — primarily for construction of Brandon Shores Unit 2 and improvements to the transmission and distribution system — accounted for $482 million of the 1990 total. Gas expenditures totaled $53 million.

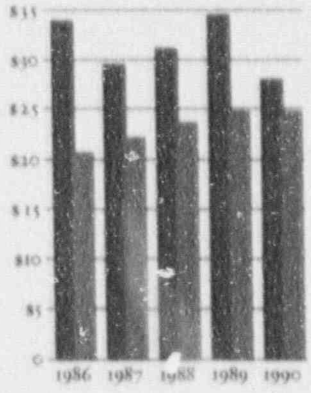
It is currently estimated that the utility's 1991 construction expenditures will amount to $533 million, including $33 million in AFC.

Financing

During 1990, long-term financings relating to utility operations consisted of $400 million in debt, $65 million of redeemable preference stock, and $87 million of common stock. During the year, $53 million of long-term debt and $7 million of redeemable preference stock were retired. Standard & Poor's Corporation (S&P) and Moody's Investors Service downgraded their ratings on BG&E's debt, preferred stock, and preference stock. S&P also downgraded the Company's commercial paper from A-1+ to A-1.

Corporate long-term borrowings by Constellation Holdings, Inc. increased by $55 million during 1990.

Common Stock Market Price and Book Value



Market Price (Close)
Book Value (Year End)

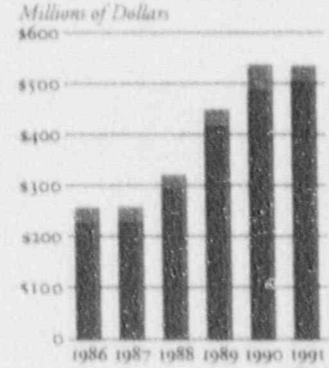
Market Price
$33⅞ $29½ $31⅛ $34½ $28

Book Value
$20.72 $22.24 $23.77 $24.91 $24.87

Market to Book Ratio
163.5% 132.6% 130.9% 138.5% 112.6%

Utility Construction Expenditures

Millions of Dollars

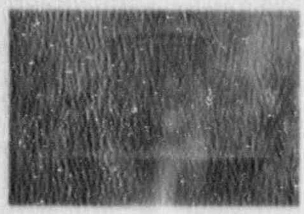


Construction
AFC

Construction
$224 $224 $290 $414 $482 $500

AFC
$30 $31 $28 $33 $53 $33

Total
$254 $255 $318 $447 $535 $533



1816

On June 11, Rembrandt Peale demonstrates "the ring beset with gems of light" at his museum in Baltimore. On June 13, Peale and William Gwynn form the Gas Light Company of Baltimore. On June 19, Mayor Edward Johnson signs the ordinance giving the new Company a franchise and a contract to light the streets of Baltimore.

Courtesy B&O Railroad Museum

1828

Charles Carroll, a signer of the Declaration of Independence, lays the cornerstone of the B&O Railroad, the first public rail operation in America.

1860

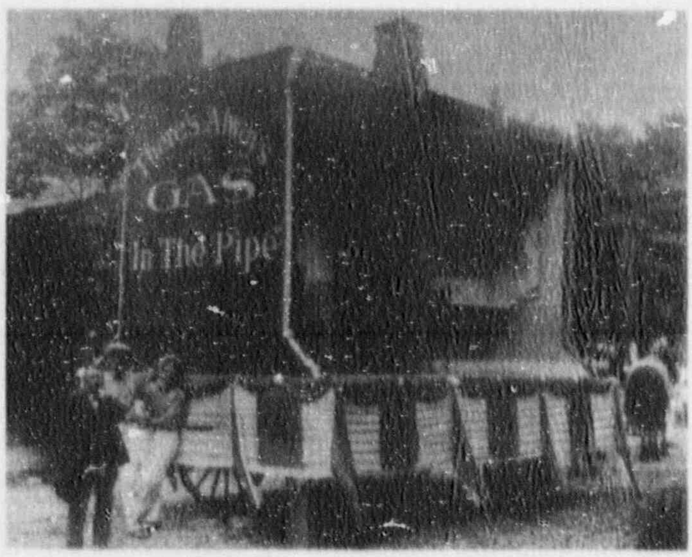
The Maryland Legislature charters a rival gas company, People's Gas Light Company.

1861

The American Civil War begins after the Confederacy fires on Fort Sumter on April 12.

Investments in Reliability

In 1990, we invested heavily in the future: planning our electric supply for the mid- and latter-90s, continuing the modernization of our Calvert Cliffs Nuclear Power Plant, expanding and reinforcing our distribution and transmission system, broadening the scope of our gas business, and strengthening Constellation's involvement in power generation. The benefits of these activities do not appear in 1990 results. Ours is a long-term business, and these efforts are intended to ensure that we can deliver in the next century the same reliable, quality service that has been our trademark for 175 years. The following pages outline our investments in reliability.

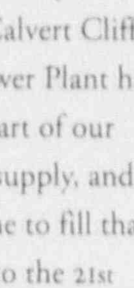


Although gas cooking originated in England in 1840, Baltimore can claim to be the first city in America to try cooking with gas thanks to the president of the Gas Light Company of Baltimore who had a crude range built for his family in the 1840s. By the early 1850s, gas stoves began to appear in exhibitions like the one shown above around the country.

Generating Capacity for the '90s: Calvert Cliffs

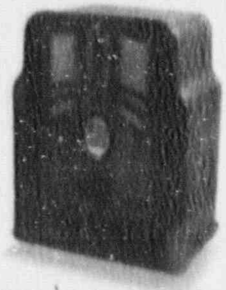
For most of the past 15 years, our Calvert Cliffs Nuclear Power Plant has been the heart of our generation supply, and it will continue to fill that role well into the 21st century. For the past three years, we've been involved in an overhaul of the management systems and processes that have been in use at the plant since its start-up in the mid-70s. This is a vital effort.

During the 15-year period since the plant came on-line, the regulatory focus in the nuclear industry evolved from an emphasis on results to an emphasis on operational processes. Each new plant was required to operate under the latest requirements when it was first placed in service. Both we and the Nuclear Regulatory Commission (NRC)



Drafting pounce

1930s Philco radio



recognized that we had to upgrade our methods of doing work at Calvert Cliffs to meet current expectations. Our strategy for the modernization is described in a document called "Calvert Cliffs Performance Improvement Plan," which we submitted to the NRC in 1989. We've completed about half of that plan, and the NRC continues to monitor our progress. We've also encouraged an atmosphere of intense self-assessment at the plant — an attitude more important than ever in today's nuclear environment. This is a long-term effort, and safety remains our uppermost concern.

New Generating Capacity

Central Maryland is one of many areas in the country that will need additional generating capacity in the near future. Our Integrated Resource Plan, a 15-year strategy detailing the best combination of resources to meet projected energy requirements, provides a combination of demand-side-management and conservation programs, new plants, and purchased power to meet that need. Later this spring, Brandon Shores Unit 2, a 640-megawatt coal-fired plant, will begin operation. We've implemented new demand-side programs, such as cool storage, radio-controlled water-heater switches, and standard time-of-use rates for new residential customers, in addition to an aggressive conservation plan described later in this report. The flexibility of our purchased-power agreement with Pennsylvania Power & Light Company will permit us to

We began as a gas company in 1816, and gas — manufactured or natural — has always been a vital part of our business. We expect the popularity of natural gas to surge in the '90s, spurred by environmental and economic factors, as well as new efficient technologies. We are working with builders and developers to make gas available and economical in new communities like the one shown.

1865

U.S. Civil War ends.

1871

The Gas Light Company of Baltimore agrees to divide the City with the People's Gas Light Company.

1879

Thomas Alva Edison successfully tests the first commercially practical incandescent lamp.

1880-81

Baltimore's gas companies are merged to form the Consolidated Gas Company. The City's first electric companies, Brush Electric Light Company and the United States Electric Light and Power Company, appear on the scene.

1898

In Smyth vs. Ames, the Supreme Court holds that the Constitution requires regulators to allow a "fair return" on the value of things employed in the public convenience.

Courtesy Enoch Pratt Free Library

1904

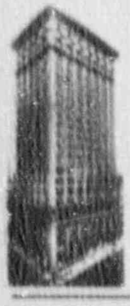
The Great Baltimore Fire begins on German (now Redwood) Street. 86 city blocks on 140 acres are entirely destroyed.

1906

Company shareholders ratify an agreement to form a fully integrated gas and electric service corporation to be known as the Consolidated Gas Electric Light and Power Company of Baltimore.

1910

The Public Service Commission of Maryland is created.



1916

The new Lexington Building becomes the Company headquarters; it is now known as the Gas and Electric Building. In the late 1950s, Baltimore's urban renewal plans called for the demolition of all but five buildings in the 22 acre downtown area. Now a City landmark, the G&E building was saved for its architectural quality.

1922

The Company sets its 100,000th electric meter.

1917-1918

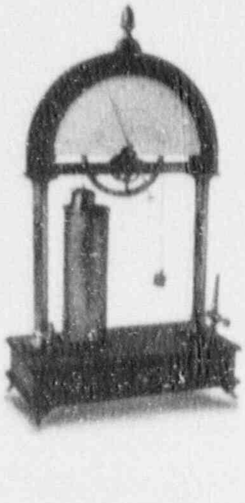
United States involved in World War I.

schedule the addition of our planned 400-MW combined-cycle units at Perryman around the effects of these demand-side programs. The objective of our Integrated Resource Plan is simply this: to develop the lowest-cost reliable power supply for our territory.

This photo from 1928 shows that our linemen had little in the way of special equipment to help them do their difficult and often dangerous jobs. Little has changed in the caliber and quality of our people over the years, however. The qualities of determination and dedication can still be found in the linemen of today.

Complying with the Clean Air Act of 1990

In the next decade, BG&E's fuel mix for electric generation will be approximately 43% nuclear, 52% coal, and 2% hydro, with the remainder a combination of oil, gas, and other minor sources. This mix not only helps to insulate us from volatility in the supply and price of fuel, it gives us greater flexibility in meeting the requirements of the federal Clean Air Act of 1990. We've begun evaluating emission-control options and working with state and federal agencies on the plants that may be affected. Nevertheless, reducing sulfur dioxide and nitrogen oxide emissions to the new levels will increase the price of electricity in the '90s and beyond.



Conservation

Improving air quality is only one aspect of environmental protection. Energy conservation is another global priority. Our Conserve 2000 program is a comprehensive strategy to conserve energy, protect the environment, and reduce our dependence on foreign oil by increasing the energy

Early 1900s Arch Water Gauge

Today, our Overhead Mechanics use modern material-handling bucket trucks to make the installation of pole-mounted transformers more efficient. Modern transformers reduce transformer energy losses, conserve fuel costs, and help reduce the need for new generating capacity.

efficiency of our customers' homes, offices, factories, and transportation. Our thrust for 1991 centers on a rebate program to promote installation of efficient commercial lighting, cooling, and heating systems along with energy-saving building materials. We're also investigating high-efficiency customer energy management systems and appliance upgrades in addition to focusing on a variety of developing gas applications, particularly in transportation and climate-control systems.

Distribution and Transmission

Westclox alarm clock

To maintain reliable service to our customers, we're expanding and reinforcing both our bulk power transmission system and our distribution network. After years of legal and regulatory delays, we are proceedi ıg with the completion of the 500-KV loop, which will increase our ability to import power :o our service territory and provide additional transmission access to and from Calvert Cliffs. The two segments of this project, jointly funded and constructed with neighboring Potomac Electric Power Company, are scheduled for a 1994 completion.

In response to customer growth in the northern part of our territory, we are upgrading our transmission system from 115 KV to 230 KV. In 1990, we finished the first of several phases of this Northern Ring project. In December, we energized the first leg of the 230 KV transmission lines to and from our Perryman plant. This

Herbert A. Wagner

1925

The Company-owned radio station, WBAL, goes on the air. In 1935, the Company sells it to American Radio News Corporation.

1931

Consolidated adds hydroelectricity to its generation mix by signing a three-party contract giving it two-thirds of the capacity and energy from the Safe Harbor Water Power Company.

1941-1945

United States involved in World War II.

1950

The Company completes the gas conversion project, fully replacing manufactured gas with natural gas.

1950-1953

United States involved in Korean War.

1951

The twenty year project to convert downtown Baltimore from the obsolete DC system to AC current is completed.

1955

At the Annual Meeting on April 1st, the Consolidated Gas Electric Light and Power Company of Baltimore is renamed Baltimore Gas and Electric Company.

1956

BG&E signs a contract with seven other electricity distributors to form the Pennsylvania-New Jersey-Maryland (PJM) Interconnection, one of the world's largest fully integrated electric power pools.

1957

The last surviving gas street light in Baltimore is extinguished on August 14th by Mayor Thomas D'Alesandro, Jr.

1964

BG&E's new Charles Center building is started on January 20th and occupied in 1965.

1964-1975

U.S. involved in hostilities in Vietnam.

1967

BG&E announces plans to build Maryland's first nuclear-powered generating plant on its Calvert Cliffs site, about 60 miles south of

phase also included construction of the Raphael Road switching station and the Otter Point master substation in the rapidly growing Harford County area. These major additions will serve the northern and northeastern parts of our territory well into the 21st century.

In the old days, a gas-meter setter started his day's work loaded down like a pack mule. At that time, meter and service men carried not only their tools, but the meters to be set, as well as shelves, pipe, fittings, and anything else they needed — perhaps even a corn cob pipe.

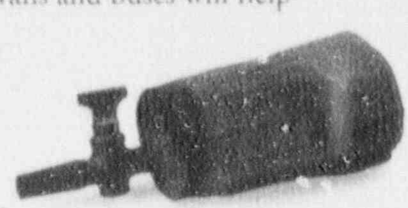
We added five new substations and expanded capacity at five others in 1990 to meet load growth on our distribution system and maintain reliable local supply. This pattern will continue in 1991.

Gas

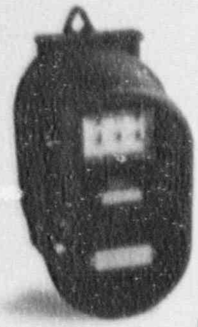
BG&E began as a gas company, and gas is resuming a prominent role in our business. Several factors make gas an attractive fuel for the '90s: it is domestically available, competitively priced compared with oil and coal, and is a clean fuel.

For certain industrial customers, gas has always been a preferred fuel. And the Clean Air Act of 1990 provides a spur to develop new technologies to broaden the applicability of gas beyond its traditional uses in heating and processing. High-efficiency gas technologies play important roles in Conserve 2000. Baltimore is a major non-attainment area for ozone-related pollution, where fleet vehicles will have to begin operating on clean-burning fuel before the end of the century. Our pilot programs with natural-gas-fueled vans and buses will help prepare us for that eventuality.

Gas air conditioning is effective in large-scale applications, and we promote it among our



Early 1800s underground gas pipe



1890s Westinghouse Wattmeter

industrial and commercial customers. But advances in technology may soon make gas cooling systems an economical choice for residential customers as well. Both to expand our gas heating market and to prepare for a year-round business, we are extending our gas mains into growth areas. In addition, we are now using natural gas residential installations that allow two pounds per square inch of pressure instead of the usual one-quarter pound. Using flexible copper tubing instead of the usual cumbersome pipe, a two-day installation now takes two hours. This considerable cost savings makes natural gas a more appealing option for builders. During 1990, for example, we installed natural gas in 55 new home developments and added 4,500 new gas-heat customers. We expect our aggressive marketing to result in a steady increase in customers.

The job of a modern meter reader is physically easier but technically far more complicated. Here, one of our technicians reads a time-of-use meter. Mandatory time-of-use rates became effective for all new residences in January 1991. Modern meter readers carry optical probes and microprocessors to read meters instantly and accurately.

