BALTIMORE GAS AND ELECTRIC

1650 CALVERT CLIFFS PARKWAY • LUSBY, MARYLAND 20657-4702

ROBERT E. DENTON
VICE PRESIDENT
NUCLEAR ENERGY
(410) 260-4455

March 16, 1993

U. S. Nuclear Regulatory Commission
Washington, DC 20555

ATTENTION: Document Control Desk

SUBJECT: Calvert Cliffs Nuclear Power Plant
Unit Nos. 1 & 2; Docket Nos. 50-317 & 50-318
1992 Annual Report

Gentlemen:

In accordance with the requirements of 10 CFR 50.71(b), enclosed please find a copy of the Baltimore Gas and Electric Company's 1992 Annual Report to its shareholders.

Should you have any further questions regarding this matter, we will be pleased to discuss them with you.

Very truly yours,

RED/DWM/bjd

Enclosure

cc: **(With Enclosure)**
P. R. Wilson, NRC
L. E. Nicholson, NRC

(Without Enclosure)
D. A. Brune, Esquire
J. E. Silberg, Esquire
R. A. Capra, NRC
D. G. McDonald, Jr., NRC
T. T. Martin, NRC
R. I. McLean, DNR
J. H. Walter, PSC

180060

M004
1/1

BALTIMORE GAS AND ELECTRIC COMPANY

Annual Report 1992

NEW IDEAS FOR A NEW TIME

NEW IDEAS FOR A NEW TIME

Meet Maria Fraley, one of our Gas Appliance Mechanics. In many ways, Maria represents the traditional BG&E employee: hard working, effective, bright, innovative, a team player, and typically armed with a ready smile and the can-do attitude our customers expect of us. In her natural-gas van—one of 108 vehicles in BG&E's growing natural-gas-fueled fleet—Maria makes her rounds each day, solving problems while maintaining customer confidence in us as the energy company of choice.

But Maria and thousands of other BG&E employees like her also represent a new vision for the company: World Class performance in an increasingly competitive environment. By building on our tradition of excellence and adding a strong measure of highest quality and complete customer satisfaction, we are fashioning a company that will continue to be a source of strength and pride for all associated with it.

This annual report includes information about the initiatives we have undertaken to achieve World Class performance. On pages 10 through 17, you will read about the accomplishments of employees whose actions represent the spirit of our continuous improvement program. We call it the Organizational Performance Improvement Process—OPIP for short. You'll also learn of our programs to develop new revenue sources, such as the natural-gas-fueled vehicle that holds much promise as an economically and environmentally sound alternative for businesses trying to reduce their dependence on more traditional transportation fuels.

The challenges before us are significant. But challenge is nothing new for BG&E, nor is success. We're gratified by our accomplishments to date and anxious to tackle the work still before us.

No one can rightly claim that excellence is a destination. It's a journey, one that we are embarked upon, and one that we are proud to share with you in the pages that follow.

CONTENTS

Printed on recycled paper

BALTIMORE GAS AND ELECTRIC COMPANY

Annual Report 1992

NEW IDEAS FOR A NEW TIME

NEW IDEAS FOR A NEW TIME

Meet Maria Fraley, one of our Gas Appliance Mechanics. In many ways, Maria represents the traditional BG&E employee: hard working, effective, bright, innovative, a team player, and especially armed with a ready smile and the can-do attitude our customers expect of us. In her natural-gas van—one of 108 vehicles in BG&E's growing natural-gas-fueled fleet—Maria makes her rounds each day, solving problems while maintaining customer confidence in us as the energy company of choice.

But Maria and thousands of other BG&E employees like her also represent a new vision for the company. World Class performance in an increasingly competitive environment. By building on our tradition of excellence and adding a strong measure of highest quality and complete customer satisfaction, we are fashioning a company that will continue to be a source of strength and pride for all associated with it.

This annual report includes information about the initiatives we have undertaken to achieve World Class performance. On pages 10 through 17, you will read about the accomplishments of employees whose actions represent the spirit of our continuous improvement program. We call it the Organizational Performance Improvement Process—OPIP for short. You'll also learn of our programs to develop new revenue sources, such as the natural-gas-fueled vehicle that holds much promise as an economically and environmentally sound alternative for businesses trying to reduce their dependence on more traditional transportation fuels.

The challenges before us are significant. But challenge is nothing new to BG&E, nor is success. We're gratified by our accomplishments to date and anxious to tackle the work still before us.

No one can rightly claim that excellence is a destination. It's a journey, one that we are embarked upon, and one that we are proud to share with you in the pages that follow.

