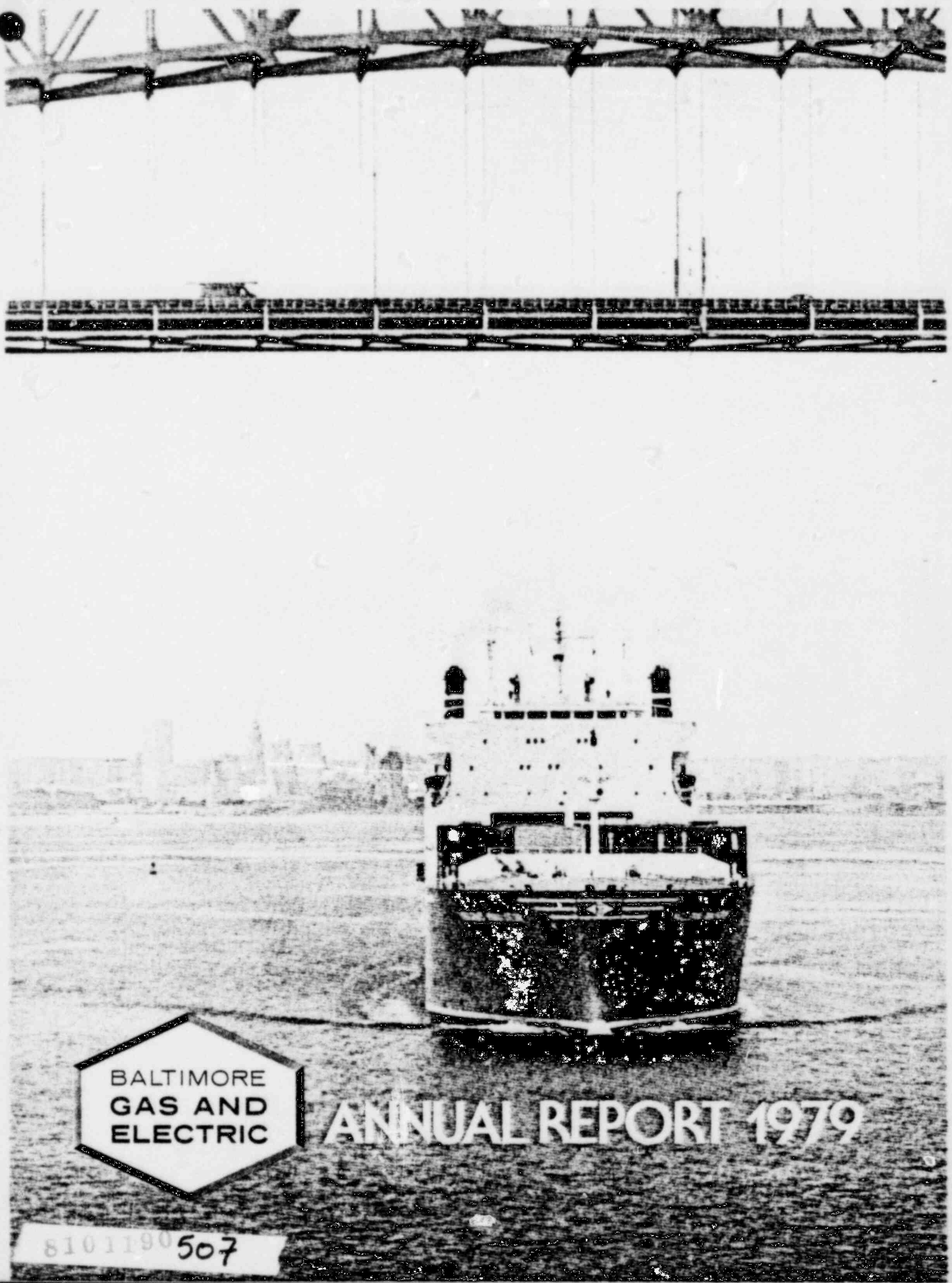

BALTIMORE
GAS AND
ELECTRIC

ANNUAL REPORT 1979

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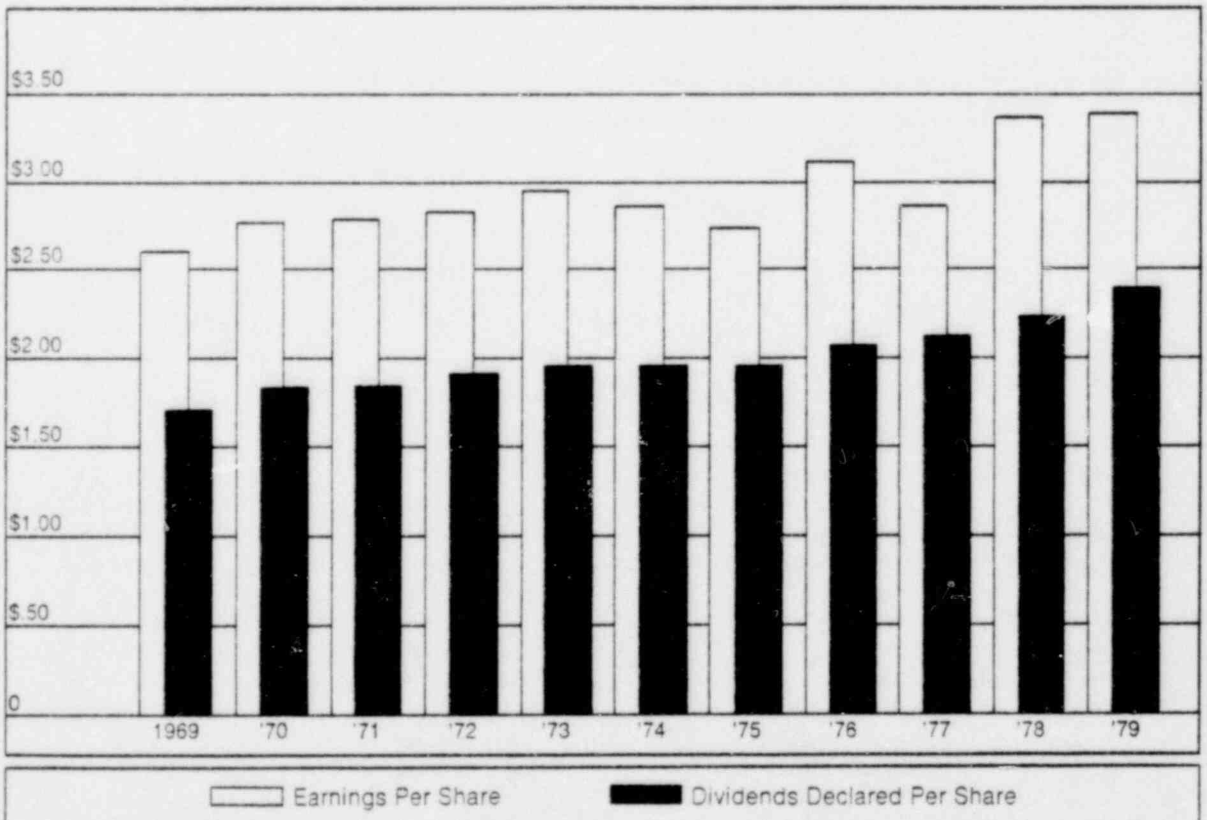
COVER PHOTOGRAPH shows a Greek container vessel, the *Hellenic Innovator*, steaming under the Francis Scott Key Bridge en route from Baltimore's Inner Harbor to the high seas. The Port of Baltimore is among the top four international commerce centers of the nation, a principal U.S. port of entry for foreign automobiles, and second among all East and Gulf Coast ports in total volume of containerized cargo.

ON THE BACK COVER is historic Fort McHenry, standing watch over the entrance to Baltimore's Inner Harbor, with the busy Curtis Bay port area in the background. The American flag still flies proudly over the fort today, as it did at dawn on September 14, 1814, when Francis Scott Key wrote "The Star Spangled Banner" from his observation post aboard a small ship moored in the Chesapeake Bay. British forces, fresh from sacking and burning Washington, had vainly shelled Fort McHenry for 25 hours before withdrawing in defeat from the Battle of Baltimore.

	1979	1978	1969
Earnings Per Share of Common Stock	**$3.40**	$3.38	$2.60
Average Shares of Common Stock Outstanding	**31,356,000**	30,847,000	15,808,000
Dividends Declared Per Share	**$2.40**	$2.25	$1.70
Revenues			
Electric	**$ 714,956,000**	$ 697,173,000	$ 208,806,000
Gas	**287,074,000**	264,586,000	88,029,000
Balance Available for Common Stock	**$ 106,532,000**	$ 104,364,000	$ 41,048,000
Dividends — Common Stock	**75,373,000**	69,467,000	26,869,000
Earnings Reinvested in the Business	**$ 31,159,000**	$ 34,897,000	$ 14,179,000
Electric Sales — thousands of kilowatthours	**16,823,000**	16,170,000	11,165,000
Gas Sales — dekatherms*	**93,450,000**	84,489,000	78,927,000
Investment in Utility Plant	**$2,974,653,000**	$2,831,219,000	$1,067,056,000

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

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



Earnings and Dividends Declared Per Share of Common Stock

TO OUR STOCKHOLDERS

Earnings per share were $3.40, up 2¢ over 1978 and 54¢ above the depressed earnings of two years ago. The quarterly dividend on common stock was increased, effective July 2, 1979, from 57¢ to 61¢, which represents an annual dividend rate of $2.44 per share.

Sharply rising operating costs, high interest rates, and other increased capital costs continue to impede the Company's financial performance. As the year progressed, it became increasingly evident that higher electric, gas, and steam rates were needed to meet these mounting costs and produce the level of earnings required to attract, on reasonable terms, the new funds that must be invested in plant and equipment to maintain reliable service and keep pace with growth in customer demand. Accordingly, we filed with the Public Service Commission of Maryland in November an application for increased service rates designed to produce $147 million of additional annual revenues.

This rate relief is required both to offset earnings attrition resulting from double-digit inflation and to increase the Company's rate of return, particularly on common equity. The Commission is currently holding hearings on our application, and the final decision, as required by law, will be issued early in June, 1980.

In face of 1979's 13% inflation rate, electric and gas service remained available to Central Maryland residents at prices that represented a real bargain by any comparative standard. The 1979 average unit price for residential electricity was only 0.2% more than in 1978, while household gas cost only 3.2% more per unit. For the period from mid-1974 through 1979, the average unit price of residential electricity increased only 16%, while the cost-of-living index for the Baltimore Metropolitan Area rose 43%. Thus, it is quite evident that the increase in the cost of electricity is lagging substantially behind the general rate of economic inflation. During the same period, the average unit price of residential gas increased 102%, of which 67% is attributable to increases in the cost of gas from the Company's supplier. The remaining 35% represents the rise in the Company's base rates.

Unit sales of electricity and gas increased in 1979 over the previous year by 4.0% and 10.6%, respectively. Both increases result in large part from the high level of Central Maryland manufacturing activity, especially pronounced in the heavy-industry category. For the residential and commercial customer classifications, electric sales were adversely affected by cooler weather during the air-conditioning season, while gas sales declined because temperatures during the heating months were above normal.

B. C. Trueschler

The 10.6% increase in 1979 gas volume, reflecting a substantial rise in sales to interruptible service customers, was made possible by the total removal of delivery curtailments that had been imposed by the Company's pipeline supplier since the winter of 1972-1973. In consequence, the Maryland Commission approved termination, as of May 4, 1979, of the five-year moratorium on new uses and customers that had been partially lifted in August, 1978.

Our current long-range forecast of annual electric demand is below previous projections of peak-load growth through 1989 and reflects a slower growth in electric sales, resulting from the energy-conservation efforts of our customers. Consequently, the Company decided not to proceed into a joint venture with the Potomac Electric Power Company, which had involved a proposed 50% participation by the Company in the construction, ownership, and operation of an 800,000-kilowatt coal-fired generating unit at PEPCO's Dickerson Power Plant.

Completion of the Company's Brandon Shores Power Plant, currently under construction, is now expected to provide electric generating capacity adequate to meet the projected additional loads for the next 10 years. The schedule for commercial operation of the two units has been modified in accordance with the revised long-range forecast of annual electric loads. The first 620,000-kilowatt electric generating unit is now scheduled for commercial operation in 1984 and the second unit,

G. V. McGowan

identical in capacity, has been rescheduled for completion in 1988. Both units will be constructed to burn coal as the primary fuel stock but will retain the capability to burn oil.

The 1979 program of energy initiatives which President Carter announced in July included the proposal that electric utilities reduce their use of oil for electric generation 50% by 1990. The Company plans to exceed that goal, by cutting its oil consumption by almost 90% in the coming decade, from a present level of 8.1 million barrels per year to less than one million barrels in 1990. This objective can be accomplished by burning coal in the two generating units now under construction at the new Brandon Shores Power Plant, as outlined above, and by reconverting to coal two oil-fired units at the Charles P. Crane Power Plant. In addition to reducing imports of foreign oil, this program will produce net savings amounting to hundreds of millions of dollars. These net savings, which provide for the increase in operating costs and proper Company compensation on the additional plant investment, will be passed on to our customers, helping to stabilize the future cost of electricity.

Again in 1979, the Calvert Cliffs Nuclear Power Plant provided dramatic evidence of the benefits to consumers from this energy source. Supplying 54% of our customers' total electric requirements during the year, Calvert Cliffs produced fuel-cost savings that reduced the electric bills of Central Marylanders by $260 million in 1979. The aggregate savings of $800 million realized by the Company's ratepayers since the plant's first unit went into commercial operation in 1975 exceed the original cost of the plant.

However, the unfortunate accident of March 28, 1979 at the Three Mile Island Nuclear Plant of the Metropolitan Edison Company in Pennsylvania has brought into sharp focus the question of safety of operations at nuclear power plants.

Upon first learning of the accident, we immediately began an internal review and subsequent upgrading of procedures. Increased training of plant personnel was instituted to reduce further the possibility of a similar mishap at Calvert Cliffs. Subsequently, the Nuclear Regulatory Commission (NRC) has been actively gathering information from all nuclear licensees and has recently identified changes which will be required as a result of the investigations of an NRC task force. The required changes must be made on a tight time schedule in a number of areas, including more extensive training of plant personnel, plant procedure changes, review of plant design, equipment modifications, and upgrading of site and State emergency plans.