Customer Service

Reliability is as important in the customer end of our business as it is in the supply end. We've installed a new Customer Information System — one of the most sophisticated computer systems of its type in the industry — that gives us virtually unlimited flexibility and responsiveness to our customers, while lowering labor and system maintenance costs. This investment in quality service will support our growing needs for decades.

Constellation

Emerging as a major domestic company in the power generation business,

Baltimore. At the time, the two units represented the largest single investment of private capital ever committed in the state.

1969

First men land on the moon on July 20.

1975

Unit 1 of the Calvert Cliffs Nuclear Power Plant enters service and, in its first full year of service, produces more than a third of the Company's total generation, reducing the fuel rate adjustment charge to customers by more than $50 million.

1977

Calvert Cliffs Unit 2 begins generating electricity at full power. As a result, customers are paying about the same price per kilowatthour as they were three years before.

1979

BG&E pioneers the Baltimore Fuel Fund to help low-income customers pay their fuel bills. The program becomes a model for similar funds throughout the country.

1980

Harborplace opens on July 2, a milestone in Baltimore's Inner Harbor redevelopment.

1981

Construction of the expansion of the Safe Harbor hydroelectric project begins on May 10, and is completed on April 12, 1985.

1984

Brandon Shores Unit 1, a 642-MW coal-burning plant, comes on-line, virtually eliminating the Company's use of foreign oil.

1986

Constellation Holdings is formed on January 1.

1989

BG&E serves its one millionth customer in May.

1991

In the Spring, Brandon Shores Unit 2, a 640-MW coal-burning plant, will enter service.

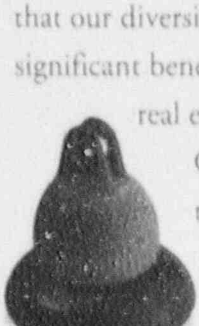
Constellation Energy will increasingly focus on power supply in the '90s. Constellation holds positions in 24 power plants, with total capacity exceeding 700 megawatts. These include biomass, solar, coal, hydro, and geothermal plants. In addition, Constellation, mainly through partnerships, has contracted to operate 18 power plants, 10 of which are owned by other companies.

A gas light at the corner of Baltimore and Holliday Streets went into service in 1817 — the first gas street lamp in the New World. The tradition lives on where it began through the volunteer efforts of BG&E's Thomas Fritz, right, a Gas Appliance Mechanic, and Steven Petri, left, a Kitchen and Heating Technician. Friends and collectors of antique gas lamps, the two men persuaded Baltimore City officials to let them restore and operate this gas light at the site of the original one as a piece of living history. All of the external parts of the lamp are original — only the functional elements have been replaced.

Although several of Constellation Investments' holdings did not meet earnings expectations in 1990, several others exceeded our plan. Overall, the subsidiary's diversified investment program provided important liquidity and the majority of Constellation Holdings' net income.

During 1990, Constellation Real Estate made significant progress on existing projects. It opened two high-rise office buildings — Constellation Centre and One National Business Park — and two other buildings at National Business Park. Piney Orchard, a mixed-use development in Anne Arundel County, opened last year as well. Although plans to sell selected real estate suffered from a lack of market in 1990, we're confident that our diversified portfolio of quality projects holds significant benefits for us as the Baltimore-Washington real estate picture improves in coming years.

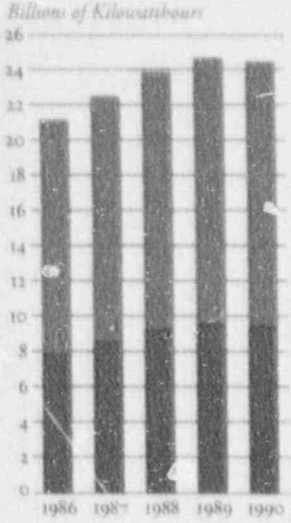
Constellation Health Services continued to expand selectively in the senior-living market. It added leases at its two retirement centers and purchased an interest in an additional nursing home.



Early cable insulator

Sales of Electricity

Billions of Kilowatthours

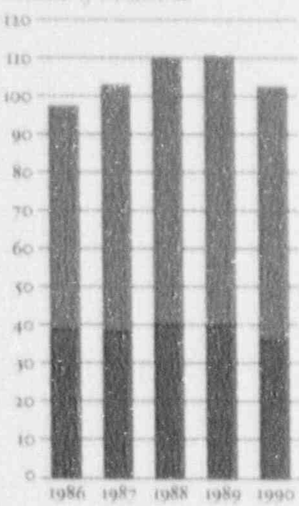


Residential
Commercial and Industrial

	1986	1987	1988	1989	1990
Residential	7.8	8.5	9.2	9.5	9.4
Commercial and Industrial	13.4	14.1	14.8	15.3	15.2
Total	21.2	22.6	24.0	24.8	24.6

Sales of Gas

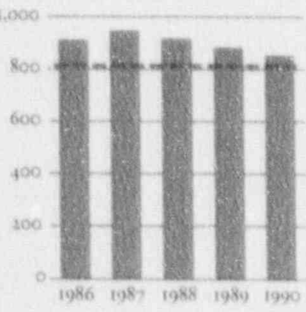
Millions of Dekatherms



Residential
Commercial and Industrial

	1986	1987	1988	1989	1990
Residential	38.6	38.1	40.1	39.8	36.0
Commercial and Industrial	58.8	64.8	69.4	70.9	66.6
Total	97.4	102.9	109.5	110.7	102.6

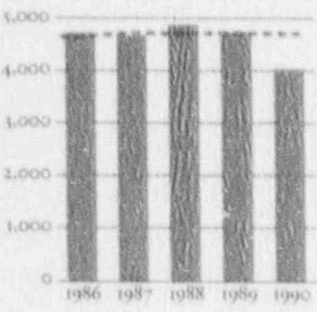
Billing Degree Days — Cooling



Actual
Normal (30 Year Average)

	1986	1987	1988	1989	1990
Actual	907	943	913	879	849
Normal (30 Year Average)	805	806	806	805	804

Billing Degree Days — Heating

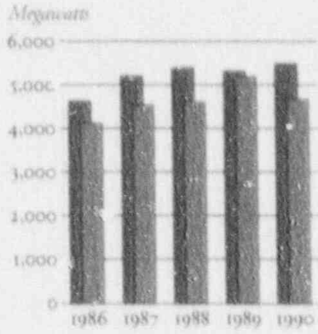


Actual
Normal (30 Year Average)

	1986	1987	1988	1989	1990
Actual	4,715	4,661	4,875	4,725	4,030
Normal (30 Year Average)	4,703	4,716	4,712	4,725	4,706

Electric Peak Load (One Hour)

Megawatts



Summer Peak
Winter Peak

	1986	1987	1988	1989	1990
Summer Peak	4,618	5,190	5,381	5,304	5,477
Winter Peak (Nov.–Mar.)	4,117	4,535	4,605	5,192	4,688*

*Through January 26, 1991

Financial Contents

Utility Operating Statistics

Baltimore Gas and Electric Company and Subsidiaries

	1990	1989	1988	1987	1986
Electric Operating Statistics					
Revenues (In Thousands)					
Residential	$ 723,406	$ 648,884	$ 620,660	$ 594,283	$ 575,774
Small Commercial	221,588	194,573	178,727	175,322	177,667
Large Commercial and Industrial	735,110	666,042	626,300	615,723	626,022
Other	4,050	9,795	8,875	8,407	8,788
Total	$1,684,154	$1,519,294	$1,434,562	$1,393,735	$1,388,251
Sales – MWH					
Residential	9,417,504	9,450,984	9,196,433	8,521,381	7,797,858
Small Commercial	2,579,929	2,460,592	2,292,764	2,139,164	2,007,040
Large Commercial and Industrial	12,622,645	12,879,486	12,491,505	11,914,420	11,430,725
Total	24,620,078	24,791,062	23,980,702	22,574,965	21,235,623
Customers					
Residential	930,880	913,910	895,881	876,826	853,976
Small Commercial	92,102	90,647	87,049	83,247	80,384
Large Commercial and Industrial	7,991	7,587	8,175	8,395	7,954
Total	1,030,973	1,012,144	991,105	968,468	942,314
Average use per Residential Customer – KWH	10,209	10,438	10,362	9,837	9,255
Average Rate per KWH – ¢	6.82	6.09	5.95	6.14	6.50
Peak Load (one-hour) – MW	5,477	5,304	5,381	5,190	4,618
Capability at Summer Peak – MW	6,159	6,164	5,930	5,888	5,797
Gas Operating Statistics					
Revenues (In Thousands)					
Residential	$ 224,589	$ 242,389	$ 225,035	$ 242,240	$ 258,975
Small Commercial	35,699	40,011	36,394	38,538	39,659
Large Commercial and Industrial					
Excluding Delivery Service	90,306	90,983	92,637	103,765	123,356
Delivery Service	21,057	27,069	19,364	23,492	18,425
Other	1,768	11,349	8,106	7,421	5,354
Total	$ 373,419	$ 411,801	$ 381,536	$ 415,456	$ 445,769
Sales – DTH					
Residential	36,032,159	39,805,853	40,140,800	38,142,183	38,629,757
Small Commercial	6,349,301	6,888,439	6,791,[illegible]	6,335,806	5,960,010
Large Commercial and Industrial					
Excluding Delivery Service	20,010,708	18,772,305	21,769,470	18,345,190	21,234,221
Delivery Service	40,238,755	45,230,133	40,827,285	40,118,136	31,551,899
Total	102,630,923	110,696,730	109,529,392	102,941,315	97,375,887
Customers					
Residential	482,680	482,538	482,011	482,023	482,394
Small Commercial	31,981	31,881	31,582	31,108	30,820
Large Commercial and Industrial	5,373	5,307	5,160	5,001	4,873
Total	520,034	519,726	518,753	518,132	518,087
Average use per Residential Customer – DTH	74.7	82.6	83.3	79.1	80.2
Average Rate per DTH (excluding delivery service)	$5.62	$5.70	$5.15	$5.93	$6.29
Peak Day Sendout – DTH	653,900	663,200	669,500	636,000	624,700
Peak Day Capability – DTH	853,000	761,000	793,000	731,000	748,000

SELECTED FINANCIAL DATA

Baltimore Gas and Electric Company and Subsidiaries

	1990	1989	1988	1987	1986
Summary of Operations		(Dollar Amounts in Thousands, Except Per Share Amounts)			
Revenues					
Electric	$1,684,154	$1,519,294	$1,434,562	$1,393,735	$1,388,251
Gas	373,419	411,801	381,536	415,456	445,769
Diversified activities	101,690	73,041	47,570	27,555	20,086
Total revenues	2,159,263	2,004,136	1,863,668	1,836,746	1,854,106
Expenses Other Than Interest and Income Taxes					
Electric fuel and purchased energy	523,086	370,131	311,510	296,543	327,317
Provision for possible disallowance of replacement energy costs	35,000	–	–	–	–
Gas purchased for resale	200,762	223,462	198,431	233,702	271,383
Operations	576,271	478,194	433,828	388,973	369,277
Maintenance	163,457	149,014	132,746	124,837	120,052
Depreciation	170,586	156,546	147,076	134,838	128,002
Taxes other than income taxes	156,722	150,204	143,127	135,731	131,554
Total expenses other than interest and income taxes	1,825,884	1,527,551	1,366,718	1,314,624	1,347,585
Income From Operations	333,379	476,585	496,950	522,122	506,521
Other Income					
Allowance for equity funds used during construction	27,086	18,564	16,056	16,870	16,871
Equity in earnings of Safe Harbor Water Power Corporation	4,900	5,176	5,570	6,331	5,765
Net other income and deductions	4,689	7,188	1,928	945	(619)
Total other income	36,675	30,928	23,554	24,146	22,017
Income Before Interest and Income Taxes	370,054	507,513	520,504	546,268	528,538
Interest Expense					
Interest charges	200,922	164,369	136,071	129,871	126,324
Allowance for borrowed funds used during construction	(26,266)	(14,776)	(12,075)	(14,069)	(13,582)
Net interest expense	174,656	149,593	123,996	115,802	112,742
Income Before Income Taxes	195,398	357,920	396,508	430,466	415,796
Income Taxes	19,952	81,629	93,096	130,368	141,177
Income Before Cumulative Effect of Change in Accounting Method	175,446	276,291	303,412	300,098	274,619
Cumulative Effect of Change in the Method of Accounting for Unbilled Revenues, Net of Taxes	37,754	–	–	–	–
Net Income	213,200	276,291	303,412	300,098	274,619
Preferred and Preference Stock Dividends	40,261	32,381	29,375	26,406	26,876
Earnings Applicable to Common Stock	$ 172,939	$ 243,910	$ 274,037	$ 273,692	$ 247,743
Earnings Per Share of Common Stock					
Before Cumulative Effect of Change in Accounting Method	$1.64	$3.05	$3.47	$3.47	$3.15
Cumulative Effect of Change in the Method of Accounting for Unbilled Revenues	.46	–	–	–	–
Total Earnings Per Share of Common Stock	$2.10	$3.05	$3.47	$3.47	$3.15
Dividends Declared Per Share of Common Stock	$2.10	$2.075	$1.975	$1.875	$1.775
Ratio of Earnings to Fixed Charges	1.96	3.12	3.83	4.22	4.19
Ratio of Earnings to Fixed Charges and Preferred and Preference Stock Dividends Combined	1.61	2.50	3.01	3.29	3.20
Financial Statistics at Year End					
Total Assets	$6,710,375	$5,985,679	$5,126,362	$4,780,167	$4,582,670
Capitalization					
Long-term debt	$2,193,844	$2,076,620	$1,769,066	$1,707,407	$1,596,275
Preferred stock	59,185	59,185	59,185	59,185	59,185
Redeemable preference stock	365,000	322,800	229,600	186,400	50,000
Preference stock not subject to mandatory redemption	110,000	110,000	110,000	110,000	110,000
Common shareholders' equity	2,073,158	2,001,188	1,885,245	1,755,368	1,629,795
Total capitalization	$4,801,187	$4,569,793	$4,053,096	$3,818,360	$3,445,255
Book Value Per Share of Common Stock	$24.87	$24.91	$23.77	$22.24	$20.72
Number of Common Shareholders	68,689	70,395	73,786	75,682	76,972

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

Baltimore Gas and Electric Company and Subsidiaries

The financial condition and results of operations of Baltimore Gas and Electric Company (BG&E) and Subsidiaries (collectively, the Company) are set forth in the Consolidated Financial Statements, Notes to Consolidated Financial Statements (Notes), Selected Financial Data, and Utility Operating Statistics sections of this Annual Report. Factors significantly affecting results of operations, liquidity, and capital resources are discussed below.

Results of Operations

Earnings

The Company's consolidated earnings per share for 1990 were \$2.10, which represents a decline of \$.95 from the 1989 level of \$3.05. The earnings per share are summarized as follows:

	1990	1989	1988
Utility business			
Current-year operations	\$1.46	\$2.81	\$3.23
Cumulative effect of change in the method of accounting for unbilled revenues (see Note 1)	.46	–	–
Total utility business	1.92	2.81	3.23
Diversified business activities	.18	.24	.24
Total	\$2.10	\$3.05	\$3.47

Utility earnings decreased during 1990 and 1989 primarily as a result of higher operations and maintenance expenses, particularly at the Calvert Cliffs Nuclear Power Plant, higher financing costs, and the effects on sales of less favorable weather as compared to the respective prior years. In addition, the decrease in 1990 reflects increased costs resulting from the purchase of additional generating capacity and from lower sales of high voltage transmission capability. Finally, the 1990 decrease reflects a provision of \$35 million, or 28¢ per common share, for the possible disallowance of certain replacement energy costs associated with outages at Calvert Cliffs (see Notes 1 and 11).

Earnings from utility operations are affected by the regulation of BG&E's rates by the Public Service Commission of Maryland (Maryland Commission) and by the effect on sales of economic and weather conditions. Expected increases in utility operating expenses in 1991 will be offset partially by additional electric revenues resulting from the electric base rate increases authorized by the Maryland Commission in December 1990 as discussed under Utility Revenues and Sales below. In addition, there are currently several fuel rate cases pending before the Maryland Commission, as discussed in Notes 1 and 11, which could impact future years' earnings.