CONTENTS

Printed on recycled paper

	1992	1991	% Change
	In millions, except per-share amounts		
COMMON STOCK DATA			
Earnings per share			
Utility operations	$ 1.52	$ 1.60	(5.0)%
Diversified activities	0.11	0.07*	57.1 %
Total	$ 1.63	$ 1.67	(2.4)%
Dividends declared per share	$ 1.43	$ 1.40	2.1 %
Average shares outstanding	136.2	126.1	8.0 %
Return on average common equity	9.40%	9.90%	(5.1)%
Book value per share—year end	$17.63	$17.00	3.7 %
Market price per share—year end close	$23.38	$22.88	2.2 %
FINANCIAL DATA			
Revenues			
Electric	$1,968	$1,995	(1.3)%
Gas	403	358	12.6 %
Diversified activities	120	96	25.0 %
Total	$2,491	$2,449	1.7 %
Net income	$ 264	$ 253	4.3 %
Earnings applicable to common stock	$ 222	$ 211	5.2 %
Assets			
Utility	$6,352	$6,137	3.5 %
Diversified	1,023	1,001	2.2 %
Total	$7,375	$7,138	3.3 %
Utility construction expenditures	$ 389	$ 456	(14.7)%
BG&E investment in Constellation Companies	$ 295	$ 280	5.4 %
UTILITY SYSTEM DATA			
Electric sales—megawatthours	25.3	25.5	(0.8)%
Gas sales—dekatherms	108.6	101.5	7.0 %

** Includes the effects of the accounting change for income taxes.*
Certain prior-year amounts have been restated to conform with the current year's presentation.
All share and per-share amounts have been restated to reflect the 3-for-2 common stock split to shareholders of record as of April 23, 1992.

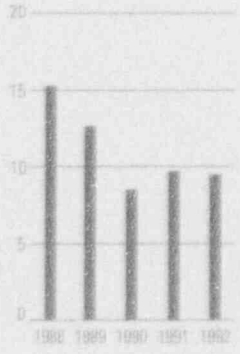
EARNINGS AND DIVIDENDS DECLARED PER SHARE OF COMMON STOCK

Earnings (Consolidated)
Dividends Declared

Amounts have been restated to reflect the 3-for-2 common stock split to shareholders of record as of April 23, 1992.

RETURN ON AVERAGE COMMON EQUITY

Percent



I am honored to address the owners of Baltimore Gas and Electric Company for the first time as Chairman and Chief Executive Officer. I have assumed leadership of a proud and distinguished company with a 177-year tradition of service. Thanks to my friend and now-retired Chairman George McGowan and his predecessors, our company enjoys a legacy of outstanding business success and community service.

Since the Board of Directors elected me Chairman of BG&E last summer, I have met face-to-face with hundreds of employees in virtually every department. I am very encouraged by their talents, enterprise, and energy. Indeed, I'm convinced that our employees are the company's most important resource.

As your new Chairman, I would like to share with you my plans and vision for Baltimore Gas and Electric for the decade of the '90s. It is undeniably true that the utility industry is facing more competition in power generation, more technological innovation and economic volatility, and increased customer and government demands.

For this new era, we have launched a new way of doing business. More than two years ago, we initiated a proactive and forward-looking strategy called the Organizational Performance Improvement Process—OPIP for short—to prepare our company to meet the new challenges and emerging competition in our industry and to identify opportunities for growth and renewal. With the cooperation and participation of employees at every level, our entire organization has evaluated its strengths, weaknesses, goals, and ideals.

The OPIP strategy for continuous improvement has affected virtually every aspect of our business, from management philosophy, staffing, budgeting, and planning to employee compensation and attitude.

We have defined our company's *Vision* to become a World Class energy company, established our company's *Mission* to achieve complete customer satisfaction by providing superior energy products and services, and reaffirmed critical company *Values* as the key to our future success.

Chairman and Chief Executive Officer Christian H. Poindexter (right) and President and Chief Operating Officer Edward A. Crooke in the company's Customer Communications Center. Here, more than 3½ million telephone inquiries a year are handled efficiently and courteously.

BG&E is striving to become a premier energy company to achieve better results and a higher level of performance for our key stakeholders. Our goal is ambitious: to be recognized as one of a handful of top utility companies of distinctive investment quality and consistent earnings growth, and to be ranked among the best in customer service, value, and reliability.

Part of performing as a World Class energy company means conserving energy resources. I believe conservation is

the right thing to do for our customers, community, country, and, indeed, the entire world. Our Conserve 2000 initiative helps customers realize energy savings, boosts the competitive advantage of area industries, and protects the environment. It also serves shareholder interests by helping to contain power generation costs.

Conservation means, however, that our company must develop all potential sources of revenue for future growth. I believe our gas business is a key area for future growth, and I expect sales to increase as the public and government increasingly recognize the advantages of gas as a clean-burning, abundant, and competitively priced fuel. We are making investments necessary to expand our gas service and promote natural-gas-powered vehicles.

Constellation Holdings, our subsidiary, is also capitalizing on new energy opportunities. With seven years of experience in developing, operating, and owning non-regulated power projects, the Constellation Companies are positioned to benefit from the national trend toward competition in power generation.