We support recommendations which will further enhance the safety of Calvert Cliffs or increase the safeguards accorded to the public. Until the precise nature of required changes is known, it is difficult to estimate reasonably the costs involved in providing these additional safeguards. However, we believe that forthcoming modifications will require the expenditure of several tens of millions of dollars.

In spite of this, nuclear power remains a viable source of energy for the future—economical, safe, reliable, and environmentally benign. We reaffirm our confidence in nuclear power as an essential means of helping our Nation achieve energy independence.

Chairman of the Board

President

February 8, 1980

C. E. UTERMOHLE, JR.

Retires from Active Service

Management acknowledges with abiding gratitude the invaluable contributions to the Company's continuing progress which have been made in the course of the past 45 years by C. E. Utermohle, Jr., whose retirement from active service became effective on January 1, 1980. The forthright leadership provided by Mr. Utermohle as Chairman of the Board and Chief Executive Officer since November 1, 1969 has brought the Company successfully through the turbulent and troubled 1970's, and has given his successors a solid foundation of corporate strength on which to build with confidence. Thankfully, his counsel will remain readily available to us by virtue of his continuance on the Board of Directors.

Rate Application

The Company filed with the Public Service Commission of Maryland on November 13, 1979 an application for an increase in base service rates designed to produce \$147,000,000 of additional revenue on an annual basis. The request seeks to raise electric revenues by \$123,000,000, or 16.6%; gas revenues by \$22,500,000, or 6.8%; and steam revenues by \$1,500,000, or 9.5%.

Under the President's price guidelines for utilities, revenues per unit of sales (excluding recovery of fuel costs) are permitted, when justified, to be about 21% higher in the third year of the program (October 1, 1980 to September 30, 1981) than in the 1978 base period. Because rate increases since October 1, 1978 have been minimal, the Company's requested increases on an overall basis comply with the guideline requirements.

Allowance For Funds Used During Construction

Pursuant to a petition submitted by the Company in September, 1978, the Maryland Commission authorized a \$24,000,000 rate increase which took effect on January 2, 1979. At the same time, the Commission ordered additional hearings to consider the Company's accounting treatment with respect to Construction Work in Progress and Allowance for Funds Used During Construction in determining revenue requirements.

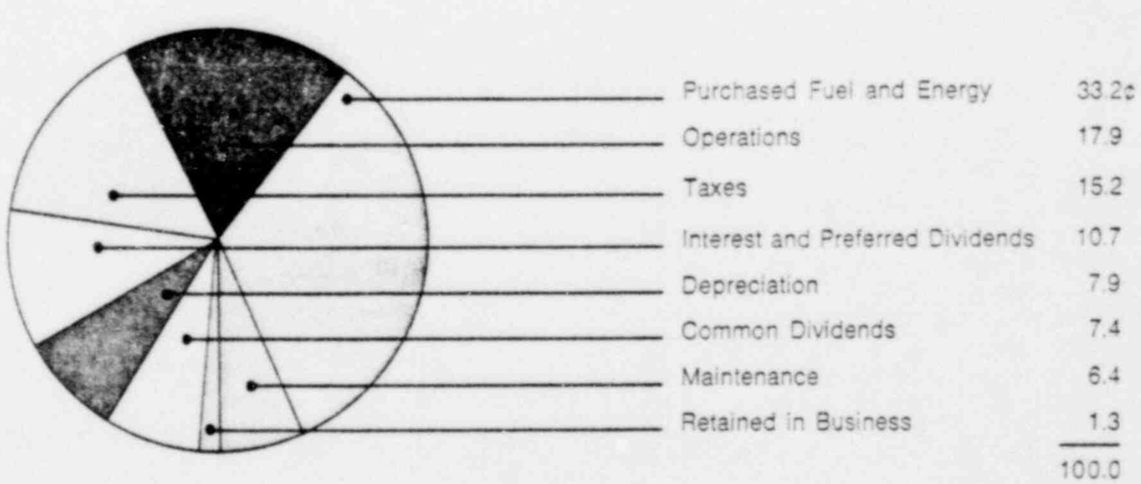
On March 28, 1979, the Commission issued a follow-up Order which reduced annual electric revenues by \$12,500,000, on a prospective basis, as of April 10, 1979 and required that Allowance for Funds Used During Construction henceforth be capitalized on 100%, rather than the previous 50%, of Construction Work in Progress at the Company's Brandon Shores Power Plant.

Electric Fuel Rate

As a result of the new electric Fuel Rate formula adopted by the Maryland Commission effective October 1, 1978, the Company has experienced a lag in the recovery of higher fuel expense. This lag is being accounted for as a deferred fuel expense, recoverable through base-rate proceedings. Consequently, we have requested in the current rate application that the Commission authorize a surcharge to the Fuel Rate that will enable us to recover deferred fuel cost during the third quarter of 1980—the first full quarter following issuance of the forthcoming rate Order.

In the course of the Commission's hearings on the electric Fuel Rate in the latter part of 1978, certain intervenors alleged that the Company was paying

How the Revenue Dollar for 1979 Was Spent



an excessive price for coal used in Unit No. 3 at the Wagner Power Plant, supplied under the terms of a contract negotiated in 1974. The Commission terminated its investigation of the matter by concluding that the price of coal under the contract was just and reasonable.

Dividend Reinvestment Plan

A 5% discount feature was incorporated on July 1, 1979 in the Dividend Reinvestment and Stock Purchase Plan which the Company has made available to common stockholders since 1973.

Under the amended program, stockholders who elect to reinvest their cash dividends in additional common stock will acquire the new shares at 95% of their market value on the date of purchase. As before, each shareowner also has the option of increasing his or her investment in the Company by means of cash payments in amounts up to $3,000 per quarter, which will be applied to the purchase of additional common shares at full current market value but without payment of brokerage commissions or transaction fees of any kind.

The attractiveness of the discount policy is attested by the fact that almost 18% of the Company's common stockholders, owning 14% of the common shares outstanding, now are participating in the reinvestment plan. Cash payments processed through the program also rose sharply over the preceding year.

Stockholders may enroll in or withdraw from the Dividend Reinvestment and Stock Purchase Plan at any time simply by notifying the Treasurer of the Company.

Construction Program

Construction expenditures for 1979 totaled $160,917,000.

The Brandon Shores Power Plant, with its associated transmission requirements, was foremost among the electric projects which accounted for $138,777,000 of the 1979 total. Expended on gas construction during the year was $13,990,000.

Additionally, the Company spent $57,956,000 in 1979 to purchase supplies of nuclear fuel.

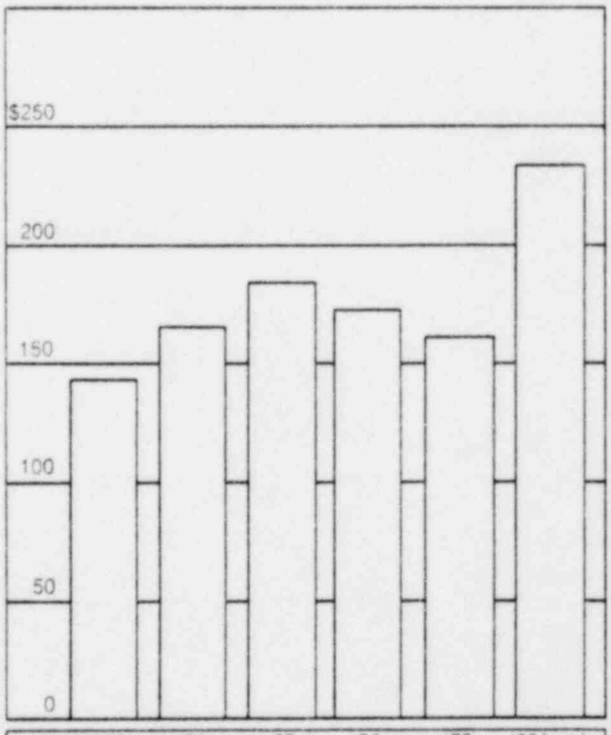
The 1980 construction budget is estimated at $233,000,000. The year's additional expenditures for nuclear fuel are expected to approximate $47,000,000.

Security Transactions

External financing requirements for the construction program and other corporate purposes were met in 1979 by sale of preference stock and an issue of pollution control bonds.

In July, the Company negotiated the private placement with institutional investors of a $50,000,000 issue of 8.375% Cumulative Preference Stock ($100 par value), redeemable at a rate of 100,000 shares annually for the five years 1985 through 1989.

In September, Anne Arundel County issued an aggregate of $75,000,000 of Pollution Control Revenue Bonds—$55,000,000 of 6.90% Bonds due September 15, 2009 and $20,000,000 of 6.80% Bonds due September 15, 2004. Under a loan agreement, the proceeds will be advanced to the Company to finance construction of air- and water-pollution control facilities at the Brandon Shores Power Plant. Initially, the Company withdrew $55,000,000 of the proceeds and issued $55,000,000 principal amount of First Refunding Mortgage Bonds, 6.90% Series, due September 15, 2009. The remaining $20,000,000 of proceeds is deposited with and temporarily invested by the Trustee and is available for withdrawal by the Company when additional First Refunding Mortgage Bonds are issued to cover further expenditures. The Company's payments of principal and interest on these Mort-

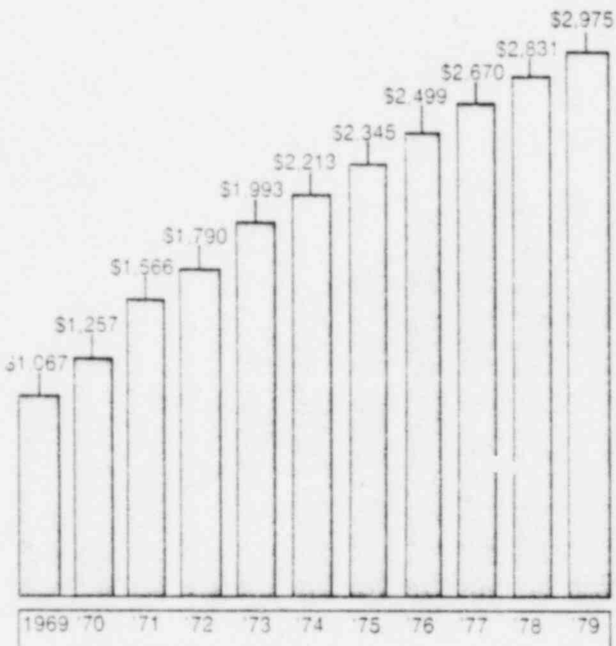


Construction Expenditures
(Millions of Dollars)

gage Bonds will provide the funds needed to meet principal and interest requirements on the County's Pollution Control Revenue Bonds.

The Company issued 652,874 shares of common stock in 1979 to cover conversions of Convertible Cumulative Preference Stock and to provide for new shares purchased under the Dividend Reinvestment and Stock Purchase Plan and the Investment Tax Credit Employee Stock Ownership Plan.

During the year, bonds and debentures totaling $12,764,000 were retired through sinking funds.



Total Utility Plant
(Millions of Dollars)

ELECTRIC

Following three decades of virtually uninterrupted annual reductions in the average unit price of residential electricity, the impact of inflation on the Company's operating, construction, and capital costs forced the average unit price to turn upward for the first time in 1971.

The rising trend continued over the next three years, increasing the unit price for 1974 by 64% over the year 1970. For the period from mid-1974 through 1977, the average unit price remained stable, primarily because the fuel savings achieved by operation of the Calvert Cliffs Nuclear Power Plant reduced fuel-cost charges in our customers' monthly electric bills sufficiently to offset the total effect of periodic necessary increases in electric base rates.

In 1978, the average unit price of electricity was only 16% above the mid-1974 level, and it remained basically unchanged for 1979. Operation of the Calvert Cliffs Nuclear Power Plant, producing fuel-cost savings totaling $260 million in 1979 and $800 million since the first unit was placed in commercial service in 1975, is principally responsible for this extraordinary record of electric price stability.

Over the 40 years from 1939 through 1979, the average residential unit cost of electricity increased by only 25%. During that period, the cost-of-living index for the Baltimore Metropolitan Area rose 440%.

The favored position of the Company's customers is further attested by the table below, which compares our 4.24¢ average rate per kilowatthour

Average Rate Per Kilowatthour
All Customer Categories
Full Year 1979

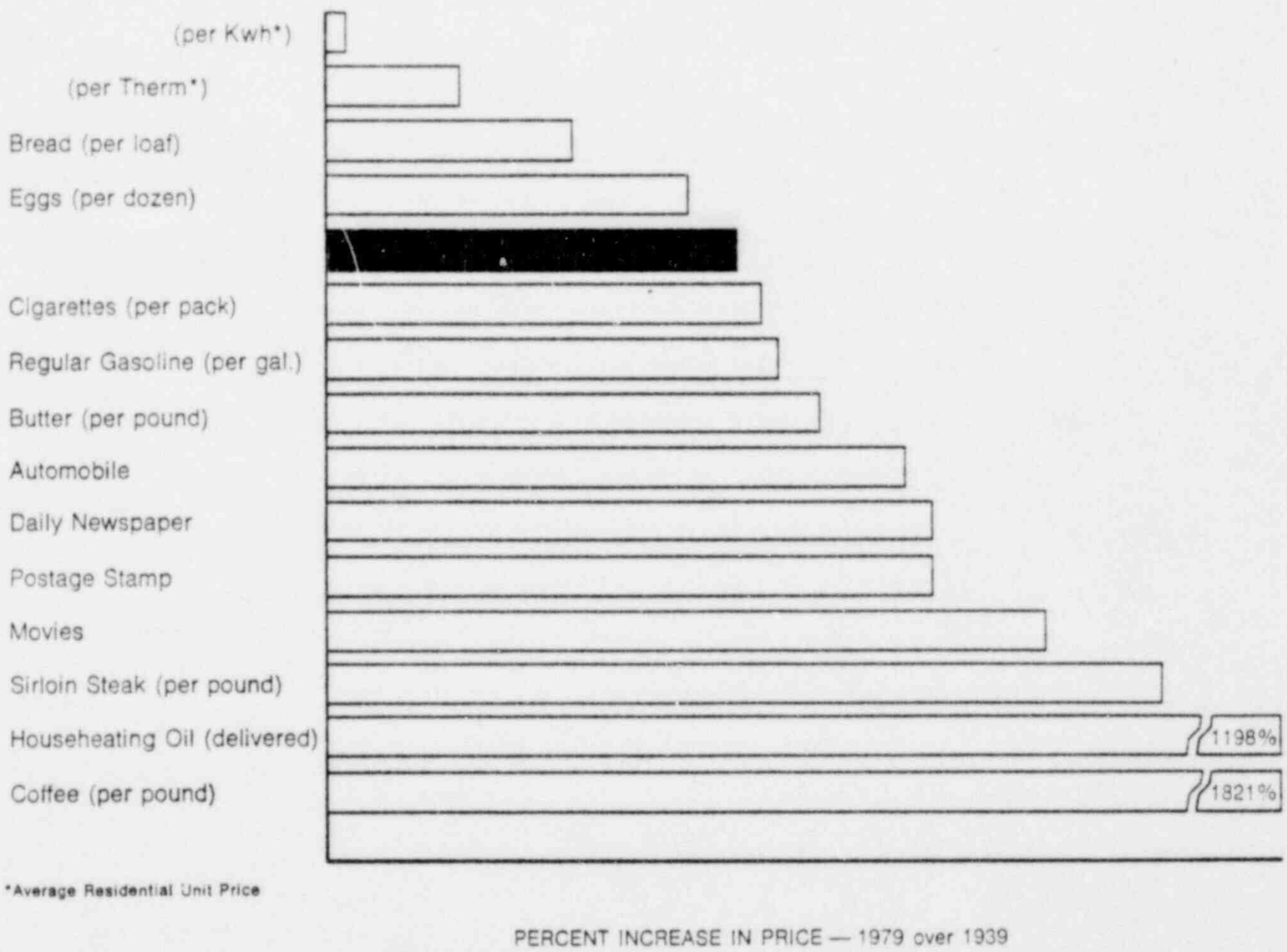
BALTIMORE	**4.24¢**
Norfolk, Va.	4.39
Philadelphia, Pa.	4.62
Wilmington, Del.	4.79
Washington, D.C.	4.83
Atlantic City, N.J.	5.24
Newark, N.J.	5.70
Boston, Mass.	6.11
New York, N.Y.	9.40
8-CITY AVERAGE	**5.64**