Diversified business activities, which primarily represent the operations of Constellation Holdings, Inc. and its subsidiaries, are discussed below.

Utility Revenues and Sales

The increases in electric revenues for 1990 and 1989 are primarily attributable to higher fuel rate revenues resulting from increased fuel costs. The increases for both years are summarized below:

	1990	1989
	(In Millions)	
Changes in sales volumes	\$ (3.6)	\$31.2
Increased base rates	32.9	.4
Increased fuel rates	135.6	53.1
Total increases in revenues	\$164.9	\$84.7

The changes in electric sales volumes were as follows:

	1990	1989
Residential	(.4)%	2.8%
Small commercial	4.8	7.3
Large commercial and industrial	(2.0)	3.1
Total	(.7)	3.4

Sales to residential and small commercial customers reflect growth in the number of customers in both years and increased per capita usage in 1989. In 1990, customer growth was more than offset by the effects of warmer winter weather. The decrease in sales to large commercial and industrial customers in 1990 reflects lower steel production by Bethlehem Steel, which completed a planned maintenance outage during 1990.

The increased base rates for 1990 reflect the Maryland Commission's December 1989 rate order and a surcharge authorized during 1990 to recover certain purchased capacity charges.

Electric revenues are expected to increase in 1991 as a result of several electric base rate increases authorized by the Maryland Commission in its December 1990 rate order. In that order, the Maryland Commission authorized an immediate electric base rate increase of $77 million annually. In addition, the Maryland Commission authorized a $124 million base rate increase to provide rate recognition for BG&E's investment and operating expenses at Brandon Shores Unit 2 upon that Unit's commercial operation in May 1991. The $124 million increase in base rates is to be accompanied by a reduction in the fuel rate to reflect the currently estimated $52 million of expected annual fuel cost savings resulting from the commercial operation of that Unit. The Maryland Commission also authorized BG&E to apply for a surcharge to base rates beginning in October 1991 to provide for recovery of approximately $50 million of purchased capacity costs which will begin to be incurred at that time. Based on BG&E's financial performance, the Maryland Commission has agreed to authorize the base rate increase for Brandon Shores and the surcharge if it determines that BG&E would otherwise be unable to achieve its authorized return.

Gas revenues changed compared to the respective prior years as a result of the following factors:

	1990	1989
	(In Millions)	
Changes in sales volumes	$(20.6)	$ 4.1
Decreased base rates	(2.8)	(.6)
Changes in gas cost adjustments	(15.0)	26.8
Total changes in revenues	$(38.4)	$30.3

The changes in gas sales volumes were as follows:

	1990	1989
Residential	(9.5)%	(.8)%
Small commercial	(7.8)	1.4
Large commercial and industrial	(5.9)	2.2
Total	(7.3)	1.1

The decreases in sales to residential and small commercial customers in 1990 reflect the effects of warmer winter weather as compared to 1989. The decrease in sales to large commercial and industrial customers during 1990 reflects lower steel production by Bethlehem Steel and decreased utilization of delivery service by certain large customers. During 1989, sales to large commercial and industrial customers increased due to greater utilization of delivery service.

The changes in gas cost adjustments in each year reflect primarily changes in the price of gas from BG&E's pipeline suppliers. In addition, the decrease in 1990 reflects a settlement of certain take-or-pay issues with BG&E's principal gas pipeline suppliers.

Diversified Business Activities

Earnings from Constellation Holdings, Inc., and its subsidiaries (collectively, the Constellation Companies) declined in 1990 from 1989 and 1988 due to softness in the real estate market and lower earnings from financial investments.

The Constellation Companies' real estate development business has been affected by depressed real estate and economic markets, resulting in reduced demand for the purchase or lease of available land, office, and retail space. The inability to complete anticipated sales of real estate projects has resulted in increased carrying costs and depreciation, negatively impacting earnings. Earnings from real estate activities are expected to remain depressed as long as the real estate market remains soft.

The performance of the Constellation Companies' portfolio of financial investments has been adversely affected in 1990 by the troubled banking and financial services industries, offset somewhat by the performance in other parts of the selectively diversified portfolio.

Earnings from the Constellation Companies' power generation projects increased in 1990 over 1989, reflecting a continuing utilization of energy tax credits from construction of energy projects and some operating income. Earnings from a number of the power generation projects are expected to remain low initially but then increase. As a result, it is anticipated that the total earnings of the energy projects will begin to increase in 1993. Energy tax credits remain available through 1991 for construction of geothermal and solar energy projects.

Expenses

Electric fuel and purchased energy expense was as follows:

	1990	1989	1988
		(In Millions)	
Actual costs	$630.9	$608.2	$322.0
Net deferral of costs under electric fuel rate clause (see Note 1)	(107.8)	(238.1)	(10.5)
Total expense	$523.1	$370.1	$311.5

The increase in actual electric fuel and purchased energy costs in 1989 was due primarily to a less favorable generation mix. The further increase in actual costs in 1990 was due to the purchase of additional generating capacity to meet BG&E's requirements under the Pennsylvania-New Jersey-Maryland Interconnection Agreement and to lower sales of high voltage transmission capability. The less favorable generation mix, capacity purchases, and lower sales of transmission capability were attributable to extended maintenance and repair outages at the Calvert Cliffs Nuclear Power Plant. Calvert Cliffs Unit 2 went out of service on March 18, 1989 and remained out of service throughout the remainder of 1989 and all of 1990. Calvert Cliffs Unit 1 went out of service on May 6, 1989, continued out of service for the remainder of that year, and was in operation for 80 days in 1990. Unit 1 has returned to service and Unit 2 is expected to return to service by the end of the first quarter of 1991. In that nuclear generation represents the lowest cost power generated by BG&E, outages at the Calvert Cliffs plant have a substantial effect on fuel costs (see Note 11).

As discussed in Note 11, during 1990 BG&E recorded a provision of $35 million for the possible disallowance of certain replacement energy costs associated with outages at the Calvert Cliffs plant.

Purchased gas expense was as follows:

	1990	1989	1988
		(In Millions)	
Actual costs	$181.1	$233.9	$220.6
Net recovery (deferral) of costs under purchased gas adjustment clause (see Note 1)	19.7	(10.4)	(22.2)
Total expense	$200.8	$223.5	$198.4

The decrease in actual purchased gas costs for 1990 reflects lower output due to warmer winter weather, while the increase in 1989 reflects higher prices from pipeline suppliers.

Operations and maintenance expenses increased in both years due primarily to higher payroll and other costs at the Calvert Cliffs Nuclear Power Plant. The higher costs at Calvert Cliffs are a result of significant expenditures to upgrade the plant equipment and procedures to the high standards required at newer nuclear facilities. Assuming the resumption of normal operations at Calvert Cliffs, the Company anticipates that the level of expenditures at the Plant will stabilize in 1991. However, operations and maintenance expenses are still expected to increase in 1991 as Brandon Shores Unit 2 begins commercial operation and as other fossil power and distribution expenditures increase. In addition, the 1990 increase also reflects the expenses associated with certain of the Constellation Companies' real estate partnerships which were previously reported under the equity method (see Note 4).

Depreciation expense increased in both years as a result of higher levels of depreciable plant in service. Depreciation expense for 1990 also reflects a $2.9 million annual increase in nuclear decommissioning accruals as authorized by the Maryland Commission in its December 1989 rate order. In 1991, depreciation expense will increase as a result of Brandon Shores Unit 2 being placed in service and a $1.2 million annual increase in decommissioning accruals as authorized by the Maryland Commission in its December 1990 rate order.

Taxes other than income taxes increased in 1990 and 1989 due to higher capital stock, property, public service company franchise, and payroll taxes.

The allowance for funds used during construction (AFC) increased in 1990 and 1989 due to the continued construction of Brandon Shores Unit 2 and other major electric projects. The increase in AFC for 1990 also reflects the Maryland Commission's December 1989 rate order which increased the AFC rate to 8.80% and reinstated in the AFC base certain expenditures related to Brandon Shores Unit 2. AFC is expected to decrease in 1991 due to the completion and commercial operation of Brandon Shores Unit 2 and the decrease in the AFC rate to 8.69% in accordance with the Maryland Commission's December 1990 rate order.

The increases in interest charges for both years primarily reflect increased levels of debt outstanding. The increased debt levels are attributable to greater construction expenditures and increased deferred electric fuel costs.

Income tax expense decreased in both 1990 and 1989 as a result of lower pre-tax earnings.

Preferred and preference stock dividends increased in 1990 and 1989 as a result of greater amounts of preference stock outstanding.

Inflation affects the Company through increased operating expenses and higher replacement costs for utility plant assets. Although the effects of inflation can be mitigated through timely rate relief, the regulatory process imposes a time lag during which increased costs may not be recovered. This regulatory lag is attributable in part to rate relief being based on past costs rather than projected costs. It has been the Maryland Commission's practice to permit recovery of the cost of replacing plant assets, together with the opportunity to earn a fair return thereon, beginning at the time of replacement.

Liquidity and Capital Resources

The Company's capital requirements reflect the capital-intensive nature of the utility business. Actual capital requirements for 1988 through 1990, along with estimated amounts for 1991 through 1993, are shown below.

	1988	1989	1990	1991	1992	1993
	(In Millions)					
Utility Business						
Construction expenditures (excluding AFC)						
Electric	$212	$307	$362	$ 379	$374	$ 390
Gas	34	27	39	47	52	42
Common	44	80	81	74	99	43
Total construction expenditures	290	414	482	500	525	475
AFC	28	33	53	33	16	25
Deferred nuclear expenditures	–	10	28	23	27	13
Nuclear fuel (uranium purchases and processing charges)	47	17	21	3	37	55
Retirement of long-term debt and redemption of preference stock	21	53	60	89	73	310
Total utility business	386	527	644	648	678	878
Diversified Business Activities						
Retirement of long-term debt	131	89	8	364	97	84
Equity commitments	103	84	122	38	63	78
Total diversified business activities	234	173	130	402	160	162
Total	$620	$700	$774	$1,050	$838	$1,040

BG&E's construction program is subject to continuous review and modification, and actual expenditures may vary from the estimates above. The increase in estimated construction expenditures as compared to prior years is attributable to the expansion and upgrading of BG&E's transmission and distribution facilities and modifications to existing generating facilities.

The most significant projects in the construction program are the coal-fired Brandon Shores Unit 2 and two combined cycle units at the Perryman site. Excluding AFC, construction expenditures on Brandon Shores Unit 2 totaled $202 million over the 1988-1990 period, and such expenditures are expected to amount to $25 million in 1991. Expenditures for Perryman are expected to total approximately $110 million, excluding AFC, over the 1991-1993 period. Other electric construction expenditures are primarily attributable to improvements to BG&E's existing generating plants and to its transmission and distribution facilities. The estimates above do not reflect any expenditures for compliance with the Clean Air Act of 1990, and the Company does not expect to incur significant expenditures for compliance through 1995.

During 1990, 1989, and 1988, the internal generation of cash from utility operations provided 14%, 8%, and 74%, respectively, of the funds required for construction, nuclear fuel, and deferred nuclear expenditures. The significant reduction from the 1988 level is due primarily to increased deferred electric fuel costs, greater construction expenditures, and lower net income. During the three-year period 1991 through 1993, approximately 60% of the funds required for construction, nuclear fuel, and deferred nuclear expenditures are expected to be provided through utility operations.

Utility capital requirements not met through the internal generation of cash are met through the issuance of debt and equity securities. During the three-year period ended December 31, 1990, BG&E's issuances of long-term debt, preferred and preference stock, and common stock were $632 million, $215 million, and $132 million, respectively. During the same three-year period, BG&E's retirements of long-term debt and redemptions of preferred and preference stock were $114 million and $20 million, respectively. The timing of future issuances and redemptions and the mix of debt and equity securities will depend upon market conditions and BG&E's needs.

Estimates of the Constellation Companies' capital requirements are subject to continuous review and modification. These estimates may vary significantly due to the type and number of projects selected for development and the impact of market conditions on those projects. The Constellation Companies' capital requirements have been met in the past through the internal generation of cash and through borrowings from institutional lenders. As of December 31, 1990, Constellation Holdings, Inc. had utilized fully its outstanding credit facilities. Approximately $364 million of the Constellation Companies' long-term debt, along with the $64 million of short-term borrowings outstanding at December 31, 1990, will mature during 1991. The Constellation Companies intend to refinance this indebtedness as it matures and to continue to satisfy ongoing capital requirements through new and existing credit facilities and internally generated cash flow.

Report of Management

Baltimore Gas and Electric Company and Subsidiaries

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 auditors, are engaged to audit the financial statements and express their opinion thereon. Their audit is made in accordance with generally accepted auditing standards which include a review of internal controls.

The Audit Committee of the Board of Directors, which consists of four 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.

Report of Independent Auditors

To the Shareholders of
Baltimore Gas and Electric Company

We have audited the accompanying consolidated balance sheets and statements of capitalization of Baltimore Gas and Electric Company and Subsidiaries at December 31, 1990 and 1989, and the related consolidated statements of income, cash flows, common shareholders' equity, and taxes for each of the three years in the period ended December 31, 1990. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Baltimore Gas and Electric Company and Subsidiaries at December 31, 1990 and 1989, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1990 in conformity with generally accepted accounting principles.

As discussed in Note 11 to the consolidated financial statements, the Public Service Commission of Maryland is currently reviewing the replacement energy costs resulting from the recent outages at the Company's nuclear power plant, and the Company has provided a reserve of $35 million for the possible disallowance of replacement energy costs. The ultimate outcome of the fuel rate proceedings, however, cannot be determined but may result in a disallowance in excess of the reserve provided.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for unbilled revenues in 1990.

Coopers & Lybrand

Coopers & Lybrand
Baltimore, Maryland
January 17, 1991

Consolidated Statements of Income

Baltimore Gas and Electric Company and Subsidiaries

	1990	1989	1988
	Year Ended December 31,		
	(In Thousands, Except Per Share Amounts)		
Revenues			
Electric	$1,684,154	$1,519,294	$1,434,562
Gas	373,419	411,801	381,536
Diversified activities	101,690	73,041	47,570
Total revenues	2,159,263	2,004,136	1,863,668
Expenses Other Than Interest and Income Taxes			
Electric fuel and purchased energy	523,086	370,131	311,510
Provision for possible disallowance of replacement energy costs (see Note 11)	35,000	–	–
Gas purchased for resale	200,762	223,462	198,431
Operations	576,271	478,194	433,828
Maintenance	163,457	149,014	132,746
Depreciation	170,586	156,546	147,076
Taxes other than income taxes	156,722	150,204	143,127
Total expenses other than interest and income taxes	1,825,884	1,527,551	1,366,718
Income from Operations	333,379	476,585	496,950
Other Income			
Allowance for equity funds used during construction	27,086	18,564	16,056
Equity in earnings of Safe Harbor Water Power Corporation	4,900	5,176	5,570
Net other income and deductions	4,689	7,188	1,928
Total other income	36,675	30,928	23,554
Income Before Interest and Income Taxes	370,054	507,513	520,504
Interest Expense			
Interest charges	200,922	164,369	136,071
Allowance for borrowed funds used during construction	(26,266)	(14,776)	(12,075)
Net interest expense	174,656	149,593	123,996
Income Before Income Taxes	195,398	357,920	396,508
Income Taxes	19,952	81,629	93,096
Income Before Cumulative Effect of Change in Accounting Method	175,446	276,291	303,412
Cumulative Effect of Change in the Method of Accounting for Unbilled Revenues, Net of Taxes (See Note 1)	37,754	–	–
Net Income	213,200	276,291	303,412
Preferred and Preference Stock Dividends	40,261	32,381	29,375
Earnings Applicable to Common Stock	$ 172,939	$ 243,910	$ 274,037
Average Shares of Common Stock Outstanding	82,366	79,997	79,052
Earnings Per Share of Common Stock			
Before cumulative effect of change in accounting method	$1.64	$3.05	$3.47
Cumulative effect of change in the method of accounting for unbilled revenues	.46	–	–
Total earnings per share of common stock	$2.10	$3.05	$3.47

See notes to consolidated financial statements.