Last October, the National Energy Act was adopted by Congress and signed into law by the President. This far-reaching legislation presents many opportunities and challenges, but I believe it will have an overall positive impact on BG&E. The bill gives our company more flexibility to purchase power from independent power producers and provides new freedom to our Constellation subsidiary to develop economical power-generation projects in domestic markets.

For 1992, Baltimore Gas and Electric earnings were $1.63 per share, down from $1.67 per share in 1991. The lower per-share earnings resulted from an increase in the number of shares outstanding and from the adverse effect on utility operations of unfavorable weather and a sluggish local economy. Diversified business activities contributed 11¢ per share, up from 7¢ per share the previous year. The Board of Directors was able to increase the dividend to $1.44 per share, a 2.9 percent gain over 1991, based on the company's long-term prospects for growth in earnings. The company has paid cash dividends every year since 1910, an 83-year record of uninterrupted dividend payments.

I am pleased to lead our company in these changing and complex times. As inheritors of a proud tradition of excellence at BG&E, we strive to perform as World Class by balancing critical measures of success: achieving outstanding customer service, providing competitive rates for our services, offering a favorable return for our shareholders, providing a superior place for our employees to work, being a good steward of the environment, and demonstrating good corporate citizenship. These are the standards by which our company seeks to be judged.

This is an exciting time for all of us at BG&E. We live in a world of perpetual change. I'm convinced that through OPIP and our other efforts, our company has the power to capitalize on change and achieve our vision of becoming a World Class energy company.

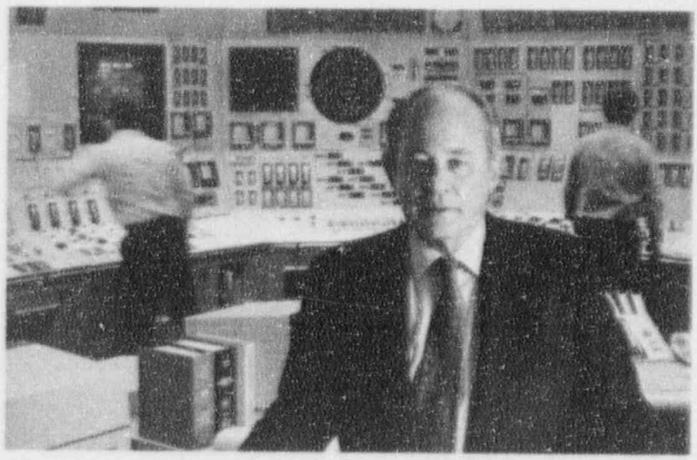
"BG&E is striving to become a premier energy company to achieve better results and a higher level of performance for our key stakeholders."

CHPoindexter

CHRISTIAN H. POINDEXTER
Chairman of the Board and Chief Executive Officer
February 15, 1993

George McGowan likes to describe himself as a born engineer. Maryland Governor William Donald Schaefer prefers to think of him as a peerless civic leader. In reality, George McGowan is both, and BG&E has been the greatest beneficiary of his extraordinary qualities. The strong relationships he has built with government and civic leaders have created for this company an unmatched fund of civic and political capital.

George recognized early the need to forge relationships among business, government, and the community. He was the driving force behind the creation of the Governor's Volunteer Council, and, as the long-standing chairman of that group, he has involved the private sector in meeting urgent civic needs.



The Calvert Cliffs Nuclear Power Plant control room provides an appropriate background for former Chairman George V. McGowan. At Calvert Cliffs, McGowan served as its plant's first Project Engineer and, later, as Chief Nuclear Engineer. In those assignments, he reassured regulators, legislators, and the community that nuclear power was right for Maryland, a performance that transformed the engineer into a corporate leader.

As a director and former Campaign Chairman of the United Way of Central Maryland and Chairman of Maryland Economic Growth Associates, Inc., he has created partnerships with the city and the state that have strengthened the regional economy. He chairs the board of the Baltimore Symphony Orchestra and serves as a trustee of the Walters Art Gallery—not, he claims, as a patron, of either art or music, but because he believes that cultural institutions are vitally important to the life of the city.

As a director of the Greater Baltimore Committee, he worked to establish and now chairs the CollegeBound Foundation, an organization funded by the business community to help disadvantaged young people prepare, apply, and pay for college. As Chairman of the University of Maryland Board of Regents, George McGowan directed the creation of the University of Maryland System, a far-reaching reorganization of higher education. Always an engineer at heart, he serves as Chairman of the Board of Overseers of his own alma mater, the Baltimore Polytechnic Institute, the city's specialized science and pre-engineering high school.

He has been an equally tireless leader within the utility industry. In 1987, when George was President of the company, BG&E won the Edison Medal, the utility industry's highest honor, for its wide-ranging contributions to the community and particularly for its long-term commitment to education.