of electricity sold to all categories of consumers for the full year 1979 with the corresponding averages for eight other major East Coast cities, from Norfolk to Boston. Elsewhere, the 1979 average rate exceeded Baltimore's by amounts varying from 3.5% to 121.7%. In overall average, the cost of electricity was 33.0% higher in these cities than it was in Baltimore; even if New York were excluded, the differential would remain 20.3% based on a 7-city average of 5.10¢.

GAS

Unrealistic Federal price controls, installed in 1954, artificially held the price of natural gas far below its true market value for more than two decades, creating a serious national gas shortage in the process. As a result, the Company's average price per residential unit of gas sold was only 12% higher in 1973 than it had been in 1954.

The consequent scarcity of interstate supplies led to nationwide curtailment of pipeline gas which

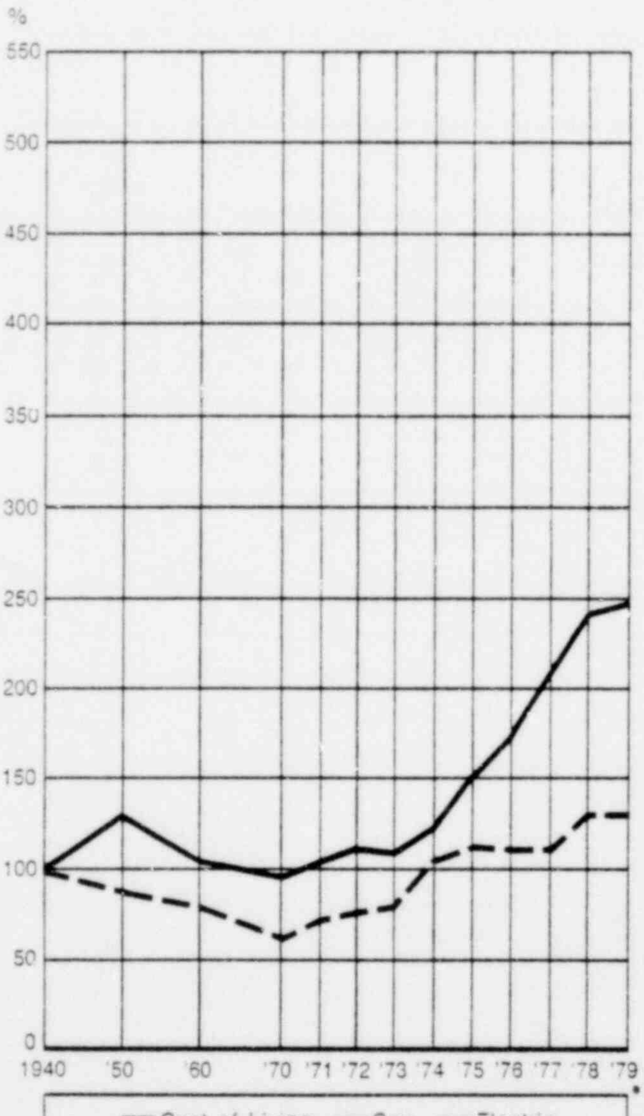


Electric and Gas Residential Unit Prices Compared
With Cost-of-Living Index and Other Goods and Services
In the Baltimore Metropolitan Area

ultimately forced a series of Government-instituted increases in the price of natural gas, culminating in adoption of a phased deregulation plan as part of the National Energy Act of 1978. These belated Federal actions have caused the average unit price paid by the Company's residential gas customers to rise steadily over the past six years, to a 1979 average 126% above that for 1973, with continuing annual increases inevitable under the law.

Nevertheless, as of today, the consumer cost of gas househeating is still far below the cost of heating with oil. The retail price per gallon of oil in the Baltimore area increased some 58% in 1979 alone bringing the year-end cost differential favoring gas househeating in our service territory to some 66%.

Central Marylanders, as the following table shows, also pay less for gas than do their counterparts in comparable metropolitan areas along the East Coast. For the eight comparison cities the 1979 cost of gas for all uses was 23.2% higher, on the average, than it was in Baltimore. The 7-city average without New York was 35.87¢, 17.9% above Baltimore.



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

Average Rate Per Therm of Gas
All Customer Categories
Full Year 1979

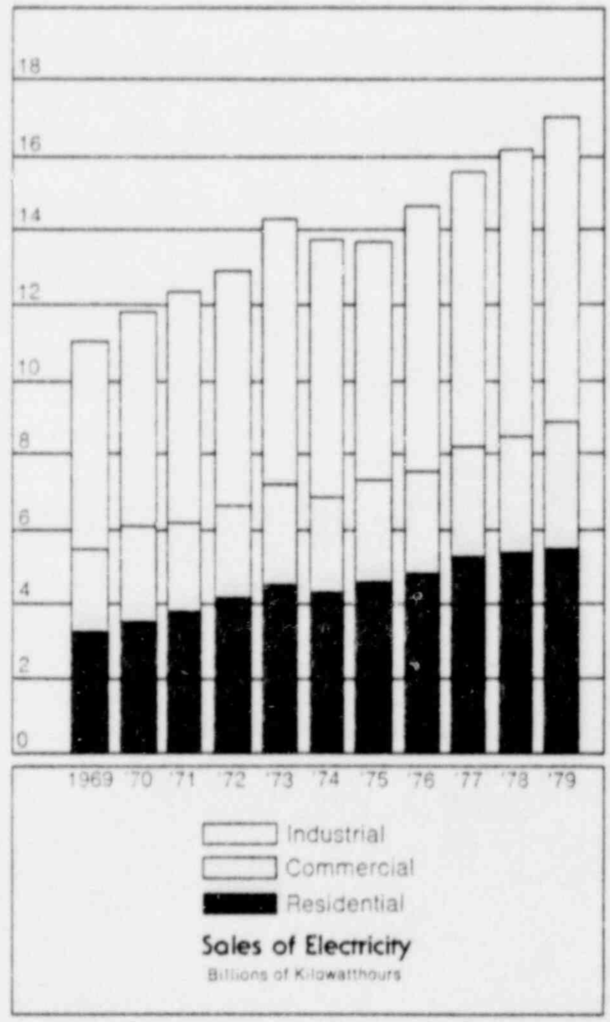
BALTIMORE	**30.43¢**
Norfolk, Va.	32.44
Philadelphia, Pa.	33.69
Atlantic City, N.J.	33.86
Washington, D.C.	34.22
Wilmington, Del.	35.38
Newark, N.J.	39.16
Boston, Mass.	42.32
New York, N.Y.	48.93
8-CITY AVERAGE	**37.50**

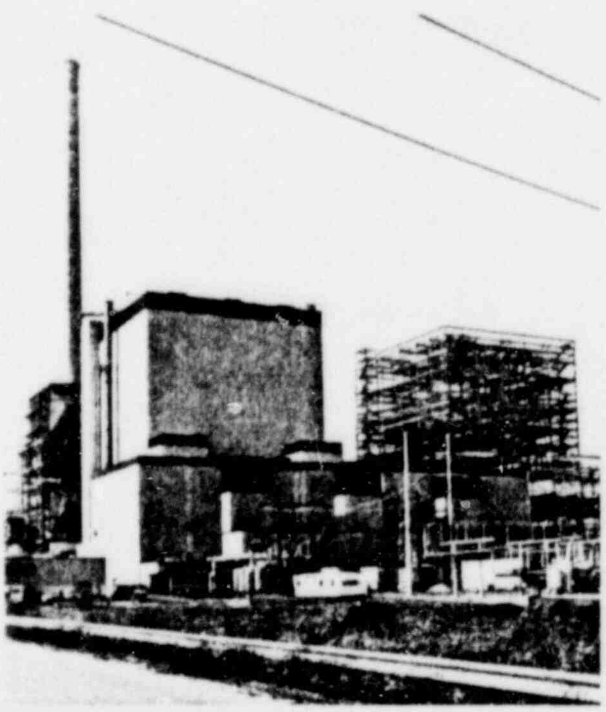
Electric Sales

Unit sales of electricity rose for the fourth consecutive year following the 1974-1975 interruption of the sustained long-term growth pattern. However, 1979's increased electric consumption was concentrated largely in the industrial customer classification, where high-level business activity produced a 7.2% gain. Commercial and residential usage remained relatively static, each increasing 1.1%. Growth in these categories was slowed both by appreciably cooler summer weather and by customer conservation efforts.

Our current long-range forecast indicates an average annual rate of growth of about 3.5% in electric peak loads and 4% in total electric sales for the period 1980 through 1989.

Electric househeating continues its sharp rise in popularity. Electric heat, principally in the cost-competitive form of heat pumps, was installed in 77% of all homes newly built in Central Maryland during 1979.





BRANDON SHORES, the 1,240,000-kilowatt power plant under construction by the Company on the Patapsco River in Anne Arundel County, now is being equipped to use coal rather than oil as its primary fuel. Unit No. 1, at left, has been rescheduled for commercial operation in 1984, Unit No. 2 in 1988.

Calvert Cliffs Performance

Another year of outstanding operating efficiency and fuel economy was achieved by the Calvert Cliffs Nuclear Power Plant in 1979.

The plant's nuclear units, totaling 1,635,000 kilowatts of generating capacity, produced 54% of our customers' total electric requirements for the year. The fuel-cost savings thus realized—and passed along to BG&E customers by means of lower fuel charges in their monthly electric bills—totaled $260 million in 1979 alone.

The fuel savings which have been applied to the direct benefit of Central Maryland electric consumers since the first Calvert Cliffs unit went into commercial operation in 1975 now exceed $800 million.

The extraordinary fact is that in less than five

ELECTRIC HEAT now is the choice for over three-fourths of all new homes built in the Company's service territory. The two 1979 housing developments pictured here utilize electric heat pumps.

years' service Calvert Cliffs has exceeded its initial construction cost with the savings in fuel costs passed on to our electric customers.

Brandon Shores Power Plant

Due to lower projections of electric load growth for the years 1980-1989, the construction schedule for the Company's Brandon Shores Power Plant has been revised. The first of two 620,000-kilowatt generating units, previously planned for completion in 1982, has been rescheduled for commercial operation in 1984, and completion of the second unit is now targeted for 1988 instead of 1984. Both units will be constructed to burn coal as the primary fuel source but will have the capability to burn oil.

Conversion of the Brandon Shores units from oil to coal is a major part of the Company's plans to comply with President Carter's 1979 energy proposal requiring electric utilities to reduce their use of oil for electric generation 50% by 1990. An additional $253 million is the projected cost to install coal-handling and coal-burning equipment at Brandon Shores, and the total cost of the plant is now estimated to be about $1.1 billion.

Action taken under the provisions of the Power Plant and Industrial Fuel Use Act of 1978 by the Economic Regulatory Administration (ERA) of the U.S. Department of Energy in October, 1979 should facilitate the economic use of coal by the Company in Brandon Shores Units No. 1 and No. 2. This Federal action may permit the Company to meet the air quality requirements for such facilities by burning low-sulfur coal. If the purchase of flue-gas desulfurization equipment, commonly referred to as "scrubbers," is required to meet air quality regulations, the cost of the plant will increase by approximately $300 million.

Reconversion to Coal

As a further means of reducing our dependence on imported foreign oil, we petitioned the Maryland Department of Health and Mental Hygiene in May, 1979 for permission to burn higher-sulfur fuel in the generating units of the Company's 400,000-kilowatt Charles P. Crane Power Plant in eastern Baltimore County. The granting of this request, and subsequent approval by the Environmental Protection Agency, will enable us to reconvert this plant from oil to coal of the composition required for successful use in Crane's cyclone furnaces, and to do so without exceeding any of the requirements—including sulfur-emission standards—imposed by the Federal Clean Air Act.

When the necessary authorization is received, the Company is prepared to enter into long-term coal contracts and to place orders for the new particulate controls and other equipment needed to accomplish the proposed conversion. Several years will be required for manufacture and installation of this equipment, involving an estimated cost of $55 million. Prompt regulatory approval will make it possible, however, for Crane Units No. 1 and No. 2 to resume burning coal in 1983.