Consolidated Balance Sheets

Baltimore Gas and Electric Company and Subsidiaries

	At December 31, 1990	At December 31, 1989
	(In Thousands)	
Assets		
Current Assets		
Cash and cash equivalents	$ 19,879	$ 18,900
Accounts receivable (net of allowance for uncollectibles)	268,392	284,020
Accrued unbilled revenues	69,813	–
Fuel stocks	78,535	45,499
Materials and supplies	119,835	111,643
Income taxes refundable	44,720	73,144
Prepaid taxes other than income taxes	43,453	38,618
Other prepayments	30,759	34,247
Other	9,237	5,625
Total current assets	684,623	611,696
Investments and Other Assets		
Financial investments	322,532	326,341
Real estate projects	412,983	275,540
Alternative energy systems	171,922	112,941
Safe Harbor Water Power Corporation	34,241	40,421
Senior living facilities	26,944	27,009
Nuclear decommissioning trust fund	21,335	12,313
Other	54,517	38,120
Total investments and other assets	1,044,474	832,685
Utility Plant		
Plant in service		
Electric	4,230,881	4,034,444
Gas	496,603	471,740
Common	410,538	308,492
Total plant in service	5,138,022	4,814,676
Accumulated depreciation	(1,694,166)	(1,561,329)
Net plant in service	3,443,856	3,253,347
Plant held for future use	17,614	10,583
Construction work in progress	861,734	704,931
Nuclear fuel (net of amortization)	189,895	175,559
Net utility plant	4,513,099	4,144,420
Deferred Charges		
Deferred fuel costs (net of provision for possible disallowance)	389,775	345,104
Deferred nuclear expenditures (net of amortization)	43,182	16,367
Other	35,222	35,407
Total deferred charges	468,179	396,878
Total Assets	$6,710,375	$5,985,679

See notes to consolidated financial statements.

Certain prior-year amounts have been restated to conform with the current year's presentation.

Consolidated Balance Sheets

Baltimore Gas and Electric Company and Subsidiaries

	At December 31, 1990	1989
	(In Thousands)	
Liabilities and Capitalization		
Current Liabilities		
Short-term borrowings	$ 227,700	$ 123,807
Current portions of long-term debt and preference stock	452,912	72,965
Accounts payable	202,928	256,418
Customer deposits	13,176	12,361
Accrued taxes	23,982	22,501
Accrued interest	46,249	41,920
Dividends declared	54,334	50,983
Accrued vacation costs	27,050	25,482
Other	14,262	32,459
Total current liabilities	1,062,593	638,896
Deferred Credits and Other Liabilities		
Deferred income taxes	647,912	570,723
Deferred investment tax credits	180,591	184,991
Other	18,092	21,276
Total deferred credits and other liabilities	846,595	776,990
Capitalization		
Long-term debt	2,193,844	2,076,620
Preferred stock	59,185	59,185
Redeemable preference stock	365,000	322,800
Preference stock not subject to mandatory redemption	110,000	110,000
Common shareholders' equity	2,073,158	2,001,188
Total capitalization	4,801,187	4,569,793
Commitments, Guarantees, and Contingencies - See Note 11		
Total Liabilities and Capitalization	$6,710,375	$5,985,679

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Baltimore Gas and Electric Company and Subsidiaries

	1990	1989	1988
	Year Ended December 31, (In Thousands)		
Cash Flows From Operating Activities			
Net income	$ 213,200	$ 276,291	$ 303,412
Adjustments to reconcile to net cash provided by operating activities			
Cumulative effect of change in the method of accounting for unbilled revenues	(37,754)	–	–
Depreciation and amortization	179,793	170,706	199,533
Deferred income taxes	56,995	136,388	42,299
Investment tax credit adjustments	(4,450)	(1,478)	(7,196)
Deferred fuel costs	(79,671)	(248,472)	(32,739)
Provision for possible disallowance of replacement energy costs	35,000	–	–
Allowance for equity funds used during construction	(27,086)	(18,564)	(16,056)
Equity in earnings of affiliates and joint ventures (net)	14,029	(6,449)	(7,034)
Changes in current assets and current liabilities			
Accounts receivable	15,698	(51,030)	(30,161)
Accrued unbilled revenues	9,580	–	–
Materials, supplies, and fuel stocks	(41,228)	(5,075)	3,819
Income taxes refundable	28,424	(73,144)	–
Accounts payable	(53,844)	124,011	26,462
Accrued taxes	36	(1,824)	(14,889)
Other current assets and current liabilities	(12,837)	17,969	5,291
Other	(10,376)	1,095	(1,760)
Net cash provided by operating activities	285,509	320,424	470,981
Cash Flows From Financing Activities			
Proceeds from issuance of			
Short-term borrowings (net)	103,893	44,382	24,299
Long-term debt	1,987,426	1,296,310	452,282
Preference stock	64,342	98,860	49,721
Common stock	86,881	32,445	12,228
Reacquisition of long-term debt	(1,595,463)	(1,020,029)	(373,611)
Redemption of preference stock	(6,800)	(6,800)	(6,800)
Common stock dividends paid	(171,623)	(163,534)	(153,976)
Preferred and preference stock dividends paid	(38,490)	(31,151)	(27,568)
Other	(34)	(94)	(1,268)
Net cash provided by (used in) financing activities	430,132	250,389	(21,493)
Cash Flows From Investing Activities			
Utility construction expenditures	(535,316)	(447,339)	(318,018)
Allowance for equity funds used during construction	27,086	18,564	16,056
Nuclear fuel expenditures	(20,519)	(17,431)	(46,511)
Deferred nuclear expenditures	(27,755)	(9,605)	–
Nuclear decommissioning trust fund	(8,108)	(6,968)	(4,761)
Financial investments	(9,907)	(1,048)	(14,396)
Real estate projects	(49,745)	(40,282)	(80,742)
Alternative energy systems	(62,494)	(65,702)	(2,940)
Senior living facilities	(2,492)	(4,390)	(451)
Other	(5,412)	(11,608)	(5,612)
Net cash used in investing activities	(694,662)	(585,809)	(457,375)
Net Increase (Decrease) in Cash and Cash Equivalents	20,979	(14,996)	(7,887)
Cash and Cash Equivalents at Beginning of Year	18,900	33,896	41,783
Cash and Cash Equivalents at End of Year	$ 39,879	$ 18,900	$ 33,896
Other Cash Flow Information			
Cash paid during the year for:			
Interest (net of amounts capitalized)	$ 166,723	$ 150,178	$ 124,278
Income taxes	$ (56,937)	$ 14,390	$ 76,810

See notes to consolidated financial statements.

Certain prior-year amounts have been restated to conform with the current year's presentation.

Consolidated Statements of Common Shareholders' Equity

Baltimore Gas and Electric Company and Subsidiaries

	Years Ended December 31, 1990, 1989, and 1988					
	Common Stock		Premium on Preferred Stock	Retained Earnings	Net Unrealized Loss on Marketable Securities	Total Amount
	Shares	Amount				
	(In Thousands)					
Balance at December 31, 1987	78,912	$817,513	$157	$ 944,526	$ (6,828)	$1,755,368
Net income				303,412		303,412
Dividends declared						
Preferred and preference stock				(29,375)		(29,375)
Common stock ($1.975 per share)				(156,142)		(156,142)
Common stock issued under Dividend Reinvestment and Stock Purchase Plan	386	12,228				12,228
Costs associated with issuance of redeemable preference stock		(279)				(279)
Change in net unrealized loss on marketable securities					33	33
Balance at December 31, 1988	79,298	829,462	157	1,062,421	(6,795)	1,885,245
Net income				276,291		276,291
Dividends declared						
Preferred and preference stock				(32,381)		(32,381)
Common stock ($2.075 per share)				(166,067)		(166,067)
Common stock issued under						
Dividend Reinvestment and Stock Purchase Plan	860	26,465				26,465
Employee Stock Ownership Plan	190	5,980				5,980
Costs associated with issuance of redeemable preference stock		(1,140)				(1,140)
Change in net unrealized loss on marketable securities					6,795	6,795
Balance at December 31, 1989	80,348	860,767	157	1,140,264	–	2,001,188
Net income				213,200		213,200
Dividends declared						
Preferred and preference stock				(40,261)		(40,261)
Common stock ($2.10 per share)				(173,204)		(173,204)
Common stock issued under						
Public offering	2,000	57,062				57,062
Dividend Reinvestment and Stock Purchase Plan	936	27,474				27,474
Employee Savings Plan	75	2,345				2,345
Costs associated with issuance of redeemable preference stock		(658)				(658)
Change in net unrealized loss on marketable securities					(13,988)	(13,988)
Balance at December 31, 1990	83,359	$946,990	$157	$1,139,999	$(13,988)	$2,073,158

See notes to consolidated financial statements.

Consolidated Statements of Capitalization

Baltimore Gas and Electric Company and Subsidiaries

	At December 31, 1990	1989
	(In Thousands)	
Long-Term Debt		
First refunding mortgage bonds		
3¼% Series, due December 1, 1990	$ –	$ 29,682
4⅝% Series, due July 15, 1992	24,751	25,000
4% Series, due March 1, 1993	24,070	24,095
4½% Series, due July 15, 1994	29,921	29,989
9⅛% Series, due October 15, 1995	200,000	–
5⅛% Series, due April 15, 1996	26,585	26,680
8½% Series, due June 15, 1997	99,500	100,000
6⅛% Series, due August 1, 1997	24,958	24,967
5⅝% Installment Series, due August 15, 1998	55,155	56,770
7% Series, due December 15, 1998	28,646	28,684
8¼% Series, due September 15, 1999	22,077	22,184
8.40% Series, due October 15, 1999	100,000	100,000
8⅜% Series, due September 15, 2000	11,338	11,414
7¼% Series, due April 15, 2001	59,919	59,999
7⅝% Series, due September 1, 2001	59,985	60,000
7⅛% Series, due January 1, 2002	49,999	49,999
7½% Series, due July 1, 2002	49,985	50,000
5½% Installment Series, due July 15, 2002	12,500	12,500
7½% Series, due September 15, 2002	49,990	50,000
8⅛% Series, due February 1, 2004	74,983	74,986
6.80% Series, due September 15, 2004	20,000	20,000
8⅜% Series, due September 15, 2006	74,960	74,995
8¼% Series, due September 15, 2007	75,000	75,000
9⅜% Series, due July 1, 2008	43,894	48,918
6.90% Installment Series, due September 15, 2009	55,000	55,000
9⅛% Series, due March 1, 2016	98,000	98,000
Total first refunding mortgage bonds	1,371,216	1,208,862
Other long-term debt		
Loan under unsecured credit facility	25,000	–
Loans under revolving credit agreements	175,000	50,000
Medium-term notes	47,000	–
4⅝% Sinking fund debentures, due August 1, 1990	–	15,545
9½% Notes, due May 1, 1993	100,000	100,000
Floating rate notes, due July 1, 1995	100,000	100,000
Floating rate notes, due October 15, 1995 Series II	100,000	100,000
Pollution control loan, due July 1, 2011	36,000	36,000
Port facilities loan, due June 1, 2013	48,000	48,000
Adjustable rate pollution control loan, due July 1, 2014	20,000	20,000
Economic development loan, due December 1, 2018	35,000	32,100
Total other long-term debt	686,000	501,645
Long-term debt of Constellation Companies		
Mortgage and construction loans and other collateralized notes		
8.875%, due June 30, 1991	21,250	21,250
10.50%, due August 24, 1992 and October 1, 1992	53,300	–
Variable rates, due through 1995	98,278	70,434
10.31%, due August 1, 1997	19,128	19,354
Industrial park facilities bonds	1,450	2,150
Loans under credit agreements	265,996	210,971
Unsecured notes		
8.875%, due August 10, 1991	15,000	15,000
8.30%, due April 12, 1993	100,000	100,000
Total long-term debt of Constellation Companies	574,402	439,159
Unamortized discount and premium	(7,662)	(6,881)
Current portion of long-term debt	(430,112)	(66,165)
Total long-term debt	2,193,844	2,076,620

See notes to consolidated financial statements.

Consolidated Statements of Capitalization

Baltimore Gas and Electric Company and Subsidiaries

	At December 31, 1990	1989
	(In Thousands)	
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 $101 per share	30,000	30,000
Total preferred stock	59,185	59,185
Preference Stock		
Cumulative, $100 par value, 6,000,000 shares authorized		
Redeemable preference stock		
12%, 1981 Series A, 68,000 and 136,000 shares, respectively, outstanding	6,800	13,600
12%, 1981 Series B, 160,000 shares outstanding	16,000	16,000
7.50%, 1986 Series, 500,000 shares outstanding, callable at $107.50 per share prior to October 1, 1991 and at lesser amounts thereafter	50,000	50,000
6.75%, 1987 Series, 500,000 shares outstanding, callable at $106.75 per share prior to April 1, 1992 and at lesser amounts thereafter	50,000	50,000
6.95%, 1987 Series, 500,000 shares outstanding	50,000	50,000
7.64%, 1988 Series, 500,000 shares outstanding, callable at $107.64 per share prior to July 1, 1993 and at lesser amounts thereafter	50,000	50,000
7.80%, 1989 Series, 500,000 shares outstanding	50,000	50,000
8.25%, 1989 Series, 500,000 shares outstanding	50,000	50,000
8.625%, 1990 Series, 650,000 shares outstanding in 1990	65,000	–
Current portion of redeemable preference stock	(22,800)	(6,800)
Total redeemable preference stock	365,000	322,800
Preference stock not subject to mandatory redemption		
7.88%, 1971 Series, 500,000 shares outstanding, callable at $101 per share	50,000	50,000
7.75%, 1972 Series, 400,000 shares outstanding, callable at $101 per share	40,000	40,000
7.78%, 1973 Series, 200,000 shares outstanding, callable at $101 per share	20,000	20,000
Total preference stock not subject to mandatory redemption	110,000	110,000
Common Shareholders' Equity		
Common stock – without par value – 100,000,000 shares authorized; 83,359,464 and 80,348,185 shares issued and outstanding at December 31, 1990 and 1989, respectively. (At December 31, 1990, 402,362 shares were reserved for the Employee Savings Plan and 3,251,990 shares were reserved for the Dividend Reinvestment and Stock Purchase Plan.)	946,990	860,767
Premium on preferred stock	157	157
Retained earnings	1,139,999	1,140,264
Net unrealized loss on marketable securities	(13,988)	–
Total common shareholders' equity	2,073,158	2,001,188
Total Capitalization	$4,801,187	$4,569,793

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF TAXES

Baltimore Gas and Electric Company and Subsidiaries

	1990	1989	1988
	Year Ended December 31, (Dollar Amounts in Thousands)		
Income Taxes			
Current			
Regular tax	$ (65,130)	$ (78,617)	$ 57,993
Alternative minimum tax	31,792	25,336	-
Total current taxes	(33,338)	(53,281)	57,993
Deferred			
Accelerated depreciation	70,639	64,540	43,378
Deferred fuel costs	27,088	84,481	11,777
Provision for possible disallowance of replacement energy costs	(11,900)	-	-
Alternative minimum tax	(31,792)	(25,336)	-
Tax rate differential attributable to tax net operating loss	5,744	15,325	-
Energy tax credit carryforward offset	(8,410)	-	-
Unbilled revenues	12,952	(9,420)	(11,957)
Deferred nuclear expenditures	9,117	3,259	-
Customer information system development costs	6,885	7,790	3,105
Contributions in aid of construction	(2,704)	(2,785)	(3,510)
Leveraged leases	(943)	4,877	6,066
Other	513	(6,343)	(6,560)
Total deferred taxes	77,189	136,388	42,299
Investment tax credit adjustments			
Current tax credits deferred	2,887	6,428	3,564
Amortization of deferred tax credits	(7,337)	(7,906)	(10,760)
Investment tax credit adjustments	(4,450)	(1,478)	(7,196)
Total income taxes	39,401	81,629	93,096
Income taxes included in cumulative effect of change in accounting method	(19,449)	-	-
Income Taxes per Consolidated Statements of Income	$ 19,952	$ 81,629	$ 93,096
Reconciliation of Income Taxes Computed at Statutory Federal Rate to Total Income Taxes			
Income before income taxes (including cumulative effect of accounting change)	$252,601	$357,920	$396,508
Statutory federal income tax rate	34%	34%	34%
Income taxes computed at statutory federal rate	85,884	121,693	134,813
Increases (decreases) in income taxes due to			
Depreciation differences not normalized	4,301	4,610	4,990
Allowance for funds used during construction	(18,140)	(11,336)	(9,565)
Amortization of deferred investment tax credits	(7,337)	(7,906)	(10,760)
Investment tax credits flowed through to income	(15,283)	(10,219)	(8,556)
Dividends received deduction	(4,352)	(5,111)	(5,084)
Equity in earnings of Safe Harbor Water Power Corporation	(1,666)	(1,760)	(1,894)
Loss on disposition of assets	(1,892)	(2,230)	(4,329)
Deferred tax rate differential	(3,062)	(2,673)	(3,385)
Other	948	(3,439)	(3,134)
Total income taxes	$ 39,401	$ 81,629	$ 93,096
Effective federal income tax rate	15.6%	22.8%	23.5%
Taxes Other Than Income Taxes			
Capital stock	$ 48,198	$ 46,515	$ 44,328
Property	37,174	36,444	34,475
Public service company franchise	42,812	38,293	36,040
Social security	30,344	27,843	25,980
Other	6,770	7,094	7,909
Total taxes other than income taxes	165,298	156,189	148,732
Amounts included above charged to accounts other than taxes	(8,576)	(5,985)	(5,605)
Taxes other than income taxes per Consolidated Statements of Income	$156,722	$150,204	$143,127

See notes to consolidated financial statements.