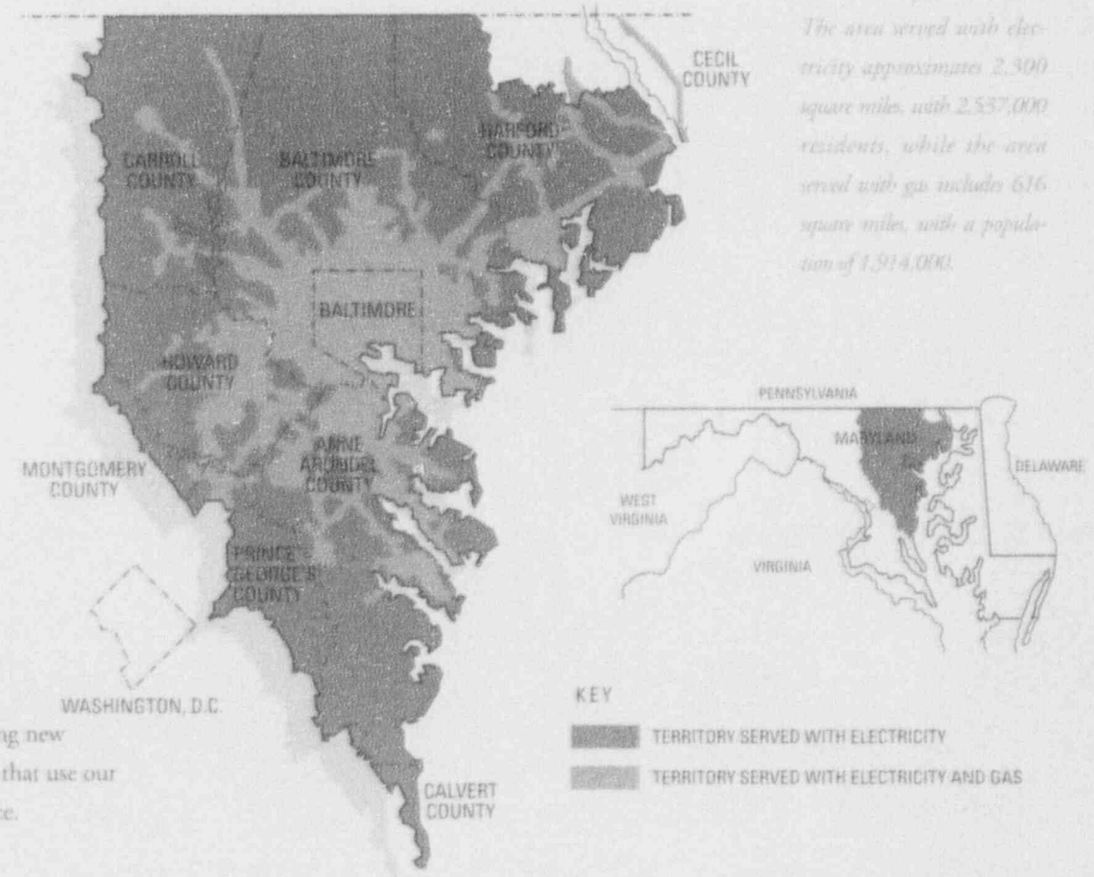
Throughout his community and industry involvement, George McGowan remained a forceful, hands-on executive. As Chairman, he guided BG&E through the difficult challenge of modernizing the Calvert Cliffs nuclear plant, steered the company through a recessionary economy, and initiated an organizational improvement plan that has enabled him to leave an organization that, in the words of his successor, Chris Poindexter, is "stronger than any I've seen in my years here."

Baltimore Gas and Electric Company, with assets over $7 billion and more than 9,100 employees, combines a core utility business with diversified, non-utility operations. As the nation's oldest gas utility and one of its first electric utilities, we have a tradition of superior, low-cost service and reliability. That tradition is the key to our future utility strategy and to the achievement of our corporate vision: performance as a World Class energy company.

Our 2,300-square-mile Central Maryland service area is economically diverse and offers a broad business base. Electric needs of our more than one million customers are met by BG&E's 10 local power plants, including the Calvert Cliffs Nuclear Power Plant. Augmenting these are three Pennsylvania plants, of which we are part owners, and membership in the Pennsylvania-New Jersey-Maryland Interconnection, a power pool affording us additional operating reliability at favorable terms.

We supply our natural gas customers, numbering more than one-half million in a 600-square-mile gas service area, with purchases from pipeline companies and producers, supplemented by our own liquefied gas and propane facilities.

BG&E's diversified businesses, grouped under our Constellation Holdings subsidiary, include power generation, real estate development, and financial investments. These produce meaningful earnings support, while providing new business opportunities that use our expertise and experience.



The BG&E utility service area includes Baltimore City and all or part of nine Central Maryland counties. The area served with electricity approximates 2,300 square miles, with 2,537,000 residents, while the area served with gas includes 616 square miles, with a population of 1,914,000.