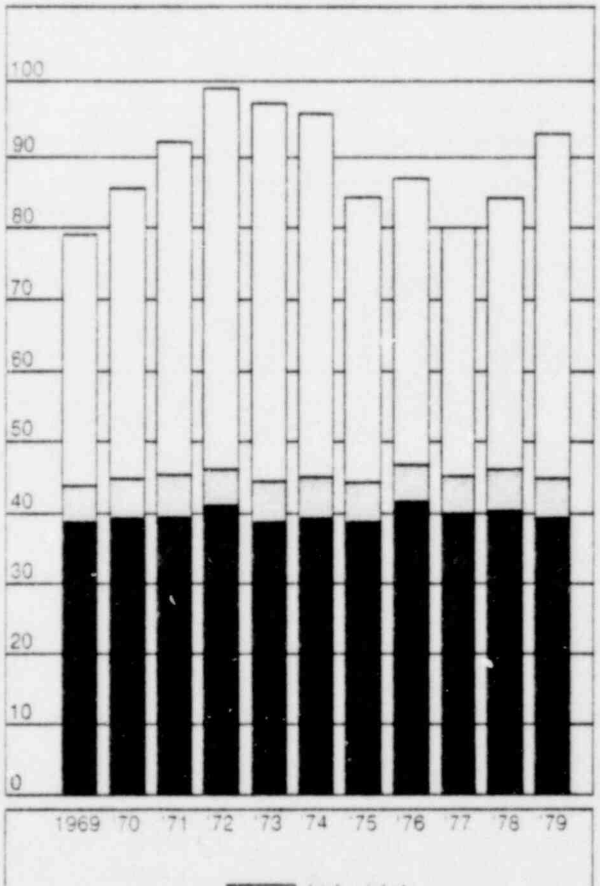
Another petition from the Company to conduct a series of tests in 1980 at Crane Station has been approved by the State Department of Health and Mental Hygiene and is under review by the Environmental Protection Agency. The tests involve the burning of coal and mixtures of coal with processed trash. If these tests establish that proper combustion can be achieved without damaging the furnace or fuel handling equipment, we have indicated a willingness to burn processed trash on a continuing basis, thus enabling Baltimore County to avoid construction of a multi-million-dollar plant intended to convert its refuse into electricity.

Gas Sales

Unit sales of gas rose 10.6% in 1979, considerably above the previous year's 5.5% gain. The 1979 increase resulted almost entirely from improved availability of pipeline supply which enabled greater sales to large businesses, particularly those served under interruptible-service contracts. Overall, industrial consumption for the year went up 26.9%, while usage in the residential and commercial customer categories—tempered by relatively moderate winter temperatures and by energy-conservation practices—decreased 3.2% and 1.8%, respectively.

Pipeline Curtailments Removed

The Company's pipeline supplier, Columbia Gas Transmission Corporation, totally removed as of

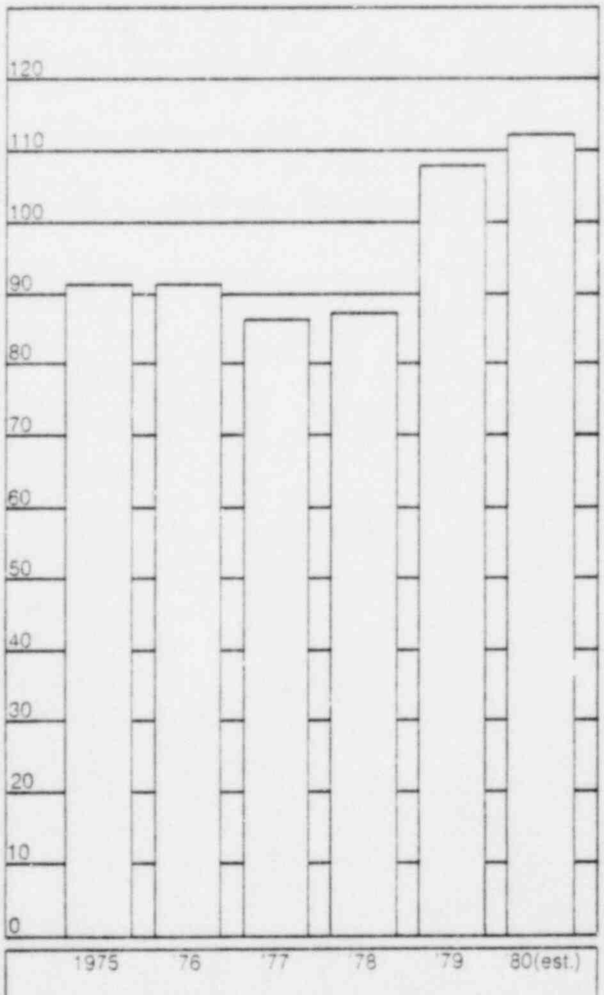


Sales of Gas
(Millions of Dekatherms)

April, 1979 the delivery curtailments which had been imposed since the winter of 1972-1973, ranging as high as 21% in recent heating seasons.

This action produced an immediate increase of 13% in pipeline supplies available to our service territory during the last three quarters of 1979. It was accompanied, moreover, by assurances that Columbia anticipates no difficulty in meeting all of its contract commitments to the Company for at least the next decade.

The vastly improved outlook results from new domestic gas supplies developed in response to the incentives provided by the Natural Gas Policy Act of 1978, coupled with the continued availability of imported and synthetic gases introduced in recent years.



Available Gas Supply
(Millions of Dekatherms)

Higher gas prices inevitably accompany the new adequacy of supply. To offset the increase in its own costs, Columbia raised the price to the Company 6.5¢ per therm, effective September 1, 1979. This 45% increase in the Company's unit cost of pipeline deliveries is being passed on to gas customers through the Purchased Gas Adjustment clause of the Company's service tariff. However, the cost of gas remains substantially below that of oil—the most common alternative heating fuel in existing homes.

End of New-Customer Moratorium

The long-term expansion of pipeline supplies enabled the Company to request Public Service Commission approval to terminate the moratorium on acceptance of new gas customers which had been imposed in the summer of 1974 and had been relaxed somewhat in August, 1978. The Commission granted this request as of May 4, 1979.

Under the Order, new customers are required to pay the full cost of installing new gas mains where such facilities are needed to complete the gas connections. Service-line extensions of up to 50 feet are installed by the Company at its expense.

Nonessential gas uses, such as for decorative outdoor lighting or fueling swimming-pool heaters, continue to be prohibited. The lighting prohibition is made all-inclusive by a Federal energy-conservation law which requires that nonexempt outdoor lights using natural gas be disconnected at business establishments by November 5, 1979 and at residences no later than January 1, 1982.

ALL IN A DAY'S WORK

BG&E's basic responsibility is to keep adequate supplies of electricity and gas flowing to customers without interruption, day and night, year in and year out. Under all but the most exceptional of circumstances, the talented and dedicated team of BG&E employees carry out that assignment so well that their efforts go almost unnoticed by Central Marylanders, who have come to take it for granted that the energy they need will be instantly available whenever they push a button or turn a switch.

A "routine" job? Perhaps—until a major storm lashes our service territory. When other businesses suspend operations, gas and electricity become still more vital to local residents, so our work must go on. It is then that employees face the ultimate test of determination in getting to the job and tireless devotion to duty once there. The men and women of BG&E always have responded to the challenge magnificently.

Two weather-generated 1979 service crises illustrate the point.

Over the three-day Washington's Birthday "holiday weekend" of February 17-19, Central Maryland was struck by a 24-inch snowstorm. Drifts five and six feet high rendered streets and highways impassable in many places, shut down area airports, and immobilized trains as well as buses. Well into the following week, local schools and businesses were closed.

WHEN CENTRAL MARYLAND is immobilized, whether by blizzard or hurricane, Company employees do whatever it takes to get to work, and stay on the job for as long as they are needed to restore service to every disrupted home or business.

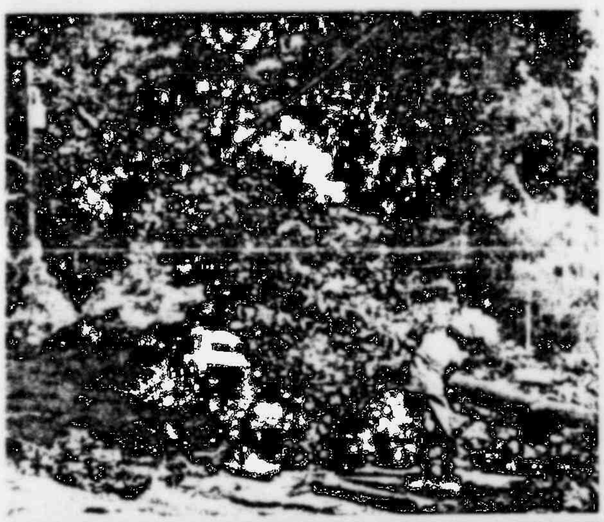
But BG&E remained adequately staffed throughout the epic "Blizzard of '79." Our operating employees, line and staff alike, managed somehow to get to work, many of them trudging miles over empty roads coated with snow and ice. And once on the job, they took again to the streets, answering thousands of calls for emergency assistance. As a result, BG&E customers experienced virtually no disruption of service.

On September 5 and 6, Tropical Storm David roared through our service area. Torrential rains and gale force winds inflicted $2 million worth of damage on the Company's electric system. In all, 4,516 wires were felled, 3,985 line fuses were short-circuited, 2,485 trees or limbs crashed onto our wires, 228 electric poles were sheared off or washed out, 132 transformers were rendered inoperative, and 118 main distribution feeders were knocked out. At the storm's height, some 175,000 electric customers—one in every five—were without electric service.

As always, employees turned out in force to meet this new challenge. For five days, emergency crews labored around the clock, in individual shifts of 12 to 18 hours and even longer, until electricity had been restored to the last home on Sunday morning, September 9.

Characteristically, the people of Central Maryland responded generously to this massive employee effort. Many letters of praise were received not only by the Company, but also by area newspapers. Typical was the tribute contained in one "letter-to-the editor": "Regarding Tropical Storm David and unsung heroes, I would like to commend employees of the Gas and Electric Company for their efforts on the public's behalf. All too often we take for granted, and in fact demand, that we have electric power at all times and in all conditions. When once restored, few question or think about what sacrifices were made in the process . . ."

Management is deeply grateful to the fine men and women who today sustain the proud BG&E tradition of dedicated service to our customers.



CHANGES IN OFFICERS AND DIRECTORS

Officers

On January 1, 1980, C. Edward Utermohle, Jr. retired as Chairman of the Board and Chief Executive Officer of the Company. Mr. Utermohle will remain on the Board of Directors and serve as Chairman of the Executive Committee.

Directors of the Company elected the following Officers to new positions, effective as of January 1, 1980:

BERNARD C. TRUESCHLER, Chairman of the Board and Chief Executive Officer. Mr. Trueschler had formerly served as President and Chief Operating Officer.

GEORGE V. McGOWAN, President and Chief Operating Officer. Mr. McGowan's former position was Vice President, Management and Staff Services.

NORMAN J. BOWMAKER, Vice President, Management and Staff Services. Mr. Bowmaker previously served as Vice President, Electric Interconnection.

JOHN W. GORE, JR., Vice President, Electric Interconnection and Operations. Mr. Gore's prior position was Vice President, Engineering and Construction.

CHRIS H. POINDEXTER, Vice President, Engineering and Construction. Mr. Poindexter had been serving as Treasurer and Assistant Secretary.

D. PIERRE G. CAMERON, JR., Treasurer and Assistant Secretary. Mr. Cameron formerly was Associate General Counsel for corporate matters.

Directors

George V. McGowan also was elected to the Board of Directors, effective January 1, 1980.

After more than 9 years of dedicated service, Martin D. Munger resigned from the Board, as of October 1, 1979, as a means of reducing his participation in business.

COMPANY OWNERSHIP

Common Stock

At year-end 1979, there were 89,698 holders of the Company's common stock.

Maryland citizens account for 48% of the total. The great majority of these 43,542 investors are customers as well as shareowners, 29% living in the City of Baltimore and 65% elsewhere in Central Maryland. All 23 of the State's counties are represented, however.

The remaining 52% of our common stockholders include residents of each of the 49 other states and the District of Columbia, plus Puerto Rico and the Virgin Islands. Shareowners also live in 18 foreign nations and dependencies.

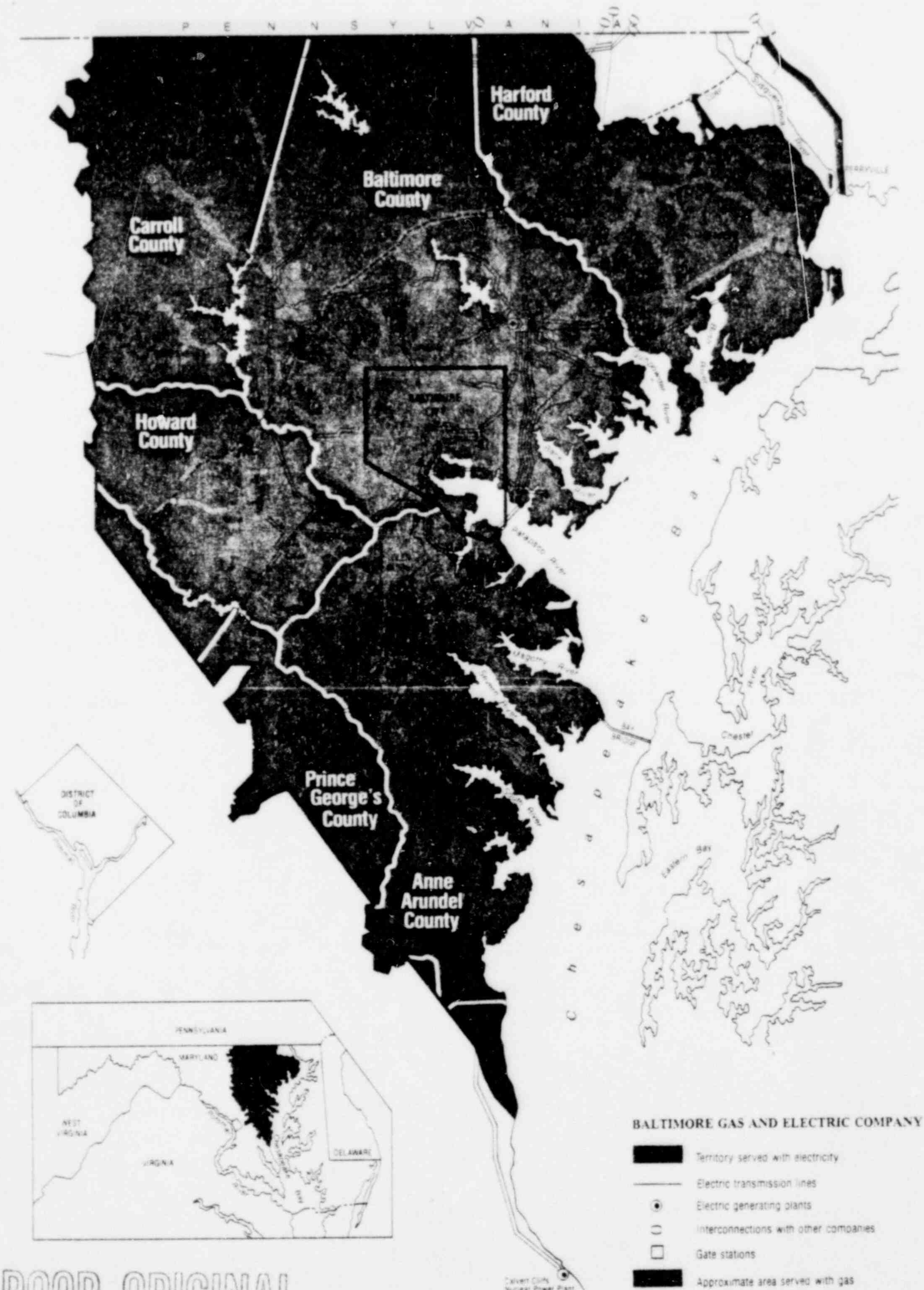
Individuals constitute 87% of the total. Of these, 30,683 are women and 20,092 are men, with another 27,709 accounts held jointly by men and women.