Note 1. Significant Accounting Policies

Nature of the Business
Baltimore Gas and Electric Company (BG&E) and Subsidiaries (collectively, the Company) is primarily an electric and gas utility serving a territory which encompasses Baltimore City and all or part of nine Central Maryland counties. The Company is also engaged in diversified business activities as further described in Note 3.

Principles of Consolidation
The consolidated financial statements include the accounts of BG&E and all subsidiaries in which BG&E owns directly or indirectly a majority of the voting stock. Intercompany balances and transactions have been eliminated in consolidation. Corporate joint ventures, partnerships, and affiliated companies in which a 50% or less voting interest is held are accounted for under the equity or cost methods. Under this policy, the accounts of Constellation Holdings, Inc. and its subsidiaries (collectively, the Constellation Companies) and BNG, Inc. are consolidated in the financial statements, and Safe Harbor Water Power Corporation is reported under the equity method.

Regulation of Utility Operations
BG&E's utility operations are subject to regulation by the Public Service Commission of Maryland (Maryland Commission). The accounting for utility operations is in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission and adopted by the Maryland Commission. The accounting policies and practices used in the determination of service rates are also generally used for financial reporting purposes in accordance with generally accepted accounting principles for regulated industries.

Utility Revenues
Effective January 1, 1990, BG&E changed its revenue recognition policy to provide for the accrual of revenue for service rendered but unbilled as of the end of each month. Prior to 1990, revenues were recognized at the time customers' meters were read on a monthly cycle basis. The new policy was adopted in order to provide a better matching of revenues and expenses and to conform with the predominant practice within the utility industry. This change in policy resulted in an increase in 1990 net income of $31,675,000, or 38¢ per common share. This increase consisted of an increase of $37,754,000, or 46¢ per common share, attributable to the cumulative effect of the change at January 1, 1990, partially offset by a decrease of $6,079,000, or 8¢ per common share, in the December 31, 1990 accrual. If the current policy had been in effect in prior years, net income would have been increased by $6,046,000, or 8¢ per common share, in 1989 and by $4,445,000, or 6¢ per common share, in 1988.

Fuel and Purchased Energy Costs
Subject to the approval of the Maryland Commission, the cost of fuel used in generating electricity and the cost of gas sold may be recovered through zero-based electric fuel rate and purchased gas adjustment clauses (see Note 11). To the extent actual fuel costs differ from revenues under the clauses, BG&E defers the fuel costs and accumulates them on the balance sheet to be recovered from or refunded to customers in future periods.

As implemented by the Maryland Commission, the electric fuel rate formula is based upon the latest twenty-four-month generation mix and the latest three-month average fuel cost for each generating unit. Effective June 1, 1990, the Maryland Commission modified the electric fuel rate formula and ordered BG&E to include a minimum level of nuclear generation in its twenty-four-month generation mix. The fuel rate does not change unless the calculated rate is more than 5% above or below the rate then in effect. In addition, the Maryland Commission has authorized a surcharge to the electric fuel rate to enable BG&E to recover a portion of its underrecovered deferred electric fuel costs. BG&E has recovered $62.9 million from this surcharge through December 31, 1990 and expects to recover an additional $15.3 million between January 1, 1991 and the scheduled termination of the surcharge in October 1991.

The purchased gas adjustment is based on recent annual volumes of gas and the related current prices charged by BG&E's gas suppliers. As authorized by the Maryland Commission, any deferred underrecoveries or overrecoveries of purchased gas costs for the twelve months ended November 30 each year are charged or credited to customers over the ensuing calendar year (see Note 11).

The underrecovered costs deferred under the fuel clauses were as follows:

	At December 31, 1990	At December 31, 1989
	(In Thousands)	
Electric		
Costs deferred	**$428,632**	$322,820
Provision for possible disallowance of replacement energy costs (see Note 11)	(35,000)	–
Net electric	393,632	322,820
Gas	(3,857)	22,284
Total	**$389,775**	$345,104

At December 31, 1990 and 1989, the amount of electric deferred fuel costs included in rate base by the Maryland Commission for ratemaking purposes was $72,795,000 and $80,295,000, respectively.

Income Taxes

For financial reporting purposes, the Company records certain revenues and expenses in years different from the years in which they are recognized for income tax purposes. Deferred income taxes are generally provided on timing differences except those pertaining to accelerated depreciation on pre-1975 property additions. The cumulative net amount of timing differences for which deferred income taxes have not been provided approximated $215 million and $227 million as of December 31, 1990 and 1989, respectively.

The investment tax credit (ITC) associated with BG&E's regulated utility operations is deferred and amortized to income ratably over the lives of the subject property. ITC and other tax credits associated with nonregulated diversified business activities other than leveraged leases are flowed through to income. As of December 31, 1990, the Company had energy tax credit carryforwards of $8,410,000 which expire in the year 2005.

BG&E's utility revenue is subject to the Maryland public service company franchise tax in lieu of a state income tax. The franchise tax is included in taxes other than income taxes in the Consolidated Statements of Income.

The 1989 and 1990 current tax refunds consist of a regular tax refund reduced by an alternative minimum tax (AMT). These regular tax refunds represent principally the tax benefit of net operating losses (NOLs) incurred in 1989 and 1990 which are being carried back to recover taxes previously paid in 1986 and 1987 at federal tax rates of 46 percent and 40 percent, respectively. The AMT liabilities can be carried forward as tax credits to future years in which the regular tax liability exceeds the AMT liability; as of December 31, 1990, this carryforward totaled $57,414,000. In that the NOLs and AMTs are attributable to timing differences, deferred taxes were provided thereon.

Statement of Financial Accounting Standards No. 96, which is still being reviewed by the Financial Accounting Standards Board, presently must be adopted by 1992. As presently issued, this Statement would require a change in the accounting for deferred income taxes from the deferred method to the liability method. Under the liability method, the Company would be required to accrue deferred income taxes on substantially all temporary differences between the book and tax bases of assets and liabilities, to adjust deferred income tax balances upon enactment of changes in tax rates or laws, and to discontinue net-of-tax reporting of the allowance for funds used during construction.

Upon adoption of Statement No. 96, the balance of accumulated deferred income taxes would increase. Although changes in utility-related accumulated deferred income taxes arising from the initial application of Statement No. 96 generally would be deferred and recovered from or refunded to customers in future years, changes associated with nonregulated activities would flow through to income. As a result of its effect on nonregulated activities, Statement No. 96 is presently expected to result in an increase in net income of approximately $15 million for the year in which it is adopted.

Inventory Valuation

Fuel stocks and materials and supplies are generally stated at average cost.

Investments

Marketable securities are stated at the lower of aggregate cost or market value, and other securities are stated at cost. Where appropriate, cost reflects amortization of premium and discount computed on a straight-line basis. Gains and losses on the sale of investment securities are recognized upon realization on a specific identification basis.

Utility Plant and Depreciation

Utility plant in service is stated at original cost, which includes material, labor, construction overhead costs, and, where applicable, an allowance for funds used during construction. Construction work in progress, plant held for future use, and nuclear fuel are stated at cost.

Additions to utility plant and replacements of units of property are capitalized to utility plant accounts. The original cost of plant retired is removed from utility plant, and such cost, plus removal cost, less salvage value, is charged to the accumulated provision for depreciation. Maintenance and repairs of property and replacements of items of property determined to be less than a unit of property are charged to maintenance expense.

Depreciation is generally computed using composite straight-line rates, applied to the average investment in classes of depreciable property. The composite depreciation rates by class of depreciable property are 2.80% for the Calvert Cliffs Nuclear Power Plant, 2.75% for the Brandon Shores Power Plant, 3.26% for other electric plant, 3.12% for gas plant, and 4.02% for common plant other than vehicles. Vehicles are depreciated based on their estimated useful lives.

Nuclear decommissioning costs are accrued by and recovered through a sinking fund methodology. In its December 1990 rate order, the Maryland Commission granted BG&E additional revenue to provide for an increase in its nuclear decommissioning accrual in order to accumulate a reserve of $275 million in 1989 dollars by the end of Calvert Cliffs' service life. The total decommissioning reserve of $52,026,000 and $41,135,000 at December 31, 1990 and 1989, respectively, is included in accumulated depreciation in the Consolidated Balance Sheets.

BG&E is required by regulations of the Nuclear Regulatory Commission (NRC) to provide financial assurance that decommissioning funds in an amount at least equal to an NRC-prescribed minimum level will be accumulated over the remaining service life of the Calvert Cliffs plant. Accordingly, BG&E has established a tax-qualified decommissioning trust to which a portion of decommissioning costs accrued have been contributed.

Allowance for Funds Used During Construction

The allowance for funds used during construction (AFC) is an accounting procedure whereby the cost of funds used to finance utility construction projects is capitalized as part of utility plant on the balance sheet and is credited as a noncash item on the income statement. The cost of borrowed and equity funds is segregated between net interest charges and other income, respectively. BG&E recovers the capitalized AFC and a return thereon after the related utility plant is placed in service and included in depreciable assets and rate base. AFC does not represent taxable income, and the depreciation of capitalized AFC is not a tax-deductible expense.

During the period January through March 1988, an after-tax AFC rate of 8.55%, compounded annually, was applied to all major electric projects. Effective April 1988, an accounting change authorized by the Maryland Commission resulted in $37,603,000 of Brandon Shores common facilities previously considered part of Unit 2 for regulatory purposes, as well as $54,344,000 of construction expenditures on Unit 2, being removed from the base to which the 8.55% AFC rate was applied. Effective December 15, 1989, a rate order of the Maryland Commission resulted in the after-tax AFC rate being increased to 8.80%, compounded annually, and the $54,344,000 of construction expenditures on Brandon Shores Unit 2 being reinstated in the AFC base. Effective December 17, 1990, a rate order of the Maryland Commission reduced the after-tax AFC rate to 8.69%, compounded annually.

Nuclear Fuel

Nuclear fuel expenditures are capitalized and amortized as a component of actual fuel costs based on the energy produced over the life of the fuel. Fees for the future disposal of spent fuel are paid quarterly to the Department of Energy and are accrued based on the kilowatt-hours of electricity generated. Nuclear fuel expenses are subject to recovery through the electric fuel rate.

Deferred Nuclear Expenditures

Deferred nuclear expenditures represent the net unamortized balance of certain operations and maintenance costs which, in accordance with orders of the Maryland Commission, have been deferred, included in rate base, and are being amortized over the remaining life of the Calvert Cliffs Nuclear Power Plant. These expenditures consist of costs incurred from 1979 through 1982 for inspecting and repairing seismic pipe supports, expenditures incurred during 1989 and 1990 associated with nonrecurring phases of certain nuclear operations projects, and expenditures incurred during 1990 for investigating leaks in the pressurizer heater sleeves.

Long-Term Debt

The discount or premium and expense of issuance associated with long-term debt is deferred and amortized over the lives of the respective debt issues. Gains and losses on the reacquisition of debt are amortized over the remaining original lives of the issuances.

Cash Flows

For the purpose of reporting cash flows, highly liquid investments purchased with a maturity of three months or less are considered to be cash equivalents.

Note 2. Segment Information

	Year Ended December 31, 1990	1989 (In Thousands)	1988
Electric			
Revenues	$1,684,154	$1,519,294	$1,434,562
Income from operations	264,814	388,071	418,647
Income from operations net of income taxes	233,863	307,300	326,882
Depreciation	146,188	135,735	127,784
Cumulative effect of change in the method of accounting for unbilled revenues	30,173	–	–
Construction expenditures (including AFC)	482,529	406,410	276,278
Identifiable assets at December 31	4,796,542	4,279,399	3,746,826
Gas			
Revenues	$ 373,419	$ 411,801	$ 381,536
Income from operations	35,919	55,230	54,505
Income from operations net of income taxes	30,654	42,343	40,251
Depreciation	17,243	16,169	15,184
Cumulative effect of change in the method of accounting for unbilled revenues	7,581	–	–
Construction expenditures (including AFC)	52,787	40,929	41,740
Identifiable assets at December 31	447,292	433,248	394,013
Diversified Activities			
Revenues	$ 101,690	$ 73,041	$ 47,570
Income from operations	32,646	33,284	23,798
Income from operations net of income taxes	48,910	45,313	36,721
Depreciation	7,155	4,642	4,108
Identifiable assets at December 31	1,041,365	836,530	622,860
Total			
Revenues	$2,159,263	$2,004,136	$1,863,668
Income from operations	333,379	476,585	496,950
Income from operations net of income taxes	313,427	394,956	403,854
Depreciation	170,586	156,546	147,076
Cumulative effect of change in the method of accounting for unbilled revenues	37,754	–	–
Construction expenditures (including AFC)	535,316	447,339	318,018
Identifiable assets at December 31	6,285,199	5,549,177	4,763,699
Other assets at December 31	425,176	436,502	362,663
Total assets at December 31	6,710,375	5,985,679	5,126,362

Note 3. Subsidiary Information

Diversified business activities consist of the operations of Constellation Holdings, Inc. and its subsidiaries and BNG, Inc.

Constellation Holdings, Inc., a wholly owned subsidiary, holds all of the stock of three other subsidiaries, Constellation Investments, Inc., Constellation Energy, Inc., and Constellation Real Estate Group, Inc. These companies are engaged in diversified business activities including financial investment; the development, ownership, and operation of alternative energy systems; real estate development; and ownership of senior living facilities.

BNG, Inc. is a wholly owned subsidiary which invests in natural gas reserves and obtains gas from nontraditional sources.

The investment in Safe Harbor Water Power Corporation, a producer of hydroelectric power, is reported under the equity method. This investment represents two-thirds of Safe Harbor's total capital stock, including one-half of the voting stock, and a two-thirds interest in the subsidiary's retained earnings.