UTILITY OPERATIONS AND CONSTELLATION COMPANIES REVIEW

ENTERING A NEW ERA WITH OPIP

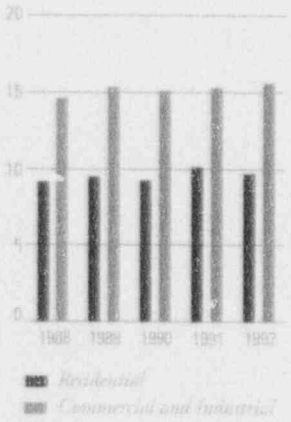
More than two years ago, we launched the Organizational Performance Improvement Process (OPIP) to establish BG&E as Central Maryland's energy company of choice. We believe that performing as a World Class energy company is not a final destination, but a lifelong journey of continuous improvement and ever-higher standards of performance.

Our company enjoys a strong foundation: customer satisfaction with our company is high and outpaces national utility averages. BG&E's latest residential customer favorability rating of 74 percent is about six points higher than the national average for the utility industry.

While these ratings are encouraging, the company continues to strive for improvement in all areas. An explanation of recent accomplishments and other company operations follows.

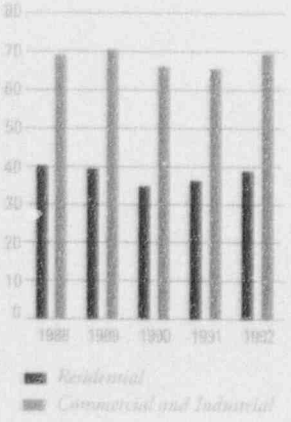
SALES OF ELECTRICITY

Billions of Kilowatthours



SALES OF GAS

Millions of Dekatherms



UTILITY OPERATIONS

Electric Sales

Our electric sales are closely tied to the growth of the Central Maryland economy and the weather. While milder summer weather than in 1991 and a slow-growing area economy caused total electricity sales to decrease less than 1 percent from 1991, electricity sales to residential customers decreased 3.6 percent. Commercial and industrial electric sales, although adversely affected by the recession, increased at a moderate 1 percent rate.

Generation

BG&E met generation needs in 1992 through a commitment to environmentally sound, safe, reliable, and competitively priced power production. Forty percent of our total power production was generated by nuclear units, 54 percent by coal-burning facilities, 3 percent by hydroelectric plants, and 3 percent by oil, natural gas, and purchases.

The company achieved substantial progress in safety and quality at its Calvert Cliffs Nuclear Power Plant as a result of an ongoing, comprehensive program of improvement and modernization. In February 1992, the Nuclear Regulatory Commission (NRC) removed Calvert Cliffs from its list of plants requiring close monitoring. On June 24, 1992, the NRC announced the results of its most recent Systematic Assessment of Licensee Performance—its report rating Calvert Cliffs' performance in seven categories from April 1, 1991, to March 28, 1992. In that report, the NRC gave Calvert Cliffs three superior ratings and four good ratings.

We continued the competitive positioning of our fossil plants through retirement of high-cost units and a division-wide OPIP effort that is increasing the productivity of our people. Fossil energy plants reduced operating expenses by $6 million in 1992.

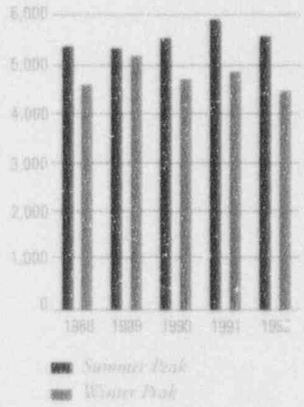
Power Transmission and Distribution

Florida's Hurricane Andrew reminded us how vulnerable transmission and distribution systems can be to violent storms. While our state was spared such severe weather, a December 1992 storm ripped through Central Maryland, knocking out service to nearly 100,000 customers. More than 1,800 BG&E crewmen and support staff worked through the night in inclement weather to restore service. At BG&E, we never forget that restoring service quickly in emergencies is a critical part of our commitment to provide superior customer service.

The company's strategy for continuous improvement is also demonstrated through comprehensive plans for upgrading and improving our transmission and distribution system. Significant transmission line upgrades already have been completed in the northern and northeastern portions of the service territory, at a total cost of about $50 million. The company is also extending and upgrading 115-kV transmission lines from Waugh Chapel to Cedar Park, a $12.5 million project that should be completed by 1994.