The other 13% of our common stockholders are institutions representing the savings and financial interests of many additional thousands of people, in Maryland and elsewhere: banks, insurance companies, pension funds, investment trusts, labor unions, corporations, hospitals, orphanages, schools and colleges, libraries, charitable foundations, religious organizations, security dealers, and fraternal societies.

The wide distribution of Company ownership is further attested by the fact that 54% of our common stockholders own 100 shares or less. Only 7% own more than 500 shares, and no stockholder of record owns as much as 3% of all shares outstanding.

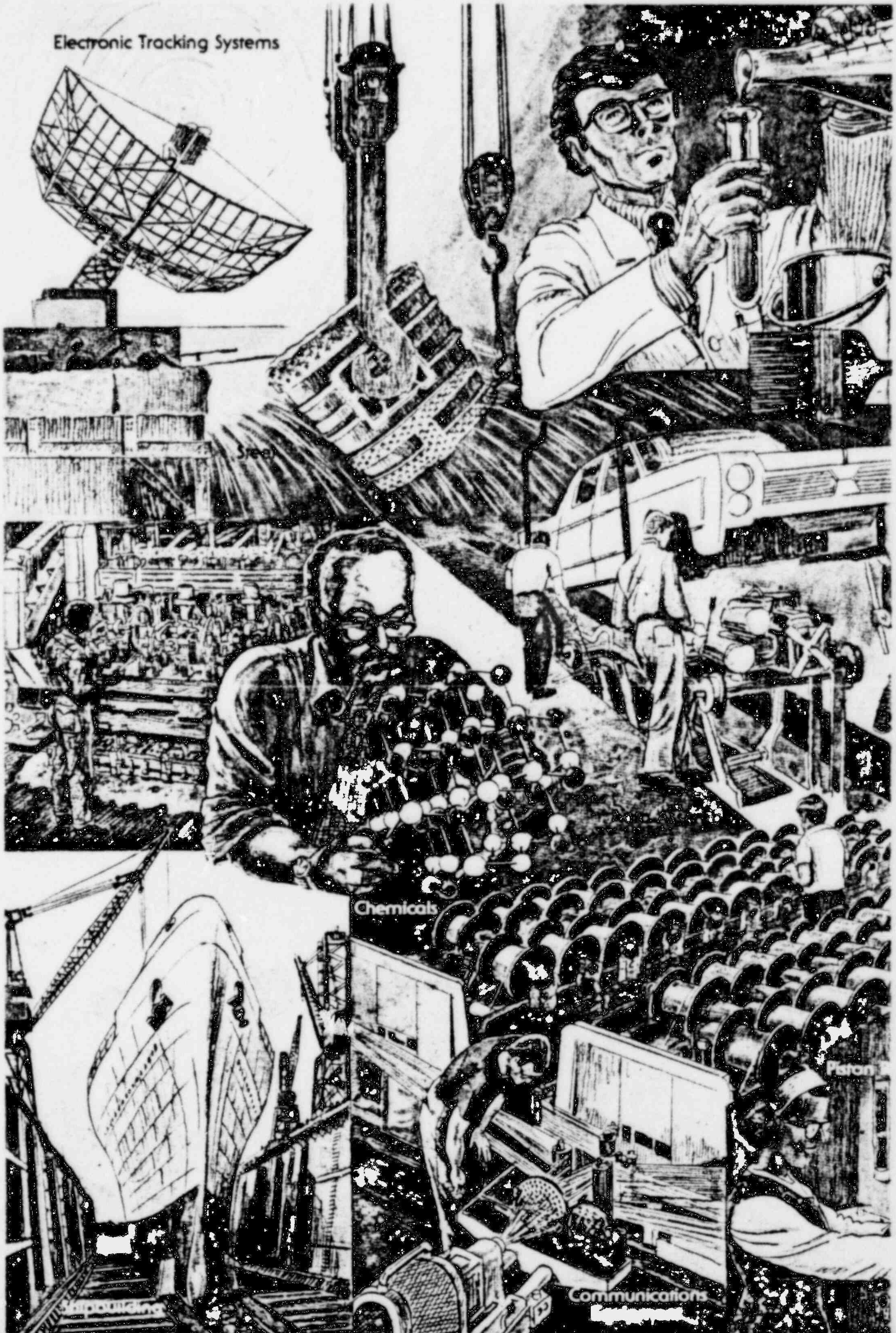
Preferred and Preference Stock

There were 4,845 holders of the Company's preferred stock at the close of 1979. Owners of preference stock numbered 13,180.



POOR ORIGINAL

Central Maryland's Diversity of Industry



THE BG&E AREA

Balance, Growth & Economic Stability

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

Central Maryland contains one of the largest steel mills in the Western Hemisphere, one of America's busiest seaports, and the national headquarters of the Social Security Administration. But, as illustrated here, it also includes an extraordinary number and variety of diversified manufacturing concerns. These companies—many of them acknowledged world leaders in their fields—represent all but one of the 84 principal U.S. Standard Industrial Classification categories.

At year-end 1979, the Company served 823,690 electric customers and 507,456 gas customers. Total revenue amounted to $1,014,408,000, exceeding the billion-dollar level for the first time. Our 10 largest electric customers accounted for only 11% of total 1979 electric revenues, and the 10 largest gas customers provided no more than 17% of total 1979 gas revenues. The 20 largest customers overall were the source of 15% of corporate revenues for the year.

The diversity inherent in this broad revenue base is reinforced, moreover, by the area's exceptional economic balance of industry . . . commerce . . . educational, medical, and other service facilities . . . and governmental installations. This balance is reflected in the customer distribution of 1979 unit sales: on the electric side, 33% residential, 18% commercial, 49% industrial; for gas, 42% residential, 6% commercial, 52% industrial.

The economic stability of Central Maryland's continued growth is apparent also from the fact that 69% of 1979 electric revenues and 60% of 1979 gas revenues were derived from sales outside the City of Baltimore, in a service territory that extends into nine counties.

The total area served approximates, for electricity, 2,300 square miles, with some 2,367,000 residents; for gas, 600 square miles, with a population estimated at 1,857,000. Steam is produced for sale to 700 customers located in downtown Baltimore.

Balance likewise is a dominant characteristic of the Company's electric generating capability, presently comprising 5,010,000 kilowatts of installed capacity and firm purchases. Of this total, 33% (supplying 54% of 1979 customer requirements) is nuclear; 33% is residual fuel oil; 17% is coal; 11% is light distillate oil; 3% is gas-fueled; and 3% is hydroelectric. The Company owns nine operating Central Maryland power plants, with additional generating capacity provided by shared ownership of two mine-mouth plants and a small hydroelectric station, all in Pennsylvania, plus membership in the Pennsylvania-New Jersey-Maryland Interconnection, which affords access to pooled capacity on advantageous economic terms.

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

Currently under construction is 1,240,000 kilowatts of additional electric generating capacity, required to meet the future needs of a service territory whose prime geographic asset is its location within one day's freight-delivery range of 44% of the U.S. industrial market and 37% of the Nation's total population. Superior transportation facilities—rail, air, highway, and water—fuel the sustained growth of the Central Maryland business community. A steadily increasing population, attracted by desirable living conditions coupled with exceptional cultural and recreational advantages, assures an abundant manpower supply, especially noteworthy in the professional and skilled categories, availability of which is a crucial factor in industrial expansion.

FINANCIAL AND OPERATING STATISTICS

BALTIMORE GAS AND ELECTRIC COMPANY

	1979	1978	1977	1976	1975	1969
			(Dollar Amounts in Thousands)			
ELECTRIC OPERATING STATISTICS						
Revenues						
Residential	**$ 274,079**	$ 270,536	$ 220,904	$ 205,188	$ 198,303	$ 79,259
Commercial	**174,157**	171,363	140,323	132,600	127,840	59,527
Industrial	**263,319**	251,966	194,811	191,920	187,550	67,789
Other	**3,401**	3,308	2,520	2,348	2,313	2,231
Total	**$ 714,956**	$ 697,173	$ 558,558	$ 532,056	$ 516,006	$ 208,806
Sales — MWH						
Residential	**5,496,737**	5,434,958	5,231,317	4,887,793	4,663,902	3,284,961
Commercial	**3,052,081**	3,019,633	2,910,532	2,806,247	2,717,730	2,201,191
Industrial	**8,274,422**	7,715,633	7,319,862	7,064,166	6,475,795	5,679,027
Total	**16,823,240**	16,170,224	15,461,711	14,758,206	13,857,427	11,165,179
Customers						
Residential	**747,699**	734,186	722,080	708,135	696,827	605,560
Commercial	**74,575**	74,626	73,345	72,080	71,197	67,025
Industrial	**1,416**	1,355	1,306	1,297	1,250	945
Total	**823,690**	810,167	796,731	781,512	769,274	673,530
Average use per Residential Customer — KWH	**7,413**	7,465	7,320	6,965	6,744	5,488
GAS OPERATING STATISTICS						
Revenues						
Residential	**$ 146,598**	$ 146,675	$ 124,357	$ 105,900	$ 87,676	$ 54,563
Commercial	**21,097**	20,315	17,184	14,780	12,307	7,796
Industrial	**54,767**	54,315	44,497	38,405	31,702	15,743
Interruptible Services — Industrial and Other	**61,816**	40,569	31,502	25,817	22,189	8,350
Other	**2,796**	2,712	4,119	(588)	1,548	1,577
Total	**$ 287,074**	$ 264,586	$ 221,659	$ 184,314	$ 155,422	$ 88,029
Sales — DTH						
Residential	**39,282,741**	40,576,498	39,777,652	41,197,620	38,886,991	38,049,851
Commercial	**5,320,010**	5,417,140	5,335,081	5,514,194	5,202,085	5,070,168
Industrial	**17,671,851**	18,055,404	17,406,677	18,692,073	17,737,079	15,854,665
Interruptible Services — Industrial and Other	**31,175,052**	20,439,595	17,543,597	21,392,706	21,963,199	19,952,814
Total	**93,449,654**	84,488,637	80,063,007	86,796,593	83,789,354	78,927,498
Customers						
Residential	**473,761**	472,414	474,361	476,867	477,413	433,501
Commercial	**28,569**	28,790	29,049	29,468	29,604	28,125
Industrial	**4,941**	4,969	5,012	5,026	5,058	3,587
Interruptible Services — Industrial and Other	**185**	184	188	189	190	94
Total	**507,456**	506,357	508,610	511,550	512,265	465,307
Average use per Residential Customer — DTH	**82.9**	85.9	83.8	86.5	81.6	88.7
FINANCIAL AND OTHER STATISTICS						
Long-Term Debt	**$ 1,250,132**	$ 1,207,896	$ 1,145,656	$ 1,069,527	$ 1,015,314	$ 411,104
Preferred, Preference, and Convertible Preference Stocks	**292,753**	245,484	247,518	252,573	260,958	89,209
Common Stock, Premium, Installments, and Retained Earnings	**953,161**	906,421	861,463	790,716	719,499	340,248
Total Capitalization	**$ 2,496,046**	$ 2,359,801	$ 2,254,637	$ 2,112,816	$ 1,995,771	$ 840,561
Shares of Common Stock at end of year (Thousands)	**31,692**	31,039	30,658	28,839	27,041	16,561
Book Value Per Share of Common Stock at end of year	**$30.08**	$29.20	$28.10	$27.42	$26.61	$20.49
Common Stockholders at end of year	**89,698**	89,249	88,795	87,106	87,232	51,470
Expenditures for Additions to Plant	**$ 160,917**	$ 172,402	$ 182,205	$ 165,936	$ 143,226	$ 140,398
Total Utility Plant	**$ 2,974,653**	$ 2,831,219	$ 2,669,927	$ 2,499,035	$ 2,345,246	$ 1,067,056
Accumulated Provision for Depreciation	**$ 608,293**	$ 541,618	$ 470,969	$ 410,836	$ 361,505	$ 215,275
Employees at December 31	**8,485**	8,459	8,306	8,087	7,822	7,395