The following is condensed financial information for Constellation Holdings, Inc. and its subsidiaries and Safe Harbor Water Power Corporation. Similar information is not presented for BNG, Inc. as its financial position (shareholder's equity of $6.2 million) and results of operations (contribution of 1¢ per common share to the Company's earnings) are immaterial to the consolidated financial statements. The condensed financial information for the Constellation Companies does not reflect the elimination of intercompany balances and transactions which are eliminated in the Company's consolidated financial statements.

	1990	1989	1988
	(In Thousands, Except Per Share Amounts)		
Constellation Holdings, Inc. and Subsidiaries			
Income Statements			
Revenues	$ 106,175	$ 77,787	$ 51,433
Expenses other than interest and income taxes	73,537	44,966	27,261
Income from operations	32,638	32,821	24,172
Other income	952	340	196
Interest expense	37,345	28,709	18,917
Income tax expense (benefit)	(17,859)	(14,678)	(13,198)
Net income	$ 14,104	$ 19,130	$ 18,559
Contribution to the Company's earnings per share of common stock	$ .17	$ .24	$ .24
Balance Sheets			
Current assets	$ 71,837	$ 68,858	$ 38,942
Noncurrent assets	964,095	760,688	575,991
Total assets	$1,035,932	$829,546	$614,933
Current liabilities	$ 439,687	$ 26,736	$ 25,599
Noncurrent liabilities	343,602	551,482	363,931
Shareholder's equity	252,643	251,328	225,403
Total liabilities and shareholder's equity	$1,035,932	$829,546	$614,933
Safe Harbor Water Power Corporation			
Income Statements			
Revenues	$ 28,793	$ 28,713	$ 29,454
Expenses other than interest and income taxes	13,163	12,337	12,138
Income from operations	15,630	16,376	17,316
Other income	721	700	211
Interest expense	4,702	4,700	4,727
Income taxes	4,299	4,612	4,881
Net income	$ 7,350	$ 7,764	$ 7,919
BG&E's equity in earnings	$ 4,900	$ 5,176	$ 5,570
Dividends paid to BG&E by Safe Harbor	$ 11,084	$ 5,142	$ 3,960
Balance Sheets			
Current assets	$ 10,803	$ 15,464	$ 9,600
Noncurrent assets	122,044	124,932	127,947
Total assets	$ 132,847	$140,396	$137,547
Current liabilities	$ 3,798	$ 3,801	$ 3,788
Noncurrent liabilities	77,686	75,963	73,247
Shareholders' equity	51,363	60,632	60,512
Total liabilities and shareholders' equity	$ 132,847	$140,396	$137,547
BG&E's investment	$ 34,241	$ 40,421	$ 40,341

Note 4. Financial Investments and Real Estate Projects

Financial investments consisted of the following investments held by the Constellation Companies:

	At December 31, 1990	1989
	(In Thousands)	
Marketable securities		
At cost	$ 82,051	$ 79,355
Net unrealized loss	(13,988)	–
At lower of aggregate cost or market value	68,063	79,355
Other securities	17,659	22,216
Financial limited partnerships	123,711	121,556
Insurance companies	72,603	62,70[illegible]
Leveraged leases	40,496	40,510
Total	$322,532	$326,341

Real estate projects consisted of the following investments held by the Constellation Companies:

	At December 31, 1990	1989
	(In Thousands)	
Rental and operating properties (net of accumulated depreciation)	$219,778	$125,391
Properties under development (net of accumulated depreciation)	190,6[illegible]	76,295
Other real estate ventures	2,528	73,854
Total	$412,983	$275,540

In August 1989, a subsidiary of Constellation Holdings, Inc. acquired 100% of the assets and liabilities of a real estate partnership in which it had previously held a 50% equity interest. The assets acquired totaled $66,934,000, including $62,354,000 of real estate property, and the liabilities assumed totaled $50,306,000, including $43,060,000 of long-term debt. The acquisition was recorded using the purchase method of accounting.

In July 1990, a subsidiary of Constellation Holdings, Inc. obtained control of several real estate partnerships which had previously been accounted for under the equity method. Accordingly, the financial statements reflect assets totaling $155,635,000, including $154,182,000 of real estate property, and liabilities totaling $76,277,000, including $74,[illegible]34,000 of long-term debt, in place of the previous $79,358,000 equity investment.

Note 5. Jointly Owned Electric Utility Plant

BG&E owns an undivided interest in the Keystone and Conemaugh mine-mouth electric generating plants located in western Pennsylvania, as well as in the transmission line which transports the plants' output to the joint owners' service territories. Financing and accounting for these properties are the same as for wholly owned utility plant. BG&E's share of the direct expenses and assets and liabilities of the joint property is included in the corresponding sections of the Consolidated Statements of Income and Consolidated Balance Sheets.

The following data represent BG&E's share of the jointly owned properties at December 31, 1990:

	Keystone	Conemaugh	Transmission Line
	(Dollar Amounts in Thousands)		
Ownership interest	20.99%	10.56%	7.00%
Utility plant in service	$ 75,957	$ 41,256	$ 1,486
Accumulated depreciation	23,387	14,979	651
Construction work in progress	3,051	1,072	–

Note 6. Short-Term Borrowings

Information concerning commercial paper notes and lines of credit is set forth below. In support of the lines of credit, the Company pays commitment fees and, in some cases, maintains compensating balances which have no withdrawal restrictions. Borrowings under the lines are at the banks' prime rates, base interest rates, or at various money market rates.

	1990	1989	1988
	(Dollar Amounts in Thousands)		
BG&E's Commercial Paper Notes			
Borrowings outstanding at December 31	**$163,700**	$117,300	$ 72,050
Weighted average interest rate of notes outstanding at December 31	**7.91%**	8.69%	9.63%
Unused lines of credit supporting commercial paper notes at December 31	**$225,000**	$200,000	$150,200
Maximum borrowings during the year	**$344,200**	$212,350	$ 83,000
Average daily borrowings during the year (a)	**$218,642**	$ 87,025	$ 23,514
Weighted average interest rate for the year (b)	**8.29%**	9.26%	8.07%
Constellation Companies' Lines of Credit			
Borrowings outstanding at December 31	**$ 64,000**	$ 6,507	$ 7,375
Weighted average interest rate of borrowings outstanding at December 31	**8.89%**	10.65%	10.64%
Unused lines of credit at December 31	**$ 10,000**	$ 7,493	$ 1,625
Maximum borrowings during the year	**$ 64,000**	$ 7,130	$ 12,359
Average daily borrowings during the year (a)	**$ 38,932**	$ 5,588	$ 7,905
Weighted average interest rate for the year (b)	**8.93%**	11.12%	9.14%

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

Note 7. Long-Term Debt

First Refunding Mortgage Bonds

Substantially all of the principal properties and franchises owned by BG&E, as well as the capital stock of Constellation Holdings, Inc., Safe Harbor Water Power Corporation, and BNG, Inc., are subject to a lien under the mortgage under which BG&E's First Refunding Mortgage Bonds are issued.

On August 1 of each year, BG&E is required to pay to the mortgage trustee an annual sinking fund payment equal to 1% of the largest amount of Mortgage Bonds outstanding under the mortgage during the preceding twelve months. Such funds are to be used, as provided in the mortgage, for the purchase and retirement by the trustee of Mortgage Bonds of any series other than the Installment Series of 1998, 2002, and 2009, the 9¼% Series of 1995, the 8.40% Series of 1999, and the 6.80% Series of 2004. Purchases may be made by the trustee in the open market and/or through responses to invitations for sealed proposals if purchases are possible at or below the applicable redemption price, or directly through the redemption provisions to which the Mortgage Bonds are subject if purchases at a more favorable price are not possible. BG&E may purchase outstanding Mortgage Bonds from time to time and may submit its sealed proposal for the sale of such Mortgage Bonds to the trustee for the sinking fund.

The principal amounts of Installment Series Mortgage Bonds payable each year are as follows:

Year	Bonds Due 1998	Bonds Due 2002	Bonds Due 2009
		(In Thousands)	
1991	$ 2,155		
1992	3,000		
1993	3,000	$ 420	
1994	3,000	430	
1995	3,000	605	
1996 and 1997	4,000	605	
1998	33,000	690	
1999		690	
2000 and 2001		865	
2002		6,725	
2005 through 2008			$ 3,250
2009			42,000

Other Long-Term Debt

The loan under the unsecured credit facility matured on January 15, 1991. This loan has been classified as long-term because, subsequent to December 31, 1990, it was refinanced on a long-term basis through the $25 million of unused capacity under the revolving credit agreements discussed below.

BG&E maintains revolving credit agreements providing for borrowings of up to a total of $200 million. One of these agreements, which provides for borrowings of up to $50 million, expires in December 1991, and the others, which provide for borrowings of up to a total of $150 million, expire in 1993. Under the terms of the agreements, BG&E may, at its option, obtain loans at various interest rates. A commitment fee is paid on the daily average of the unborrowed portion of the commitment. At December 31, 1990, BG&E had borrowed $175 million under the revolving credit agreements and had available $25 million of unused capacity under one of the agreements expiring in 1993.

The medium-term notes mature at various dates from January 1992 through January 1993. The weighted average interest rate for notes outstanding at December 31, 1990 is 8%.

Interest rates on the $100 million of Floating Rate Notes due 1995 are determined quarterly based on the 91-day Treasury Bill auction rate (expressed on a bond-equivalent basis) plus 1.1%. The interest rate is subject to a minimum and maximum of 8% and 12%, respectively, per annum.

Interest rates on the $100 million of Floating Rate Notes due 1995 Series II are determined quarterly based on the 91-day Treasury Bill auction rate (expressed on a bond-equivalent basis) plus 1.125%. The interest rate is subject to a minimum and maximum of 7.9% and 11.9%, respectively, per annum.

Long-Term Debt of Constellation Companies

Constellation Holdings, Inc. (CHI) maintains committed credit agreements that expire at various dates through August 1991 and permit loans at various interest rates. Commitment fees are paid on the daily average of the unborrowed portion of the commitments. CHI also maintains uncommitted credit agreements which are supported by liquidity facilities for borrowings under a loan sale program at various interest rates. At December 31, 1990, CHI had borrowed $266 million under these credit agreements, and there is no unused capacity thereunder.

The mortgage and construction loans and other collateralized notes require monthly principal and interest payments through maturity.

The Industrial Park Facilities Bonds require principal payments of $700,000 in 1991 and $750,000 in 1992. Interest is payable semi-annually at a weighted average rate of 10.25%.

The $100 million of 8.30% unsecured notes are subject to a mandatory sinking fund under which 30% of the principal amount will be redeemed at par in each of the years 1991 and 1992, with the remaining 40% being redeemed at par in 1993.

Weighted Average Interest Rates For Variable Rate Debt
The weighted average interest rates for variable rate debt during 1990 and 1989 were as follows:

	1990	1989
BG&E		
Loans under unsecured credit facility	8.81%	– %
Loans under revolving credit agreements	8.44	9.56
Floating rate notes	9.04	9.67
Floating rate notes Series II	8.99	9.51
Pollution control loan	5.84	6.35
Port facilities loan	5.91	6.32
Adjustable rate pollution control loan	6.15	5.91
Economic development loan	6.05	6.45
Constellation Companies		
Mortgage and construction loans and other collateralized notes	9.89	11.13
Loans under credit agreements	8.56	9.48

Aggregate Maturities
The combined aggregate maturities and sinking fund requirements for all of the Company's long-term borrowings for each of the next five years are as follows:

Year	Requirements (In Thousands)
1991	$430,112
1992	168,425
1993	390,876
1994	46,446
1995	428,075

Note 8. Redeemable Preference Stock

The 68,000 shares of the 12%, 1981 Series A outstanding at December 31, 1990 are subject to mandatory redemption at par on July 1, 1991. Pursuant to the redemption requirements, 68,000 shares were redeemed at par in each of the years 1987 through 1990. The 12%, 1981 Series B is subject to mandatory redemption in its entirety at par on July 1, 1991.

The 6.95%, 1987 Series and the 7.80%, 1989 Series are subject to mandatory redemption in their entirety at par on October 1, 1995 and July 1, 1997, respectively.

The following series are subject to an annual mandatory redemption of the number of shares shown below at par beginning in the year shown below. At BG&E's option, an additional number of shares, not to exceed the same number as are mandatory, may be redeemed at par in any year, commencing in the same year in which the mandatory redemption begins. The 8.25%, 1989 Series and the 8.625%, 1990 Series listed below are not redeemable except through operation of a sinking fund.

Series	Shares	Beginning Year
7.50%, 1986 Series	15,000	1992
6.75%, 1987 Series	15,000	1993
7.64%, 1988 Series	100,000	1994
8.25%, 1989 Series	100,000	1995
8.625%, 1990 Series	130,000	1996

The combined aggregate redemption requirements for all series of redeemable preference stock for each of the next five years are as follows:

Year	Requirements (In Thousands)
1991	$22,800
1992	1,500
1993	3,000
1994	13,000
1995	73,000

With regard to payment of dividends or assets available in the event of liquidation, preferred stock ranks prior to preference stock; all issues of preference stock, whether subject to mandatory redemption or not, rank equally; and all preferred and preference stock ranks prior to common stock.

Note 9. Pension and Other Postretirement Benefits

The Company sponsors several noncontributory defined benefit pension plans, the largest of which (the Pension Plan) covers BG&E employees and certain employees of the Constellation Companies. The other plans, which are not material in amount, provide supplemental benefits to certain key employees. Benefits under the plans are generally based on age, years of service, and compensation levels.

Prior service cost associated with retroactive plan amendments is amortized on a straight-line basis over the average remaining service period of active employees.

The Company's policy is to fund annually the cost of the Pension Plan as determined under the aggregate cost method. Plan assets at December 31, 1990 consisted primarily of marketable securities, group annuity contracts, and short-term investments.

The following tables set forth the combined financial status of the plans and the composition of total net pension cost:

	At December 31, 1990	1989
	(Dollar Amounts in Thousands)	
Accumulated benefit obligation		
Vested	$377,818	$355,232
Nonvested	11,283	11,758
Total	$389,101	$366,990
Plan assets at fair value	$474,688	$475,333
Projected benefit obligation	(472,904)	(446,540)
Excess of plan assets over projected benefit obligation	1,784	28,793
Unrecognized prior service cost	10,597	11,404
Unrecognized net gain	(18,860)	(47,649)
Unamortized net asset from adoption of FASB Statement No. 87	(2,492)	(2,718)
Accrued pension cost	$ (8,971)	$ (10,170)
Assumptions		
Discount rate	9.25%	9.25%
Average increase in future compensation levels	4.5%	4.5%
Expected long-term rate of return on assets	9.5%	9.5%

	Year Ended December 31, 1990	1989	1988
		(In Thousands)	
Components of net pension cost			
Service cost - benefits earned during the period	$ 11,257	$ 10,893	$ 9,813
Interest cost on projected benefit obligation	40,455	38,042	35,508
Actual return on plan assets	(18,881)	(64,593)	(41,068)
Net amortization and deferral	(23,066)	24,507	1,744
Total net pension cost	9,765	8,849	5,997
Amount capitalized as construction cost	(1,377)	(1,237)	(802)
Amount charged to expense	$ 8,388	$ 7,612	$ 5,195

In addition to providing pension benefits, certain health care and life insurance benefits are provided for retired BG&E employees and certain retired employees of the Constellation Companies. The cost of these benefits is generally recognized as the benefits are paid and totaled $11,464,000 for 1990. The cost of providing these benefits for years prior to 1990 is not separable from the cost of providing similar benefits for active employees.

Statement of Financial Accounting Standards No. 106, which must be adopted by 1993, requires a change in the method of accounting for postretirement benefits other than pensions from the present pay-as-you-go method to an accrual method. However, the Company expects that the adoption of this Statement will not have a significant impact on net income because any increased costs for which service rates are not provided would be deferred under the provisions of Statement No. 71 for regulated enterprises.