ELECTRIC PEAK LOAD

One Hour—Megawatts



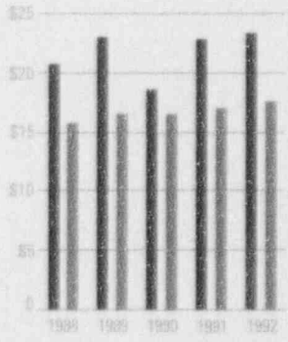
Protecting Our Environment

Operation of our power plants will not be significantly affected by the requirements of Phase I of the Clean Air Act, which becomes effective in 1995. Regulations for Phase II, effective in the year 2000, are yet to be completed. We are working hard to ensure that our power-generation plants are among the most environmentally sound in the country. In the last five years, we have spent over $190 million on environmental improvements, and Phase I compliance plans are estimated to cost about $55 million.

Planning for Future Energy Needs

We project that our service area will require additional generating capacity in the '90s. Last year we obtained permission to build a 140-megawatt peaking plant at our Petryman site. We also filed a competitive bidding plan for purchasing future generating capacity to fulfill a part of our longer-term needs.

COMMON STOCK MARKET PRICE AND BOOK VALUE



Market to Book Ratio
130.9% 108.6% 112.3% 134.8% 132.8%

Amounts have been restated to reflect the 3-for-2 common stock split to shareholders of record as of April 23, 1992.

Cost Containment

At the beginning of 1992, we believed it was necessary to implement several cost-containment measures because of flat revenue projections. After evaluating all cost-cutting opportunities, the company did not grant a general wage increase, eliminated overtime pay for most salaried employees, and offered a one-time, voluntary early retirement program accepted by 335 employees. These actions reduced 1992 operating expenses by approximately $20 million. Our employee complement was reduced by about 500 with no layoffs.

BOOSTING OUR FINANCIAL STRENGTH

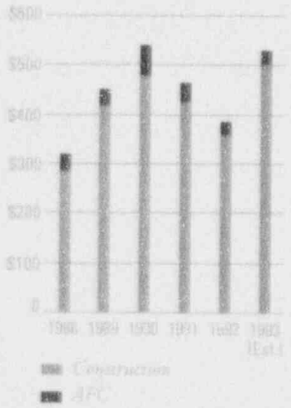
The company completed two public stock offerings in 1992, which totaled 15 million new common shares. The issues raised $310 million to help meet capital requirements and for other general utility purposes. These stock issues improved the utility company's equity ratio to 45 percent in 1992, up from 38 percent in 1991. Over the past year, the utility has refinanced

approximately $230 million of debt, resulting in interest savings of $9.5 million over the life of the refunded securities. Constellation Holdings refinanced $400 million in debt to lengthen maturities and take advantage of lower interest rates.

During 1992, the utility's construction expenditures were approximately $367 million, or about 5.8 percent of total utility assets. These construction outlays mainly funded improvements to BG&E's existing generating plants and expansion of transmission and distribution facilities to new and existing customers. We estimate construction expenditures for 1993 will be approximately $500 million.

UTILITY CONSTRUCTION EXPENDITURES

Millions of Dollars



RATE ADJUSTMENTS

Although the company has adopted rigorous cost-control measures, a rate increase has been requested in order to achieve a return on equity closer to the authorized level of 12.87 percent. BG&E filed with the Maryland Public Service Commission (PSC) for its first base-rate increase in nearly two and a half years on September 25, 1992. The $169 million increase (8.6 percent for electric customers and 1.5 percent for gas) would be effective in April 1993.

This action is largely due to the cost of improvements and investments in generation, transmission and distribution facilities, and higher operating costs due to inflation and plant improvement requirements. Throughout 1992, the PSC has approved four fuel-rate decreases, saving customers approximately $114 million annually and significantly offsetting the requested base-rate increase. These fuel-rate reductions are due to efficient operations at our plants, especially Brandon Shores and Calvert Cliffs.

CONSERVING OUR RESOURCES IS SMART BUSINESS

All of BG&E's customers and shareholders benefit from conservation and wise management of our energy resources. Conserve 2000 is BG&E's comprehensive demand-side management (DSM) program. It includes traditional conservation initiatives, encouraging energy efficiency, as well as load management aimed at reducing peak electricity demand. Both programs help BG&E supply energy at more competitive rates by allowing our company to defer building a major generating plant. BG&E shareholders also benefit. Effective July 1, 1992, the Public Service Commission authorized recovery of costs associated with BG&E's conservation efforts, including lost revenues, through the conservation surcharge added to electric rates.

During the 1992 summer peak period, Conserve 2000 programs reduced electric demand by over 350 megawatts, enough power capacity to supply more than 87,000 homes. By the year 2000, demand-side management is expected to reduce by approximately 16 percent the peak electric load that would have occurred in the absence of the program. Between 1992 and the year 2000, DSM programs are projected to cut in half the peak-load growth for electricity.

1992 OPERATING EXPENSES

HEIGHTENED INTEREST IN NATURAL GAS

Clean Air Act requirements, which mandate a phase-in of alternative fuels for fleets of 10 or more vehicles beginning in 1998, offer us an unparalleled opportunity to increase sales of natural gas while improving air quality. Our natural-gas-fueled fleet, now more than 100 vehicles, serves

as a visible reminder of BG&E's commitment to a clean and healthy environment. Three compressed natural gas fueling stations were built on company property and opened in 1992.