BALTIMORE GAS AND ELECTRIC COMPANY

	1979	1978	1977	1976	1975	1969
			(In Thousands of Dollars)			
Operating Revenues:						
Electric	**$ 714,956**	$697,173	$558,558	$532,056	$516,006	$208,806
Gas	**287,074**	264,586	221,659	184,314	155,422	88,029
Steam	**12,378**	12,727	12,305	9,447	8,614	2,981
Total Operating Revenues	**$1,014,408**	$974,486	$792,522	$725,817	$680,042	$299,816
Operating Expenses:						
Purchased Fuel and Energy	**$ 338,464**	$321,266	$245,469	$257,645	$270,670	$ 67,479
Operations	**182,055**	161,981	140,774	124,896	107,542	59,108
Maintenance	**64,913**	55,083	49,892	35,587	33,386	17,951
Depreciation	**80,338**	78,063	68,449	59,448	51,628	26,136
Income Taxes:						
Current	**8,987**	43,619	19,649	(1,603)	14,381	34,569
Deferred	**44,149**	15,818	10,024	—	—	—
Investment Tax Credit Adjustments	**16,593**	17,882	13,613	27,120	3,812	1,938
Other Taxes	**85,455**	83,330	72,427	62,831	57,225	34,902
Total Operating Expenses	**$ 820,954**	$777,042	$620,297	$565,924	$538,644	$242,083
Operating Income	**$ 193,454**	$197,444	$172,225	$159,893	$141,398	$ 57,733
Allowance for Other Funds Used During Construction	**9,545**	4,006	2,553	9,174	10,471	2,972
Net Other Income and Deductions	**1,698**	739	2,228	624	732	587
Income before Interest Charges	**$ 204,697**	$202,189	$177,006	$169,691	$152,601	$ 61,292
Interest Charges	**86,159**	83,228	76,230	70,645	67,895	17,425
Allowance for Borrowed Funds Used During Construction — Credit	**7,778**	3,580	2,318	7,771	8,657	2,032
Net Income	**$ 126,316**	$122,541	$103,094	$106,817	$ 93,363	$ 45,899
Dividends — Preferred and Preference Stock	**19,784**	18,177	18,381	18,771	19,148	4,851
Balance Available for Common Stock	**$ 106,532**	$104,364	$ 84,713	$ 88,046	$ 74,215	$ 41,048
Dividends — Common Stock	**75,373**	69,467	63,743	58,985	52,985	26,869
Earnings Reinvested in the Business	**$ 31,159**	$ 34,897	$ 20,970	$ 29,061	$ 21,230	$ 14,179
Average Shares of Common Stock Outstanding (Thousands)	**31,356**	30,847	29,666	28,231	27,033	15,808
Earnings Per Average Share of Common Stock	**$3.40**	$3.38	$2.86	$3.12	$2.75	$2.60
Dividends Declared Per Share of Common Stock	**$2.40**	$2.25	$2.14	$2.08	$1.96	$1.70

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

The Letter to Stockholders in this report provides an appraisal of the major factors currently affecting the Company's business. Year-to-year variations in individual categories of the Summary of Operations are discussed below. References are made to the Notes to the Financial Statements.

Earnings

The balance available for common stock increased $2,168,000 in 1979 and $19,651,000 in 1978.

Earnings per share of common stock, on the increasing average number of shares outstanding in each period, increased 2¢ in 1979 and 52¢ in 1978.

Higher service rates combined with increases in sales and, in 1979, the higher Allowance for Funds Used During Construction were the primary reasons for the increases in earnings.

Electric Sales (Mwh) and Operating Revenues

Electric sales increased 4.0% in 1979 and 4.6% in 1978. Growth in the residential category was 1.1% in 1979 and 3.9% in 1978 — principally due to the installation of electrically heated dwelling units partially offset by cooler weather during the air-conditioning season, and also in 1979, by warmer weather during the heating season. Sales to commercial customers increased 1.1% in 1979 and 3.7% in 1978. Industrial sales increased 7.2% in 1979 and 5.4% in 1978 as a result of higher production levels by industrial customers.

Electric operating revenues increased each year as follows:

	Increase or (Decrease) From Prior Year	
	1979	1978
	(In Millions of Dollars)	
Attributable to:		
Base Rate Adjustments	**$ 11.6**	$ 55.2
Fuel Rate Adjustments	**(8.4)**	64.6
Maryland Electric Environmental Surcharge	**(0.9)**	3.0
Sales Volumes	**15.5**	15.8
Net Increases	**$ 17.8**	$138.6

Based on new regulations established by the Public Service Commission of Maryland, the Company implemented in October, 1978 a new Fuel Rate clause to recover the cost of fuel used in generating electricity. This system is predicated upon the latest twelve-month generation mix and the latest three-month average cost for each fuel type. The Fuel Rate will not change unless the calculated Fuel Rate is more than 5% above or below the Fuel Rate then in effect. To the extent that actual accumulated fuel costs are not recovered through the Fuel Rate charge, they are deferred as an operating expense and recovered, if the Commission finds the costs were justified, in a base rate proceeding. This method differs from that adopted in December, 1976, which provided for the recovery of the full cost of electric fuel based on estimates for the month in which such costs were charged to operations.

In 1978, the Company modified its accounting to treat the Maryland Electric Environmental Surcharge as a tax on the Company instead of a tax passed directly on to customers. As a result, electric operating revenues include revenues collected for this tax.

Gas Sales (Dth) and Operating Revenues

Gas sales increased 10.6% in 1979 and 5.5% in 1978, primarily due to higher usage by large commercial and industrial customers, principally interruptible customers. The rise in such usage was precipitated in part by an increased availability of natural gas (see sections entitled "Pipeline Curtailments Removed" and "End of Customer Moratorium" on pages 12 and 13). The 1979 increase was partially offset by decreased usage on the part of residential and small commercial customers, resulting from conservation and warmer weather during the heating season.

Gas operating revenues increased each year as follows:

	Increase or (Decrease) From Prior Year	
	1979	1978
	(In Millions of Dollars)	
Attributable to:		
Base Rate Adjustments	**$ (1.0)**	$15.0
Gas Cost Adjustments	**19.8**	26.0
Sales Volumes	**3.7**	1.9
Net Increases	**$ 22.5**	$42.9

Operations and Maintenance

Total purchased fuel and energy expense increased $17,198,000 in 1979 and $75,797,000 in 1978, as a result of higher fuel and natural gas prices, coupled with increased sales. The 1979 increase was mitigated by the deferral of fuel costs incurred but unrecovered through the electric fuel clause during the period (see Note 5).

Increases in operations and maintenance expenses reflect the higher cost of payroll, employee benefits and materials. In 1979, such expenses also include increases due to higher costs at the Calvert Cliffs Nuclear Power Plant, repair work related to major storms and higher uncollectible accounts. In 1978, the increases also reflected greater scheduled maintenance at various fossil-fuel generating plants and additional costs resulting from the initial refueling and maintenance overhaul of Calvert Cliffs Unit No. 2.

Deferred Debits in the Balance Sheet as of December 31, 1979, include $28,793,000 for deferred fuel rate costs, $9,934,000 for spent nuclear fuel storage costs, and $7,275,000 for maintenance expenditures at the Calvert Cliffs Nuclear Power Plant (see Notes 3, 5 and 6). In its pending rate case, the Company is requesting additional revenue to recover these deferred expenses.

Depreciation

The increase in depreciation charges results from additional facilities that have been placed in service and, effective December 1, 1977, an increase from 3% to 3.26% in the annual accrual rate for electric property other than nuclear, offset in part by a decrease from 3.6% to 3.45% in the annual accrual rate for electric nuclear property.

Taxes

Federal Income Taxes — Current decreased in 1979 due to a lower level of taxable income and the reduction in tax rate from 48% to 46%, which became effective January 1, 1979, partially offset by lower investment tax credits. The increase in 1978 was attributable to the higher level of taxable income, partially offset by the adoption in 1978 of the percentage repair allowance provisions and an increase in the investment tax credit (see Note 3).

Federal Income Taxes — Deferred are the result of changing in 1977 from flow-through to normalization accounting for the tax benefits arising from liberalized depreciation on property additions in 1976 and subsequent years and for certain other timing differences between tax and book income. The 1979 amount also reflects tax deferrals applicable to maintenance expenditures at the Calvert Cliffs Nuclear Power Plant and fuel expenses under the Company's fuel rate clause. In 1978, the election of the percentage repair allowance contributed to the increase. This was offset in part by deferrals associated with a Pennsylvania Gross Receipts Tax on the sale of electricity to out-of-state customers, which has been repealed on a prospective basis effective January 1, 1980 (see Note 3).

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

Taxes other than income taxes increased $2,125,000 in 1979 and $10,903,000 in 1978. The 1979 increase was primarily attributable to a higher taxable wage base for social security taxes. The increase in 1978 reflects the first full year of property and capital stock taxes on Calvert Cliffs Unit No. 2 and increased gross receipts taxes as a result of higher revenues. Also, in 1978, the Company commenced recording the Maryland Environmental Surcharge as a tax on the Company instead of a tax passed on directly to customers (see Note 7).

Other Income and Income Deductions

The $9,737,000 increase in the Allowance for Funds Used During Construction (AFC) in 1979 is attributable to continued construction at the Brandon Shores Power Plant and to the modification in accounting treatment, effective mid-April, 1979, resulting from computing AFC on the total amount of the Company's investment at that plant instead of on one-half of such plant investment. The $2,715,000 increase in the allowance for 1978 is attributable to continued construction at the Brandon Shores Plant and to an increase in the AFC rate from 7.67% to 8.13% effective January 1, 1978 (see Note 4).

Interest charges increased due to sales of additional securities. In July, 1979, 500,000 shares of Redeemable Preference Stock were issued, resulting in an increase in preferred and preference dividends in 1979. No additional shares of preference stock were sold in 1978, and the number of preference shares outstanding decreased due to conversions, producing a decline in preference dividends in that year.

COMMON STOCK DIVIDENDS AND PRICE RANGES

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

	1979			1978		
	Dividend	**Price**		Dividend	Price	
	Paid	**High**	**Low**	Paid	High	Low
First Quarter	**$.57**	**$26**	**$24¼**	$.54	$26¾	$24⅞
Second Quarter	**.57**	**25⅞**	**21½**	.54	26	24½
Third Quarter	**.61**	**25¼**	**22¾**	.57	27⅞	25½
Fourth Quarter	**.61**	**24¼**	**21⅛**	.57	26⅞	23⅞

STATEMENTS OF INCOME

BALTIMORE GAS AND ELECTRIC COMPANY	1979 (In Thousands of Dollars)	1978	Per Cent Increase (Decrease)
OPERATING REVENUES			
Electric	$ 714,956	$697,173	2.6
Gas	287,074	264,586	8.5
Steam	12,378	12,727	(2.7)
Total Operating Revenues	$1,014,408	$974,486	4.1
OPERATING EXPENSES			
Purchased Fuel and Energy	$ 338,464	$321,266	5.4
Operations	182,055	161,981	12.4
Maintenance	64,913	55,083	17.8
Depreciation	80,338	78,063	2.9
Income Taxes — Note 3	69,729	77,319	(9.8)
Other Taxes	85,455	83,330	2.6
Total Operating Expenses	$ 820,954	$777,042	5.7
OPERATING INCOME	$ 193,454	$197,444	(2.0)
ALLOWANCE FOR OTHER FUNDS USED DURING CONSTRUCTION — Note 4	9,545	4,006	138.3
NET OTHER INCOME AND DEDUCTIONS	1,698	739	129.8
INCOME BEFORE INTEREST CHARGES	$ 204,697	$202,189	1.2
INTEREST CHARGES	86,159	83,228	3.5
ALLOWANCE FOR BORROWED FUNDS USED DURING CONSTRUCTION — CREDIT — Note 4	7,778	3,580	117.3
NET INCOME	$ 126,316	$122,541	3.1
DIVIDENDS — PREFERRED AND PREFERENCE STOCK	19,784	18,177	8.8
BALANCE AVAILABLE FOR COMMON STOCK	$ 106,532	$104,364	2.1
EARNINGS PER SHARE OF COMMON STOCK (Based on average shares outstanding)	$3.40	$3.38	.6

STATEMENTS OF RETAINED EARNINGS

BALTIMORE GAS AND ELECTRIC COMPANY	1979 (In Thousands of Dollars)	1978
RETAINED EARNINGS BEGINNING OF YEAR	$304,261	$269,414
NET INCOME FOR THE YEAR FROM STATEMENT OF INCOME	126,316	122,541
	$430,577	$391,955
CASH DIVIDENDS DECLARED		
Preferred Stock (Cumulative)		
Series B 4½ %	$ 1,003	$ 1,003
Series C 4%	276	276
Series D 5.4%	1,620	1,620
Preference Stock (Cumulative)		
Convertible 6½ % Series	635	784
8.75%, 1970 Series	2,625	2,625
7.88%, 1971 Series	3,940	3,940
7.75%, 1972 Series	3,100	3,100
7.78%, 1973 Series	1,556	1,556
9.35%, 1974 Series	3,273	3,273
8.375%, 1979 Series	1,756	—
Common Stock (at the annual rate of $2.16 per share through April 1, 1978, $2.28 per share through April 1, 1979 and $2.44 per share thereafter)	75,373	69,467
OTHER CHARGES — Expenses in connection with issuance of stock	284	50
Total Charges	$ 95,441	$ 87,694
RETAINED EARNINGS END OF YEAR	$335,136	$304,261

See accompanying notes and schedules — pages 27 through 35.