Note 10. Leases

The Company, as lessee, contracts for certain facilities and equipment under lease agreements with various expiration dates and renewal options. Consistent with the regulatory treatment, lease payments for operating and capital leases for utility operations are charged to expense in the Consolidated Statements of Income. Lease expense was as follows for the three years ended December 31:

	1990	1989	1988
		(In Thousands)	
Operating leases	$13,240	$15,031	$14,014
Capital leases	330	365	839
Total lease expense	$13,570	$15,396	$14,853

Capital leases included in the financial statements but not disclosed separately represent assets and obligations of $1,097,000 at December 31, 1990 and $1,211,000 at December 31, 1989.

The future minimum lease payments at December 31, 1990 for long-term noncancelable leases are as follows:

Year	Operating Leases	Capital Leases
	(In Thousands)	
1991	$ 4,918	$ 324
1992	4,556	267
1993	4,271	94
1994	1,911	86
1995	1,908	86
Thereafter	3,394	566
Total minimum lease payments	$20,958	1,423
Interest portion		(472)
Present value of net minimum lease payments		$ 951

Certain of the Constellation Companies, as lessor, have entered into operating leases for office and retail space. These leases expire over periods ranging from 1 to 25 years, with options to renew. The net book value of property under operating leases was $187,449,000 and $80,050,000 at December 31, 1990 and 1989, respectively. The future minimum rentals to be received under operating leases in effect at December 31, 1990 are as follows:

Year	(In Thousands)
1991	$ 8,101
1992	8,728
1993	8,222
1994	7,152
1995	5,040
Thereafter	38,731
Total minimum rentals	$76,974

Note 11. Commitments, Guarantees, and Contingencies

Commitments

BG&E has made substantial commitments in connection with its construction program for 1991 and subsequent years. In addition, BG&E has entered into two long-term contracts for the purchase of electric generating capacity and energy. The contracts expire in 2001 and 2013. Total payments under these contracts were $17,778,000, $12,922,000, and $8,840,000 during 1990, 1989, and 1988, respectively. At December 31, 1990, the estimated future payments for capacity and energy that BG&E is obligated to buy under these contracts are as follows:

Year	(In Thousands)
1991	$ 28,896
1992	68,504
1993	69,282
1994	71,558
1995	72,994
Thereafter	831,177
Total payments	$1,142,411

Certain of the Constellation Companies have committed to contribute additional capital and to make additional loans to certain affiliates, joint ventures, and partnerships in which they have an interest. As of December 31, 1990, the total amount of capital contributions committed to by the Constellation Companies is $146 million.

Guarantees

BG&E has agreed to guarantee two-thirds of certain indebtedness incurred by Safe Harbor Water Power Corporation (see Note 3). The amount of such indebtedness totals $50 million, of which $33.3 million represents BG&E's share of the guarantee. Also, the Constellation Companies have agreed to guarantee certain borrowings of various alternative energy and real estate projects. As of December 31, 1990, the total outstanding loans guaranteed by the Constellation Companies were $96 million. The Company assesses that the risk of material loss on the loans guaranteed is minimal.

Nuclear Insurance

An accident or an extended outage at either unit of the Calvert Cliffs Nuclear Power Plant could have a substantial adverse effect on BG&E. The primary contingencies resulting from an incident at the Calvert Cliffs plant would involve the physical damage to the plant, the recoverability of replacement power, and BG&E's liability to third parties for property damage and bodily injury. Although BG&E maintains the various insurance policies currently available to provide coverage for portions of these contingencies, BG&E does not consider the available insurance to be adequate to cover the costs that could result from a major accident or an extended outage at either of the Calvert Cliffs units.

In addition, in the event of an incident at any nuclear power plant in the country, BG&E could be assessed for a portion of any third party claims, physical damage to the plant, and the cost of replacement power associated with the incident. Under the provisions of the Price Anderson Act, BG&E could be assessed up to $132 million per incident, payable at a rate of $20 million per year, for third party claims. Under the nuclear insurance pools in which BG&E participates, BG&E could be assessed up to a total of $24 million in any one policy year for physical damage, the cost of replacement power, or radiation injury claims by workers associated with an incident at another company's plant.

Recoverability of Electric Fuel Costs

By statute, actual electric fuel costs are recoverable so long as the Maryland Commission finds that BG&E demonstrates that, among other things, it has maintained the productive capacity of its generating plants at a reasonable level. The Maryland Commission and Maryland's highest appellate court have interpreted this as permitting a subjective evaluation of each unplanned outage at BG&E's generating plants to determine whether or not BG&E had implemented all reasonable and cost effective maintenance and operating control procedures appropriate for preventing the outage. Effective January 1, 1987, the Maryland Commission authorized the establishment of a Generating Unit Performance Program (GUPP) to measure, annually, utility compliance with maintaining the productive capacity of generating plants at reasonable levels by establishing a system-wide generating performance target and individual performance targets for each base load generating unit. In future fuel rate hearings, actual generating performance after adjustment for planned outages will be compared to the system-wide target and, if met, should signify that BG&E has complied with the requirements of Maryland law. Failure to meet the system-wide target will result in review of each unit's adjusted actual generating performance versus its performance target in determining compliance with the law and the basis for possibly imposing a penalty on BG&E. Parties to fuel rate hearings may still question the prudence of BG&E's actions or inactions with respect to any given generating plant outage, which could result in the disallowance of replacement energy costs by the Maryland Commission.

Since the two units at BG&E's Calvert Cliffs Nuclear Power Plant produce the lowest cost power generated by BG&E, replacement energy costs associated with outages at these units can be significant. BG&E cannot estimate the amount of replacement energy costs that could be challenged or disallowed in future fuel rate proceedings, but such amounts could be material.

In October 1988, BG&E filed its first annual fuel rate application for a change in its electric fuel rate under the GUPP program. The resultant case before the Maryland Commission covers BG&E's operating performance in calendar year 1987, and BG&E's filing demonstrated that it met the system-wide and individual nuclear plant performance targets for 1987. In November 1989, testimony was filed on behalf of Maryland People's Counsel alleging that seven outages at the Calvert Cliffs plant in 1987 were due to management imprudence and that the replacement energy costs associated with those outages should be disallowed by the Commission. Total replacement energy costs associated with the 1987 outages were approximately $33 million.

In May 1989, BG&E filed its fuel rate case in which 1988 performance will be examined. BG&E met the system-wide and nuclear plant performance targets in 1988. People's Counsel alleges that BG&E imprudently managed several outages at Calvert Cliffs, and BG&E estimates that the total replacement energy costs associated with these 1988 outages were approximately $2 million.

During 1989 and 1990, both units at Calvert Cliffs had extended outages beginning in the Spring of 1989 when a leak was discovered around the Unit 2 pressurizer heater sleeves during a refueling outage. BG&E shut down Unit 1 as a precautionary measure on May 6, 1989 to inspect for similar leaks and none were found. However, Unit 1 was out of service

for the remainder of 1989 and 285 days of 1990 to undergo maintenance and modification work to enhance the reliability of various safety systems, to repair equipment, and to perform required periodic surveillance tests. Unit 2, which is expected to return to service by the end of the first quarter of 1991, remained out of service throughout 1989 and 1990 to repair the pressurizer, perform maintenance and modification work, and complete the refueling. The replacement energy cost associated with the 1989-1990 outages for both units at Calvert Cliffs is estimated to be approximately $415 million as of December 31, 1990.

In a December 1990 order issued by the Maryland Commission in a BG&E base rate proceeding, the Maryland Commission found that certain operations and maintenance expenses incurred at Calvert Cliffs during the test year should not be recovered from ratepayers. The Maryland Commission found that this work, which was performed during the 1989-1990 Unit 1 outage and fell within the test year, was avoidable and caused by BG&E actions which were deficient. The Commission noted in the order that its review and findings on these issues pertain to the reasonableness of BG&E's test-year operations and maintenance expenses for purposes of setting base rates and not to the responsibility for replacement power costs associated with the outages at Calvert Cliffs. The Maryland Commission stated that its decision in the base rate case will have no *res judicata* (binding) effect in the fuel rate proceeding examining the 1989-1990 outages. The work characterized as avoidable had a significant impact on the duration of the Unit 1 outage. Despite the Maryland Commission's statement regarding no *res judicata* effect, BG&E recognizes that the views expressed by the Maryland Commission make the full recovery of all of the replacement energy costs associated with the Unit 1 outage doubtful. Therefore, BG&E has recorded a provision of $35 million against the disallowance of such costs which reduced 1990 earnings by 28¢ per common share. However, BG&E cannot determine whether replacement energy costs may be disallowed in the present fuel rate proceedings in excess of the provision, but such amounts could be material.

Note 12. Quarterly Financial Data (Unaudited)

The following data are unaudited but, in the opinion of Management, include all adjustments necessary for a fair presentation.

BG&E's utility business is seasonal in nature with the peak sales periods generally occurring during the summer and winter months. Accordingly, comparisons among quarters of a year may not be indicative of overall trends and changes in operations.

	Quarter Ended				Year Ended
	March 31	June 30	September 30	December 31	December 31
	(In Thousands, Except Per Share Amounts)				
1990					
Revenues	$545,436	$480,665	$616,338	$516,824	$2,159,263
Income from operations	77,279	74,773	174,007	7,320	333,379
Income before cumulative effect of change in accounting method	36,775	38,859	100,320	(508)	175,446
Cumulative effect of change in the method of accounting for unbilled revenues	37,754	–	–	–	37,754
Net income	74,529	38,859	100,320	(508)	213,200
Earnings applicable to common stock	65,156	29,112	89,749	(11,078)	172,939
Earnings per share of common stock					
Before cumulative effect of change in accounting method	0.34	0.35	1.08	(.13)	1.64
Cumulative effect of change in the method of accounting for unbilled revenues	0.47	–	–	–	0.46
Total earnings per share of common stock	0.81	0.35	1.08	(.13)	2.10
1989					
Revenues	$523,852	$434,763	$560,010	$485,511	$2,004,136
Income from operations	115,763	81,438	196,738	82,646	476,585
Net income	70,527	43,952	117,751	44,061	276,291
Earnings applicable to common stock	62,956	36,284	109,409	35,261	243,910
Earnings per share of common stock	0.79	0.45	1.37	0.44	3.05

Quarterly amounts for 1990 have been restated to reflect a change in accounting policy which was made in October 1990 effective January 1, 1990 (see Utility Revenues section of Note 1).

Results for the fourth quarter of 1990 reflect the provision for a possible disallowance of replacement energy costs (see Note 11).

The sum of the quarterly earnings per share amounts may not equal the total for the year due to changes in the average number of shares outstanding throughout the year.

Corporate and Utility Officers

Baltimore Gas and Electric Company and Subsidiaries

George V. McGowan	*Chairman of the Board and Chief Executive Officer*
Christian H. Poindexter	*Vice Chairman of the Board*
Edward A. Crooke	*President – Utility Operations*
Thomas F. Brady	*Vice President, Accounting and Economics*
Michael J. Chesser	*Vice President, Consu[illegible]ervices*
Herbert D. Coss, Jr.	*Vice President, Electric Interconnection and Operations*
George C. Creel	*Vice President, Nuclear Energy*
George D. England	*Vice President, Distribution*
Jon M. Files	*Vice President, Management Services*
G. Dowell Schwartz, Jr.	*Vice President, General Services*
Charles W. Shivery	*Vice President, Corporate Finance, Treasurer, and Secretary*
Joseph A. Tiernan	*Vice President, Corporate Affairs*
J. Thomas Wellener	*Vice President, Fossil Energy*
Jeffrey L. Davis	*Assistant Secretary*
Thomas E. Ruszin, Jr.	*Assistant Treasurer*

Changes in Organization

Effective April 1, 1990:

Herbert D. Coss, Jr., became Vice President of Electric Interconnection and Operations succeeding John W. Gore, Jr., who retired with more than 41 years of service.

G. Dowell Schwartz, Jr., was elected Vice President of General Services succeeding Herbert D. Coss, Jr.

Board of Directors

Baltimore Gas and Electric Company and Subsidiaries

Mr. McGowan

Mr. Poindexter

Mr. Baldwin

Mr. Cole

Mr. Crooke

Mr. Disharoon

Sister Feeley

George V. McGowan *Chairman of the Board and Chief Executive Officer* ✣ **Christian H. Poindexter** *Vice Chairman of the Board* ✣ **H. Furlong Baldwin** *Chairman of the Board and Chief Executive Officer, Mercantile Bankshares Corporation (bank holding company), Baltimore* ✣ **J. Owen Cole** *Chairman of the Executive Committee, First Maryland Bancorp (bank holding company), Baltimore* ✣ **Edward A. Crooke** *President – Utility Operations* ✣ **Leslie B. Disharoon** *Former Chairman of the Board and President, Monumental Corporation (insurance), Baltimore* **Sister Kathleen Feeley, S.S.N.D.** *President, College of Notre Dame of Maryland (education), Baltimore*

Mr. Geckle

Mr. Hackerman

Mr. Miller

Mr. Radcliffe

Mr. Russell

Mr. Trueschler

Mr. Wells

Jerome W. Geckle *Chairman of the Board (Ret.), PHH Corporation (vehicle, relocation, and facilities management services), Baltimore* ✣ **Willard Hackerman** *President and Chief Executive Officer, The Whiting-Turner Contracting Company (construction and construction management), Baltimore* ✣ **Paul G. Miller** *Chairman of the Board, Supercomputer Systems, Inc. (design, manufacturing, and sales of supercomputers), Laurel, Md.* ✣ **George G. Radcliffe** *Former Chairman of the Board and Chief Executive Officer, The Baltimore Life Insurance Company (insurance), Baltimore* ✣ **George L. Russell, Jr., Esq.** *Partner, Piper & Marbury (law firm), Baltimore* ✣ **Bernard C. Trueschler** *Chairman of the Executive Committee* ✣ **Harry K. Wells** *Chairman of the Board (Retired), McCormick & Company, Inc. (food processing, spices, etc.), Baltimore*

Committees of the Board

Audit Committee	Mr. Radcliffe, *Chairman;* Mr. Baldwin; Mr. Cole; Mr. Russell
Committee on Management	Mr. Geckle, *Chairman;* Mr. Cole; Mr. Disharoon; Mr. Trueschler
Executive Committee	Mr. Trueschler, *Chairman;* Mr. Crooke; Mr. Disharoon; Sister Feeley; Mr. McGowan; Mr. Poindexter; Mr. Radcliffe
Committee on Nuclear Power	Mr. Wells, *Chairman;* Sister Feeley; Mr. Hackerman; Mr. Miller; Mr. Poindexter

Constellation Subsidiaries

Baltimore Gas and Electric Company and Subsidiaries

Officers

George V. McGowan	*Chairman of the Board, Constellation Holdings, Inc.*
Bruce M. Ambler	*President and Chief Executive Officer, Constellation Holdings, Inc.*
Terry L. Ogletree	*President, Constellation Energy, Inc.*
W. E. (Pete) Simmons, Jr.	*President, Constellation Real Estate Group, Inc.*
James W. Jeffcoat	*President, Constellation Health Services, Inc.*
Steven D. Kesler	*President, Constellation Investments, Inc.*
Peter M. Kirk	*President, The KMS Group, Inc.*
Robert E. Windham	*President, Church Street Station, Inc.*

Constellation Holdings

Constellation Holdings provides direction to all of its operating subsidiaries and furnishes them with legal, financial, tax, accounting, and personnel services. In addition, decisions on all new investment or acquisition opportunities are controlled from Constellation Holdings.

Constellation Energy

This is the senior member of our Energy and Environmental Group. Under the auspices of Constellation Energy, the company participates in a number of alternative energy and cogeneration projects producing electricity for sale to other utilities. The Energy company is actively involved with developing, arranging financing, building, and operating a number of wholesale power projects throughout the country.

Constellation Real Estate Group

This is the parent company of several businesses — including Church Street Station in Orlando, Florida — that seek new business opportunities in several broad categories. The KMS Group performs real estate development, construction, and operational activities, and Constellation Health Services, through joint ventures, owns senior-living and retirement communities, as well as nursing facilities for the elderly.