BG&E has also undertaken a vigorous gas marketing effort focused on builders and homeowners. The campaign has generated positive results. Our company's new home gas market share exceeded 24 percent in 1992, with over 3,800 new homes connecting to gas mains. The company also paved the way for expansion of the area served by gas by securing commitments from a developer in Cecil County.

Though the economy grew at a sluggish pace in 1992 and new home sales grew only slightly, residential gas sales nonetheless continued to flourish. Residential gas sales increased by 6.9 percent, and commercial and industrial gas sales rose by 7 percent, primarily due to colder weather during the 1992 heating season. Total gas sales increased by 7 percent over 1991.

Bruce M. Ambler, President and Chief Executive Officer of Constellation Holdings, visits the control room at the Panther Creek power plant. Constellation played a lead role in developing this 83-megawatt plant, which is built amid waste-coal piles in the hills of Eastern Pennsylvania. Using the latest technology to remove pollutants, this plant uses fuel that was once thought to be a nuisance.

CONSTELLATION HOLDINGS: EXPLORING NEW OPPORTUNITIES FOR GROWTH

The Constellation Companies are a major part of BG&E's strategy to provide additional revenue from non-traditional sources. Constellation continues to focus on its core energy business and, as the real estate market recovers, we plan to reduce Constellation's real estate holdings.

The improvement in Constellation's 1992 results was primarily due to higher earnings from projects and financial investments including capital gains.

Reviewing some of the year's highlights: In its energy business, Constellation played a lead power-plant-development role for the first time in developing the 83-megawatt Panther Creek waste-coal project in Carbon County, Pennsylvania. Constellation sold 25 percent of its interest in its highly successful ACE project in Trona, California, but remains managing general partner and owner in this 96-megawatt, coal-fired plant. In 1992, Constellation signed two operations and maintenance agreements with solar projects. We now have 21 contracts serving plants with combined capacity of more than 1,100 megawatts.

Constellation also improved occupancy rates in its current real estate holdings, increasing overall commercial and retail occupancy from 58 percent to 88 percent. We leased 250,000 square feet in the National Business Park tower building to the federal government, and Constellation Centre closed two leases totaling 100,000 square feet. Constellation's real estate arm, The KMS Group, changed its name to Constellation Real Estate, Inc.

In the investments area, Constellation had a good year that included a significant recovery in its financial limited partnership in the banking sector and strong performance of its marketable securities portfolio.

A company's commitment to quality can be symbolized in many ways. At our C. P. Crane power plant, that symbol comes in the form of a giant "Q" carved in the industrial carpeting underfoot in the plant's control room. When asked, "What's that for?" a chorus responds:

"Quality!"

The operators on this shift take that "Q" seriously.

▶ *As shifts change, Stanley Franz reviews control room conditions.*

The shift is made up of 10 operators: Chuck Krantz, Charlie Locke, Steve Landau, Mike Lundsgaard, Patrick Pfarr, Dave Pennington, Al Rocks, Marty Pokrywka, Ken Brzuchalski, and Rick Bransby. As a team, they believe they have something special. They have "The Fire."

▶▶ *On the turbine deck are (rear) Charlie Locke, (center) Mike Lundsgaard, Steve Landau, Patrick Pfarr, Al Rocks, Marty Pokrywka, Rick Bransby, (front) Ken Brzuchalski, Dave Pennington, and Chuck Krantz.*

"And we want to see it spread to the rest of the company," says shift supervisor, Charlie Locke.

It all began when they had Quality Work Group training in the fall of '92 as part of Fossil Energy's improvement program. "We all took it to heart," says Rick. "We felt there was a need for change."

Along with the 13 other work groups at the Crane plant, this shift took the opportunity provided by the training to improve teamwork, communication, quality, pride, and personal responsibility. "We knew we needed to improve, and we started discussing what we could do as a shift," says Mike. Pat agrees: "You can get in a rut where you do everything the same way all the time. But we took chances and said, 'Let's try this and see what happens.'"

They found out what could happen with a little innovation and extra effort. One night, for example, the plant couldn't produce full power because burning test coal caused the fly ash collection bags to clog. Fly ash is a by-product of coal-burning plants. Steve asked the shift who would be willing to do some extra work, manually shaking the fly ash out of the bags.

It wasn't an easy job. It was uncomfortable, gritty, dirty hull work. "But everybody on the shift was willing to do whatever it took to get the job done," says Steve. "The results were worth it. Without overtime expense, we gave the load dispatcher what he wanted: full load the next day."

This is just one example of the results obtained by this shift as well as others at Crane and out other plants. The teamwork has paid off: In 1992, Unit 2 set records for the longest run and highest electrical generation since returning to coal-firing in the early '80s.