BALTIMORE GAS AND ELECTRIC COMPANY

	December 31, 1979	December 31, 1978
	(In Thousands of Dollars)	
ASSETS		
UTILITY PLANT		
Plant in Service		
Electric — at original cost	$2,165,107	$2,112,368
Gas — at original cost	310,127	300,379
Steam — at cost	18,753	17,104
Common — at original cost	92,042	90,706
Total Plant in Service	$2,586,029	$2,520,557
Construction Work in Progress — at cost	384,885	306,923
Plant Held for Future Use — at cost	3,739	3,739
Total Utility Plant	$2,974,653	$2,831,219
Less Accumulated Provision for Depreciation	608,293	541,618
Net Utility Plant	$2,366,360	$2,289,601
Nuclear Fuel — at amortized cost	148,626	114,462
	$2,514,986	$2,404,063
OTHER INVESTMENTS	$ 7,775	$ 7,582
CURRENT ASSETS		
Cash	$ 9,431	$ 6,102
Special Deposits and Working Funds	996	439
Accounts Receivable, less provision for uncollectibles	97,74[illegible]	105,143
Materials and Supplies — generally at average cost	122,938	103,476
Prepayments and Other	37,868	35,659
	$ 268,973	$ 250,819
DEFERRED DEBITS	$ 64,250	$ 11,290
TOTAL ASSETS	$2,855,984	$2,673,754
CAPITAL AND LIABILITIES		
COMMON STOCK AND RETAINED EARNINGS		
Common Stock — Schedule, page 27	$ 617,868	$ 602,003
Premium on Preferred Stock	157	157
Retained Earnings	335,136	304,261
	$ 953,161	$ 906,421
PREFERRED AND PREFERENCE STOCK NOT SUBJECT TO MANDATORY REDEMPTION		
Preferred Stock — Schedule, page 27	$ 59,185	$ 59,185
Preference Stock — Schedule, page 27	175,000	175,000
Convertible Preference Stock — Schedule, page 27	8,568	11,299
	$ 242,753	$ 245,484
REDEEMABLE PREFERENCE STOCK — Schedule, page 27	$ 50,000	$ —
LONG-TERM DEBT		
Mortgage Bonds — Schedule, page 28	$1,215,732	$1,172,496
Debentures — Schedule, page 28	34,400	35,400
Unamortized Discount and Premium	(3,864)	(3,053)
Long-Term Debt estimated to be retired within one year	(33,214)	(12,842)
	$1,213,054	$1,192,001
CURRENT LIABILITIES		
Accounts Payable	$ 76,802	$ 66,477
Taxes Accrued	21,951	45,186
Interest Accrued and Dividends Declared	56,951	53,232
Long-Term Debt estimated to be retired within one year	33,214	12,842
Other	29,053	25,895
	$ 217,971	$ 203,632
OTHER CREDITS		
Accumulated Deferred Investment Tax Credits	$ 103,941	$ 89,951
Deferred Income Taxes	69,991	25,842
Other	5,113	10,423
	$ 179,045	$ 126,216
TOTAL CAPITAL AND LIABILITIES	$2,855,984	$2,673,754

See accompanying notes and schedules — pages 27 through 35.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

BALTIMORE GAS AND ELECTRIC COMPANY

	1979	1978*
	(In Thousands of Dollars)	
SOURCE OF FUNDS		
Funds from Operations:		
Net Income	**$126,316**	$122,541
Depreciation and Amortization	**96,252**	87,144
Investment Tax Credit Adjustments	**13,989**	15,396
Deferred Income Taxes	**44,149**	15,818
Allowance for Other Funds Used During Construction	**(9,545)**	(4,006)
Subtotal	**$271,161**	$236,893
Funds from Outside Sources:		
Long-Term Debt	**53,789**	74,193
Common Stock	**15,796**	10,062
Preference Stock	**47,053**	(2,035)
Short-Term Debt (Net)	**—**	(18,750)
Other (Net)	**296**	414
Total	**$388,095**	$300,777
APPLICATION OF FUNDS		
Construction Expenditures	**$160,917**	$172,402
Allowance for Other Funds Used During Construction	**(9,545)**	(4,006)
Purchase of Nuclear Fuel Materials	**57,956**	57,253
Deferred Nuclear Maintenance	**7,275**	—
Common Stock Dividends	**75,373**	69,467
Preferred Stock Dividends	**2,899**	2,899
Preference Stock Dividends	**16,885**	15,278
Retirement of Long-Term Debt	**12,764**	12,760
Materials and Supplies — Principally Fuel Stock	**19,462**	(2,154)
Deferred Fuel Rate Costs	**37,197**	(4,578)
Other — Principally Net Change in Other Working Capital Items	**6,912**	(18,544)
Total	**$388,095**	$300,777

* Restated to conform with 1979 presentation.

See accompanying notes and schedules — pages 27 through 35.

AUDITORS' REPORT

Coopers & Lybrand

To the Stockholders of
Baltimore Gas and Electric Company

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

In our opinion, the financial statements referred to above (pages 24 through the footnotes to financial statements on page 35), present fairly the financial position of Baltimore Gas and Electric Company at December 31, 1979 and 1978, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers + Lybrand

Baltimore, Maryland
January 22 1980

SCHEDULES OF OUTSTANDING STOCKS

BALTIMORE GAS AND ELECTRIC COMPANY

	December 31, 1979	December 31, 1978
	(In Thousands of Dollars)	
COMMON STOCK — without par value — 45,000,000 shares authorized:		
31,692,176 and 31,039,302 shares, respectively, outstanding	**$617,868**	$602,003
(At the end of 1979, 296,073 shares were reserved for conversion of Convertible Preference Stock, 1,003,662 shares for the Investment Tax Credit Employee Stock Ownership Plan, and 198,163 shares for the Dividend Reinvestment and Stock Purchase Plan.)		
PREFERRED AND PREFERENCE STOCK NOT SUBJECT TO MANDATORY REDEMPTION		
Preferred Stock (Cumulative) — $100 par value — 1,000,000 shares authorized:		
Series B 4½% — 222,921 shares outstanding (Callable at $110 per share.)	**$ 22,292**	$ 22,292
Series C 4% — 68,928 shares outstanding (Callable at $105 per share.)	**6,893**	6,893
Series D 5.4% — 300,000 shares outstanding (Callable at $102.50 per share prior to April 1, 1982 and at lesser amounts thereafter.)	**30,000**	30,000
Total Preferred Stock	**$ 59,185**	$ 59,185
Preference Stock (Cumulative) — $100 par value — 3,000,000 shares authorized:		
Convertible, 6½% Series — 85,677 and 112,989 shares, respectively, outstanding (Callable at $100 per share; convertible into Common Stock of the Company at $28.98 per share.)	**$ 8,568**	$ 11,299
8.75%, 1970 Series — 300,000 shares outstanding (Callable at $110 per share prior to October 1, 1980 and at lesser amounts thereafter.)	**30,000**	30,000
7.88%, 1971 Series — 500,000 shares outstanding (Callable at $107 per share prior to October 1, 1981 and at lesser amounts thereafter.)	**50,000**	50,000
7.75%, 1972 Series — 400,000 shares outstanding (Callable at $105.50 per share prior to October 1, 1982 and at lesser amounts thereafter.)	**40,000**	40,000
7.78%, 1973 Series — 200,000 shares outstanding (Callable at $105.50 per share prior to December 1, 1983 and at lesser amounts thereafter.)	**20,000**	20,000
9.35%, 1974 Series — 350,000 shares outstanding (Callable at $110 per share prior to April 1, 1984 and at lesser amounts thereafter.)	**35,000**	35,000
Total Preference Stock	**$183,568**	$186,299
REDEEMABLE PREFERENCE STOCK (Cumulative) — $100 par value — 500,000 shares authorized:		
8.375%, 1979 Series — 500,000 shares outstanding	**$ 50,000**	$ —
(100,000 shares to be retired at par in each year 1985-1989. This series is junior to Preferred Stock, ranks on a parity with Preference Stock and prior to Common Stock, as to payment of dividends or assets available in the event of liquidation.)		

See pages 6 and 7 for information regarding securities issued and retired in 1979.

SCHEDULES OF OUTSTANDING BONDS AND DEBENTURES

BALTIMORE GAS AND ELECTRIC COMPANY

	December 31, 1979	December 31, 1978
	(In Thousands of Dollars)	
FIRST REFUNDING MORTGAGE BONDS		
4⅞ % Series, due June 1, 1980	**$ 9,361**	$ 9,386
Series W 2¾ %, due June 15, 1980	**10,695**	10,695
Series U 2⅞ %, due April 1, 1981	**39,063**	39,063
10% Series, due July 1, 1982	**90,202**	90,227
10⅛ % Series, due September 15, 1983	**41,932**	41,932
Series V 2¾ %, due December 21, 1984	**19,123**	19,123
Series X 2¾ %, due January 15, 1986	**24,317**	24,317
Series Z 3%, due July 15, 1989	**36,754**	36,754
3¼ % Series, due December 1, 1990	**29,682**	29,682
4⅜ % Series, due July 15, 1992	**25,000**	25,000
4% Series, due March 1, 1993	**24,095**	24,095
4½ % Series, due July 15, 1994	**29,989**	29,989
5⅛ % Series, due April 15, 1996	**26,680**	26,680
6⅛ % Series, due August 1, 1997	**24,967**	24,967
5⅝ % Installment Series, due August 15, 1998	**67,000**	67,000
7% Series, due December 15, 1998	**28,705**	28,705
8¼ % Series, due September 15, 1999	**22,198**	22,198
8⅝ % Series, due September 15, 2000	**11,433**	11,433
7¼ % Series, due April 15, 2001	**60,000**	60,000
7⅝ % Series, due September 1, 2001	**60,000**	60,000
7⅛ % Series, due January 1, 2002	**50,000**	50,000
7½ % Series, due July 1, 2002	**50,000**	50,000
5½ % Installment Series, due July 15, 2002	**12,500**	12,500
7½ % Series, due September 15, 2002	**50,000**	50,000
8⅛ % Series, due February 1, 2004	**75,000**	75,000
9⅞ % Series, due August 1, 2005	**17,036**	28,750
8⅜ % Series, due September 15, 2006	**75,000**	75,000
8¼ % Series, due September 15, 2007	**75,000**	75,000
9⅜ % Series, due July 1, 2008	**75,000**	75,000
6.90% Installment Series, due September 15, 2009	**55,000**	—
Total First Refunding Mortgage Bonds	**$1,215,732**	$1,172,496

(All of the Company's properties and the stock of Safe Harbor Water Power Corporation are subject to the lien of the mortgage under which these bonds were issued. Sinking Fund payment of $12,157,320 is estimated to be paid in 1980.)

DEBENTURES		
4⅞ % Sinking Fund Debentures, due June 15, 1986	**$ 12,800**	$ 13,200
4⅝ % Sinking Fund Debentures, due August 1, 1990	**21,600**	22,200
Total Debentures	**$ 34,400**	$ 35,400

(Sinking Fund payments of $400,000 on 4⅞ % Debentures and $600,000 on 4⅝ % Debentures are required each year.)

See pages 6 and 7 for information regarding securities issued and retired in 1979.

NOTES TO FINANCIAL STATEMENTS-1979 and 1978

Accounting Policies:

The accounting records of the Company are maintained in accordance with the Uniform Systems of Accounts prescribed by the Federal Energy Regulatory Commission and the Public Service Commission of Maryland. The Company's principal accounting policies are described in Notes 1 through 6.

Note 1 — Pension Plan:

The Company maintains a noncontributory pension plan covering its regular employees. The funding of the Company's pension plan is through a deposit administration medium with an immediate participation guarantee feature, employing the aggregate cost method. In 1979 and 1978, the Company's cost for pensions totaled $13,563,000 and $13,412,000, respectively, of which $11,081,000 and $10,720,000, respectively, were included in expenses, and the remainders were charged to construction. The increase in 1979 is the net result of changes in benefits effective July 1, 1979 and higher payrolls, substantially offset by a decrease resulting from changes in actuarial assumptions effective January 1, 1979. Based on the latest available actuarial report, as of January 1, 1979 there were no unfunded vested liabilities.

Note 2 — Depreciation and Maintenance:

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

The amounts of depreciation for 1979 and 1978 were computed at 3.45% for nuclear electric properties, 3.26% for all other electric properties, 2.6% for gas properties, 2.75% for steam properties and 3% for common utility plant (except for transportation vehicles, which are generally depreciated on a usage basis). The investment in depreciable utility plant as of December 31, 1979 was nuclear electric $777,949,000, all other electric $1,353,555,000, gas $306,832,000, steam $18,547,000, and common $84,605,000.

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

Note 3 — Income Taxes:

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

Note 3 (continued)

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

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

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

	1979	1978
	(In Thousands of Dollars)	
Tax computed at statutory rate on book income before tax (46% in 1979 and 48% in 1978)	**$90,662**	$96,150
Increases (Decreases) in tax from:		
Excess of tax over book depreciation — not normalized	**(7,478)**	(10,990)
Allowance for Funds Used During Construction — Borrowed Funds and Other Funds	**(7,969)**	(3,641)
Investment Tax Credit allocated to income	**(3,787)**	(3,158)
Net other items	**(652)**	(589)
Total Income Tax Expense	**$70,776**	$77,772

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

Note 4 — Allowance for Funds Used During Construction:

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

In 1978, the allowance was computed at an 8.13% rate applied to one-half of the construction expenditures for the Company's Brandon Shores Power Plant. In its Order dated March 28, 1979, the Public Service Commission of Maryland directed the Company to commence applying the 8.13% rate to the total construction expenditures for the Brandon Shores Plant and to reduce electric base revenues by $12,500,000 to offset the increase in the allowance. The changes became effective in April 1979 and, based upon test-year results, Net Income was not significantly affected.

Note 5 — Deferred Fuel Costs:

Under the new electric Fuel Rate formula adopted by the Public Service Commission of Maryland effective October 1, 1978, the Company has experienced a lag in the recovery of higher fuel expense amounting to $28,793,000 ($15,610,000 net after income taxes) as of December 31, 1979. This lag is being accounted for as a deferred fuel expense. In Management's opinion such fuel costs are justifiable and are recoverable under the Commission's Order through base-rate proceedings.

Note 6 — Nuclear Fuel:

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

At December 31, 1979, the estimated lease payments were as follows:

Year	Lessor Accumulated Investment	Financing Charge	Total Lease Payment
	(In Thousands of Dollars)		
1980	$10,659	$1,388	$12,047
1981	4,242	255	4,497
Total	$14,901	$1,643	$16,544

Note 6 (continued)

If the Company had accounted for the nuclear fuel lease as a capital lease, both net assets and liabilities would have been increased by $14,901,000 and $31,791,000 at December 31, 1979 and 1978, respectively. However, no additional expenses would have been incurred.

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

Effective October 1, 1978, post-reactor shipping and disposal costs were deferred pursuant to an Order by the Public Service Commission of Maryland which excluded these costs from the fuel rate computation. However, the Commission did not dispute the principle that such costs should be paid by the same customers who benefit from the nuclear energy and committed itself to consider these costs for inclusion in base rates. Consequently, the Company in its rate application filed on November 13, 1979, is requesting approval to include such charges in its electric base rates. Future fuel costs will be adjusted as actual spent fuel storage costs and reprocessing costs (if any) become known.

Note 7 — Other Taxes:

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

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

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

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

Note 8 — Short-Term Borrowings:

The Company maintains bank lines [illegible]dit to provide backup financing capacity f[illegible]nercial paper notes issued to satisfy interim [illegible] requirements and to permit short-term [illegible]ing flexibility. In support of such lines, the C[illegible]y either pays commitment fees generally rel[illegible]d to the respective bank's prime interest rate or maintains compensating balances (which are not restricted as to withdrawal). Borrowings under the lines are at the bank's prime interest rate or at multiples thereof. Certain of the lines require that compensating balances be increased in relation to usage except where borrowings are at a multiple of the bank's prime interest rate. Information concerning short-term borrowings outstanding at December 31, 1979 and December 31, 1978 and during each of the years then ended is set forth below:

	1979	1978
	(In Thousands of Dollars)	
At December 31		
Short-Term Borrowings Outstanding:		
Commercial Paper Notes (maturing in 90 days or less)	**$ —**	$ —
Weighted Average Interest Rate	**—**	—
Unused Lines of Credit	**$138,000**	$138,000
Compensating Balances	**$ 3,355**	$ 4,125
During the Year Ended December 31		
Maximum Aggregate Short-Term Borrowings	**$ 20,250**	$ 58,050
Average Daily Short-Term Borrowings (a)	**$ 3,109**	$ 17,246
Weighted Average Interest Rate (b)	**10.19%**	7.46%

(a) The sum of dollar days of outstanding borrowings divided by actual days in the period.