Constellation Investments

The largest single company at this time, Constellation Investments serves as the primary provider of current income from its investments in various securities, investment partnerships, and financial-service companies.

Changes in Organization

Robert E. Windham joined Church Street Station on December 19, 1985, as Controller and was subsequently elected President of Church Street Station, Inc. on February 23, 1990.

Constellation Subsidiaries

Baltimore Gas and Electric Company and Subsidiaries

Board of Directors

Mr. McGowan

Mr. Ambler

Mr. Baldwin

Mr. Disharoon

Mr. Geckle

George V. McGowan *Chairman of the Board, Constellation Holdings, Inc.; Chairman of the Board and Chief Executive Officer, Baltimore Gas and Electric Company* ✦ **Bruce M. Ambler** *President and Chief Executive Officer, Constellation Holdings, Inc.* ✦ **H. Furlong Baldwin** *Chairman of the Board and Chief Executive Officer, Mercantile Bankshares Corporation* ✦ **Leslie B. Disharoon** *Former Chairman of the Board and President, Monumental Corporation* ✦ **Jerome W. Geckle** *Chairman of the Board (Ret.), PHH Corporation*

Mr. Hackerman

Mr. Kay

Mr. Miller

Mr. Poindexter

Mr. Trueschler

Willard Hackerman *President and Chief Executive Officer, The Whiting-Turner Contracting Company* ✦ **Edward W. Kay** *Former Co-Chairman and Chief Operating Officer, Ernst & Young* ✦ **Paul G. Miller** *Chairman of the Board, Supercomputer Systems, Inc.* ✦ **Christian H. Poindexter** *Vice Chairman of the Board, Baltimore Gas and Electric Company* ✦ **Bernard C. Trueschler** *Chairman of the Executive Committee, Baltimore Gas and Electric Company*

Committees of the Board

Audit Committee	Mr. Kay, *Chairman;* Mr. Baldwin; Mr. Miller
Committee on Management	Mr. Geckle, *Chairman;* Mr. Disharoon; Mr. Trueschler

Shareholder Information

Baltimore Gas and Electric Company and Subsidiaries

Common Stock Dividends and Price Ranges

	1990			1989		
	Dividend Declared	Price High	Price Low	Dividend Declared	Price High	Price Low
First Quarter	$ .525	$$34\frac{5}{8}$	$$29\frac{3}{8}$	$ .50	$$32\frac{1}{8}$	$$28\frac{1}{2}$
Second Quarter	.525	$30\frac{7}{8}$	$27\frac{7}{8}$	.525	$32\frac{1}{2}$	29
Third Quarter	.525	$29\frac{5}{8}$	$24\frac{3}{8}$	.525	$33\frac{5}{8}$	$31\frac{1}{8}$
Fourth Quarter	.525	$29\frac{1}{4}$	$25\frac{5}{8}$	.525	$34\frac{7}{8}$	$30\frac{1}{8}$
Total	$ 2.10			$ 2.075		

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, and to receive when due the applicable preference stock redemption payments, before any dividend on the common stock shall be paid or set apart. Dividends have been paid on the common stock continuously since 1910. Future dividends depend upon future earnings, the financial condition of the Company, and other factors. Quarterly dividends were declared on the common stock during 1990 and 1989 in the amounts set forth above.

Common Stock Dividend Dates

Record dates are normally on the 10th of March, June, September, and December. Quarterly dividends are customarily mailed to each shareholder on or about the 1st of April, July, October, and January.

Dividend Reinvestment and Stock Purchase Plan

The Company's Dividend Reinvestment and Stock Purchase Plan provides an opportunity for holders of the Company's common stock to acquire additional shares of such stock in a convenient and economical manner. Participants in the Plan may reinvest cash dividends on all or a portion of their shares of common stock and/or make optional cash payments.

Stock Trading

The Company's common stock, which is traded under the ticker symbol BGE, is listed on the New York, Midwest, and Pacific stock exchanges, and has unlisted trading privileges on the Boston, Cincinnati, and Philadelphia exchanges. As of December 31, 1990, there were 68,689 Common Shareholders of record.

Transfer Agent and Registrar

Maryland National Bank, Baltimore

Annual Meeting

The annual meeting of shareholders will be held at 10:00 a.m. on April 19, 1991, in the Hunt Valley Ballroom of Marriott's Hunt Valley Inn, 245 Shawan Road (I-83 at Shawan Road), Hunt Valley, Maryland.

Form 10-K

Upon written request, the Company will furnish, without charge, a copy of its Form 10-K annual report, including financial statements, after it is filed with the Securities and Exchange Commission in March 1991. Requests should be addressed to Charles W. Shivery, Vice President, Secretary, and Treasurer, P.O. Box 1475, Baltimore, Maryland 21203-1475.

Auditors

Coopers & Lybrand

Executive Offices

Gas and Electric Building
Charles Center
Baltimore, Maryland 21201

Mail: P.O. Box 1475
Baltimore, Maryland 21203-1475

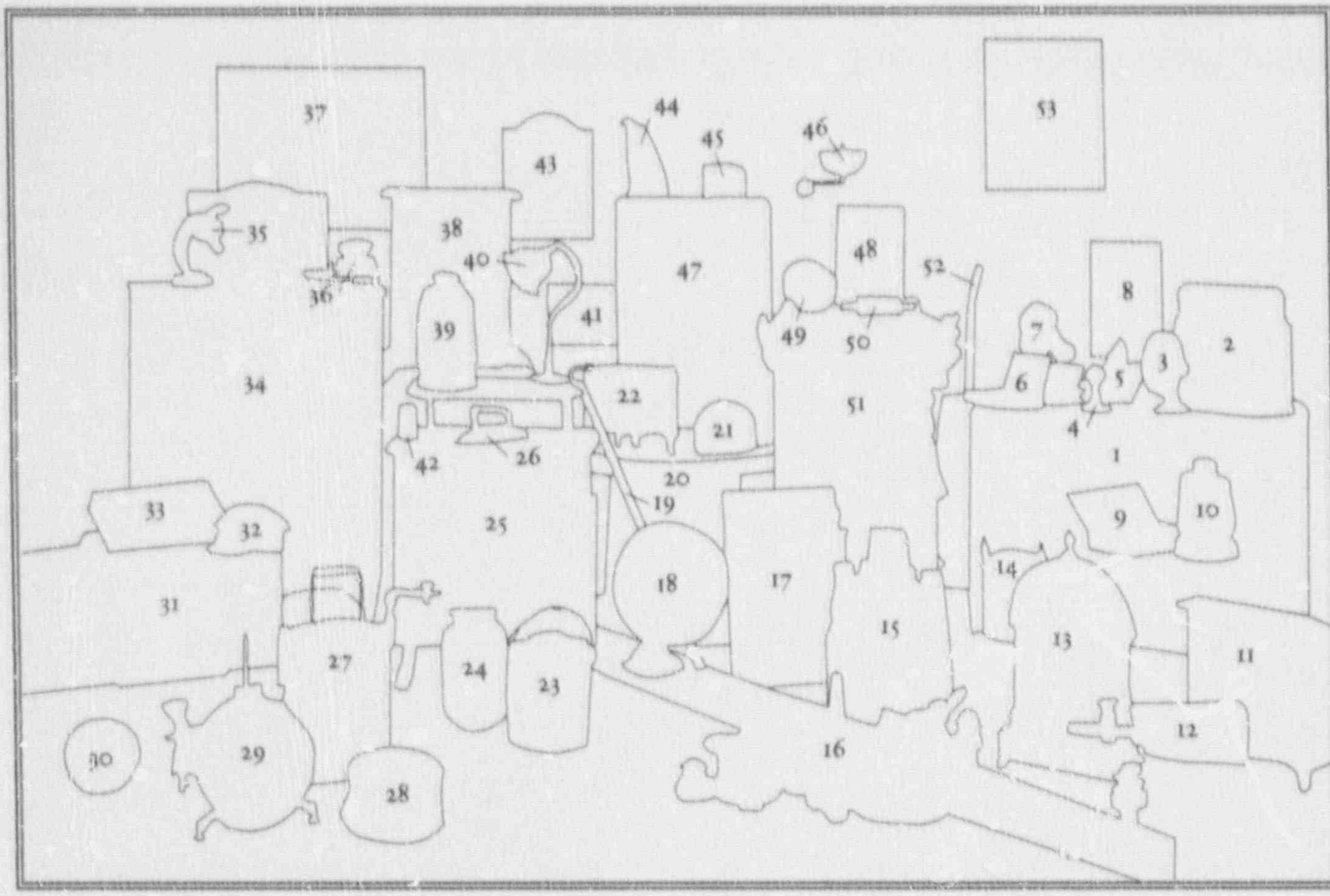
Shareholders' Inquiries and Assistance

Shareho[illegible] [illegible]iring assistance with lost or stolen stock certifica[illegible] dividend checks, name changes, address changes, stock transfers, or other matters should call the Shareholder Services Representatives on our toll-free telephone numbers. The following toll-free telephone numbers are available during our business hours, 8:00 a.m. to 4:45 p.m.

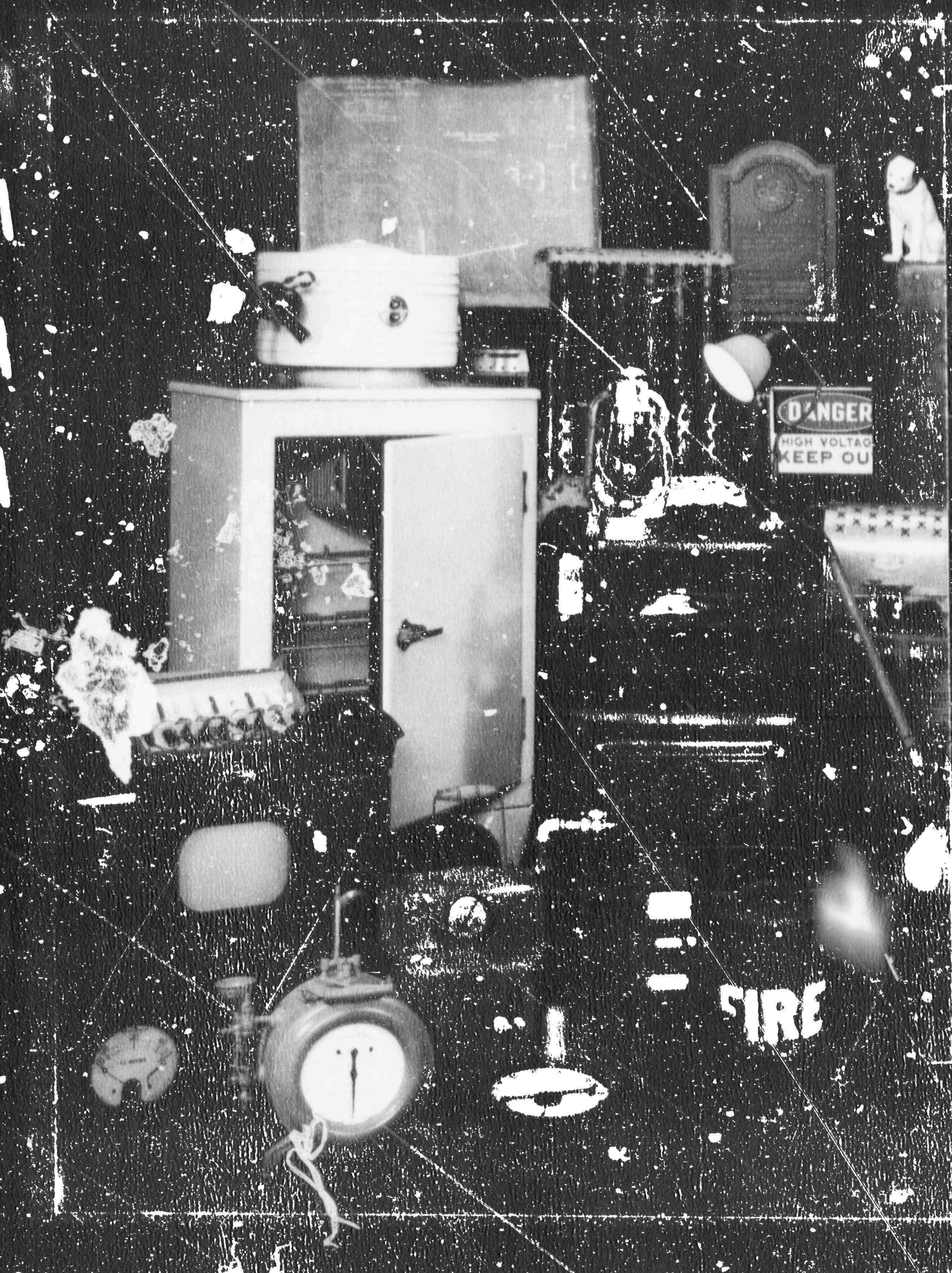
Baltimore Metropolitan Area	783-5920
Within Maryland	1-800-492-2861
Outside of Maryland	1-800-225-2432

Written communication should be addressed to:
Baltimore Gas and Electric Company
Shareholder Services
P.O. Box 1642
Baltimore, Maryland 21203-1642

On Our Cover



1. Oriole Gas Range *circa 1932*
2. Philco Radio *circa 1930s*
3. King Kool Electric Fan *circa 1936*
4. Edison Light Bulb (replica) *circa 1879*
5. American Beauty Electric Iron *circa 1945*
6. Noma Decorative Lighting Outfit *circa 1929*
7. Sunbeam Mixmaster *circa 1937*
8. Engineering Blueprint *circa 1900*
9. Good-Lite Decorative Lighting Outfit *circa 1930*
10. Dietz Construction Lantern *circa 1956*
11. Oriole Gas Space Heater *circa 1914*
12. Wooden Gas Pipe and Valve *circa 1825*
13. Arch Water Gauge *circa 1913*
14. Gas Meter *circa 1915*
15. Gas Meter *1990*
16. Wooden Cross Arm and Glass & Porcelain Insulators *circa 1900s*
17. Electric Generating Plant Battery Switch *circa 1920*
18. GE Electric Fan *circa 1920*
19. Fuse Puller *circa 1920*
20. #2 Aluminum Cable and Reel *circa 1990*
21. Sunbeam Toaster *circa 1945*
22. Victor Instantaneous Water Heater *circa 1899*
23. Fire Bucket *circa 1920*
24. Westinghouse Wattmeter *circa 1898*
25. Bryan Gas Range and Portable Oven *circa 1895*
26. American Beauty Electric Iron *circa 1945*
27. Meter *circa 1930*
28. Electric Generating Plant Power Factor Gauge *circa 1920*
29. Wet Test Meter *circa 1935*
30. Electric Generating Plant Amperes Gauge *circa 1920*
31. RCA Television *circa 1947*
32. Line Crew Hard Hat *circa 1900*
33. Noma Bubble-lites *circa 1946*
34. GE Refrigerator *circa 1937*
35. Diehl Ribbon Fan *circa 1937*
36. IWantU Gas *circa 1913*
37. Engineering Blueprint *circa 1900*
38. Weiskittel Fire King Gas Heater *circa 1897*
39. CGEL&PCo. Work Lantern *circa 1950*
40. Emeralits Desk Lamp *circa 1930*
41. High Voltage Sign *circa 1980*
42. K&E Drafting Pounce *circa 1955*
43. Safety Plaque *circa 1957*
44. Nipper Savings Bank *circa 1982*
45. Westclox Alarm Clock *circa 1938*
46. Gas Lamp *circa 1900*
47. RCA Radio *circa 1935*
48. Electric Generating Plant Kilowatt Hours Meter *circa 1920*
49. Electric Generating Plant Kilovolts Gauge *circa 1920*
50. Electric Fuse *circa 1920*
51. Electric Transformer *circa 1922*
52. Eureka Vacuum Cleaner *circa 1925*
53. BG&E's 175th Anniversary Logo *1991*


DANGER
HIGH VOLTAG
KEEP OU
FIRE