(b) Actual accrued interest during the period divided by average daily borrowings.

Note 9 — Commitments and Contingent Liabilities:

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

Rental expense under leases currently in effect, excluding the nuclear fuel lease (see Note 6), is not material.

The Company has made substantial commitments in connection with its construction programs for 1980 and subsequent years.

Note 10 — Segment Information:

See Schedules of Segment Information for 1978 and 1979 on page 35.

Note 11 — Jointly-Owned Electric Utility Plant:

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

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

The following data as of December 31, 1979 represent the Company's proportionate share:

(In Thousands of Dollars)

	Keystone	Conemaugh	Transmission Line
Ownership Interest	20.99%	10.56%	7.00%
Utility Plant in Service	$43,267	$28,769	$ 1,486
Accumulated Provision for Depreciation	11,471	6,176	290
Construction Work in Progress	341	415	—

Note 12 — Quarterly Financial Data (Unaudited):

The following data are unaudited but, in the opinion of the Company, include all adjustments (comprising only normal recurring accruals) necessary for a fair statement of the results for the periods presented.

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

(In Thousands of Dollars)

Quarter Ended	Total Operating Revenues	Operating Income plus AFUDC(a)	Net Income	Net Income Applicable to Common Stock	Earnings Per Share of Common Stock
March 31, 1979	$ 292,919	$ 59,929	$ 39,085	$ 34,558	$1.11
June 30, 1979	232,443	50,796	29,897	25,378	0.81
September 30, 1979	245,377	60,445	39,284	34,082	1.08
December 31, 1979	243,669	39,607	18,050	12,514	0.40
Total Year 1979	$1,014,408	$210,777	$126,316	$106,532	$3.40
March 31, 1978	$ 268,836	$ 59,832	$ 40,020	$ 35,467	$1.15
June 30, 1978	219,241	47,879	27,890	23,341	0.76
September 30, 1978	249,776	55,651	34,587	30,044	0.97
December 31, 1978	236,633	41,668	20,044	15,512	0.50
Total Year 1978	$ 974,486	$205,030	$122,541	$104,364	$3.38

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

Note 13 — Supplementary Information to Disclose the Effects of Changing Prices (Unaudited):

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

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

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

Statement of Income From Continuing Operations Adjusted for Changing Prices
For the Year Ended December 31, 1979

(In Thousands of Dollars)

	Conventional Historical Cost	Constant Dollar Average 1979 Dollars	Current Cost Average 1979 Dollars
Operating Revenues	$1,014,408	$1,014,408	$1,014,408
Purchased Fuel and Energy	$ 338,464	$ 341,638	$ 344,719
Operations and Maintenance	246,968	246,968	246,968
Depreciation	80,338	153,564	179,580
Taxes	155,184	155,184	155,184
Total Operating Expenses	$ 820,954	$ 897,354	$ 926,451
Operating Income	$ 193,454	$ 117,054	$ 87,957
Other Income (incl. AFC)	11,243	11,243	11,243
Income Before Interest	$ 204,697	$ 128,297	$ 99,200
Interest Expense (net of AFC)	78,381	78,381	78,381
Income From Continuing Operations (excluding reduction to net recoverable cost)	$ 126,316	$ 49,916(a)	$ 20,819
Increase in Specific Prices (Current Cost) of Utility Plant and Nuclear Fuel Held During the Year (b)			$ 461,958
Reduction to Net Recoverable Cost		$ (229,305)	(106,447)
Effect of Increase in General Price Level			(555,795)
Excess of Increase in General Price Level Over Increase in Specific Prices After Reduction to Net Recoverable Cost			$ (200,284)
Gain from Decline in Purchasing Power of Net Amounts Owed		160,930	160,930
Net		$ (68,375)	$ (39,354)

(a) Including the reduction to net recoverable cost, the loss from continuing operations on a constant dollar basis would have been $179,389,000.

(b) At December 31, 1979, current cost of utility plant and nuclear fuel, net of accumulated depreciation and amortization, was $4,713,987,000, while historical cost or net cost recoverable through depreciation and amortization was $2,514,986,000.

constant dollar and current cost amounts of utility plant was determined by applying the Company's depreciation rates to the indexed plant amounts.

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

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

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

Under the ratemaking prescribed by the Public Service Commission of Maryland, the Company is generally limited to the recovery of historical cost of plant in service and nuclear fuel in revenues as depreciation and amortization. During periods of inflation, such amounts will be recovered in dollars having less purchasing power than the historical dollars invested. Therefore, the excess of the cost of plant stated in terms of constant dollars or current cost over the historical cost of plant is not presently

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

(In Thousands of Average 1979 Dollars)

	Years Ended December 31,				
	1979	1978	1977	1976	1975
Operating Revenues	$1,014,408	$1,084,203	$949,280	$925,470	$917,129
Historical cost information adjusted for general inflation					
Income from Continuing Operations (excluding reduction to net recoverable cost)	$ 49,916				
Income Per Common Share (after dividend requirements on preferred and preference stock and excluding reduction to net recoverable cost)	$ .96				
Net Assets at Year-End at Net Recoverable Cost	$1,131,875				
Current cost information					
Income from Continuing Operations (excluding reduction to net recoverable cost)	$ 20,819				
Income Per Common Share (after dividend requirements on preferred and preference stock)	$ .03				
Excess of Increase in General Price Level Over Increase in Specific Prices After Reduction to Net Recoverable Cost	$ 200,284				
Net Assets at Year-End at Net Recoverable Cost	$1,131,875				
General information					
Gain from Decline in Purchasing Power of Net Amounts Owed	$ 160,930				
Cash Dividends Declared Per Common Share	$ 2.40	$ 2.50	$ 2.56	$ 2.65	$ 2.64
Market Price Per Common Share at Year-End	$20.94	$26.12	$31.10	$33.37	$29.09
Average Consumer Price Index	217.4 (Est.)	195.4	181.5	170.5	161.2

Note 13 (continued)

recoverable in rates, and is reflected as a reduction to net recoverable cost. While the ratemaking process gives no recognition to the current cost of replacing utility plant and nuclear fuel, based on past practices, the Company believes it will be allowed to earn on the increased cost of its net investment when replacement of facilities actually occurs.

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

		1979	1978	1977	1976	1975
				(In Thousands of Dollars)		
Electric	Operating Revenues	**$ 714,956**	$ 697,173	$ 558,558	$ 532,056	$ 516,006
	Operating Income before Income Taxes	**236,024**	240,661	198,420	157,401	146,802
	Operating Income	**173,160**	173,639	157,544	138,298	129,427
	Depreciation	**71,355**	69,415	59,710	51,569	44,515
	Construction Expenditures (a)	**143,780**	155,781	168,563	141,880	122,101
	Identifiable Assets at December 31 (a) (b)	**2,350,211**	2,229,415	2,102,008	1,936,160	1,830,077
Gas	Operating Revenues	**$ 287,074**	$ 264,586	$ 221,659	$ 184,314	$ 155,422
	Operating Income before Income Taxes	**27,091**	34,321	16,382	28,085	13,304
	Operating Income	**19,973**	23,570	13,960	21,250	11,883
	Depreciation	**8,463**	8,156	8,269	7,425	6,672
	Construction Expenditures (a)	**15,858**	14,875	12,904	23,564	20,769
	Identifiable Assets at December 31 (a) (b)	**269,634**	261,500	255,476	246,245	226,050
Steam	Operating Revenues	**$ 12,378**	$ 12,727	$ 12,305	$ 9,447	$ 8,614
	Operating Income before Income Taxes	**68**	(219)	709	(76)	(515)
	Operating Income	**321**	235	721	345	88
	Depreciation	**520**	492	470	454	441
	Construction Expenditures (a)	**1,279**	1,746	738	492	356
	Identifiable Assets at December 31 (a) (b)	**14,808**	14,042	12,689	11,965	12,170
Total	Operating Revenues	**$1,014,408**	$ 974,486	$ 792,522	$ 725,817	$ 680,042
	Operating Income before Income Taxes	**263,183**	274,763	215,511	185,410	159,591
	Operating Income	**193,454**	197,444	172,225	159,893	141,398
	Depreciation	**80,338**	78,063	68,449	59,448	51,628
	Construction Expenditures	**160,917**	172,402	182,205	165,936	143,226
	Identifiable Assets at December 31 (b)	**2,634,653**	2,504,957	2,370,173	2,194,370	2,068,297
	Other Assets	**221,331**	168,797	158,799	130,254	118,841
	Total Assets	**2,855,984**	2,673,754	2,528,972	2,324,624	2,187,138

(a) Includes allocation of Common Utility Property.

(b) Represents Utility Plant and Materials and Supplies, excluding merchandise inventory of $3,272,000, $2,582,000, $2,670,000, $2,122,000 and $2,633,000 at December 31, 1979, 1978, 1977, 1976 and 1975, respectively; merchandising activities are reported in Other Income.

DIRECTORS

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

ALONZO G. DECKER, JR.
Chairman of the Executive Committee, The Black and Decker Manufacturing Company, Towson (Power Tools)

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

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

RALPH G. HOFFMAN
Attorney-at-Law, Westminster

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

GEORGE V. McGOWAN
President of the Company, Baltimore

JULIAN S. NEAL
Retired (former Chairman of the Board), Fidelity and Deposit Company of Maryland, Baltimore (Bonding)

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

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

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

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

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

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

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

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

OFFICERS

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

GEORGE V. McGOWAN
President and Chief Operating Officer

NORMAN J. BOWMAKER
Vice President, Management and Staff Services

RAYMOND C. BRYANT
Vice President, Consumer Services

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

VERNON R. EVANS
Vice President, General Services

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

ARTHUR E. LUNDVALL, JR.
Vice President, Supply

HENRY H. MILLER
Vice President, Distribution

CHRIS H. POINDEXTER
Vice President, Engineering and Construction

D. PIERRE G. CAMERON, JR.
Treasurer and Assistant Secretary

ALFRED H. INNERS
Assistant Secretary and Assistant Treasurer

HENRY E. LENTZ
Assistant Secretary and Assistant Treasurer

Executive Offices

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

Annual Meeting

The annual meeting of stockholders will be held at 2:00 P.M. on April 25, 1980, at the Company's Executive Offices, Baltimore, Maryland.

Conversion Agents

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

Registrars

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

Transfer Agents

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

Upon written request to
D. Pierre G. Cameron, Jr., Treasurer,
P.O. Box 1475, Baltimore, Md. 21203,
the Company will furnish without charge a copy of its Form 10-K annual report after it is filed with the Securities and Exchange Commission in March, 1980.

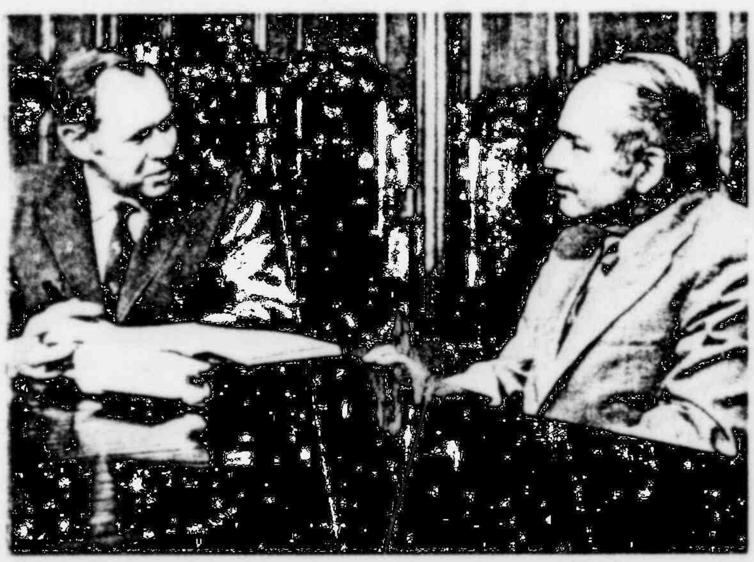
Mr. Trueschler

Mr. McGowan

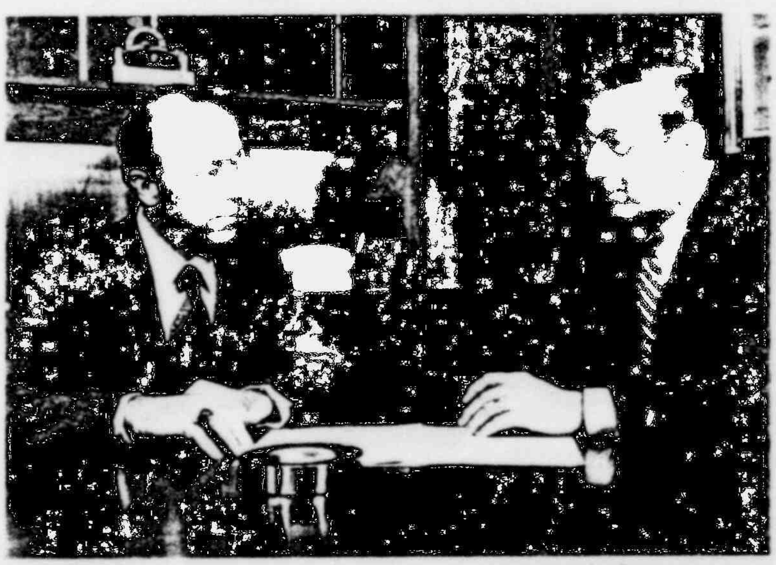
Mr. Bowmaker Mr. Gore

Mr. Miller Mr. Poindexter

Mr. Inners Mr. Cameron Mr. Lentz



Mr. Lundvall Mr. Evans



Mr. Crooke Mr. Bryant

BALTIMORE GAS AND ELECTRIC COMPANY
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