"The load dispatcher is our customer," Steve points out. "If the electricity is not available when he needs it, he has to go elsewhere to get it. We do what we have to to get it out on the line."

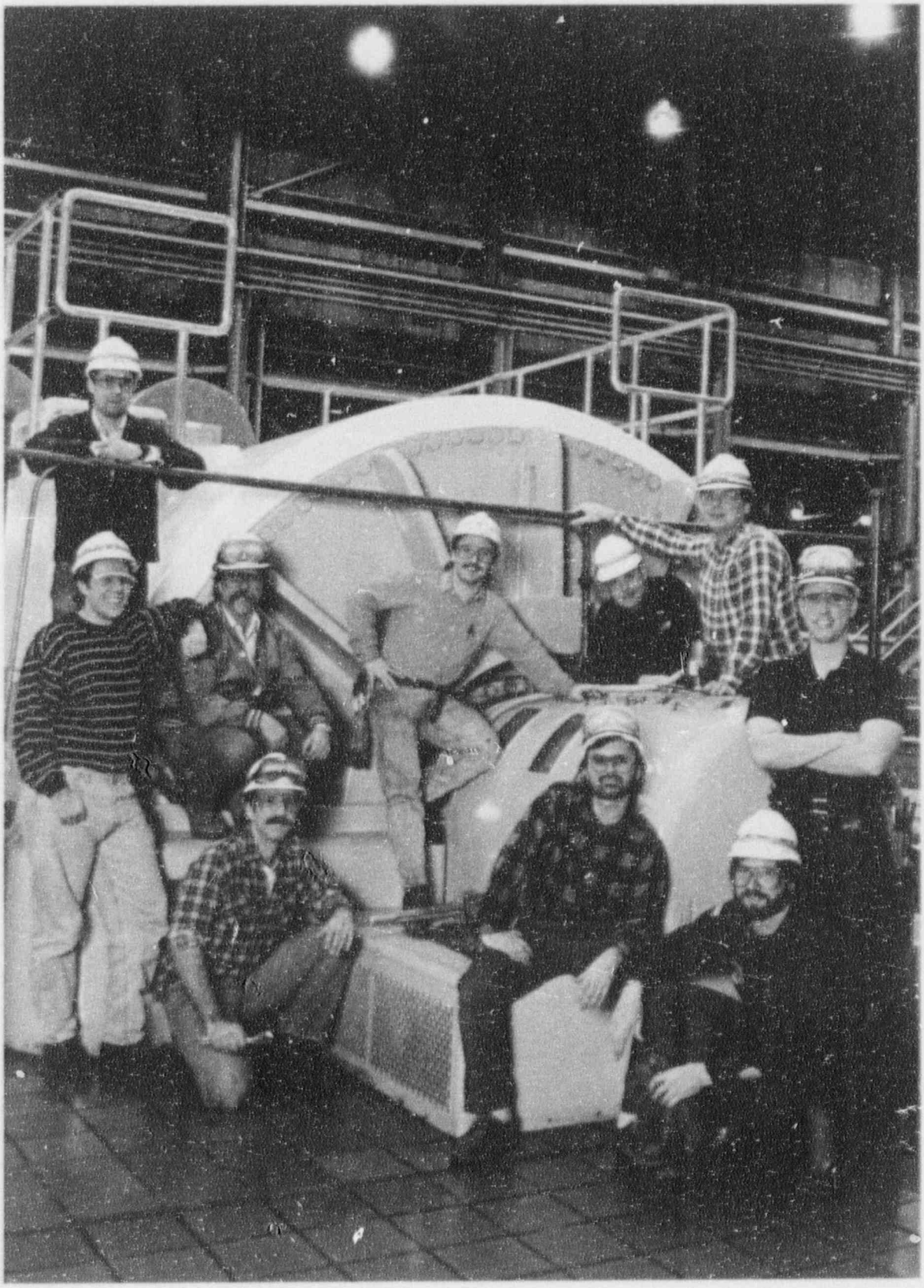
Steve Parks, manager of Fossil Operations, is understandably proud of the operators. "The work on this shift at Crane represents many of the results from the division's quality improvement process," he says. "They've taken initiative and had excellent results. They set a great example for the rest of our division."

And Rick sums it up: "We love our jobs. Not all of us love shift work, but we can tolerate it a lot more because we really do love our jobs. These people are great to work with."

▼ ▼ ▼

"At our power plants, our job is to supply electricity to the load dispatcher. Our goal is to provide that electricity reliably, safely, and at the best cost possible."

Wayne Seifert,
Plant Manager, Crane Station



Quality service is a key to the success of any company. At BG&E, outstanding customer service is our top goal. And BG&E's front line consists of 115 professional customer representatives armed with the latest equipment and information systems.

"We've had a customer focus since day one," says Ted Berzinski, director of the Customer Communications Center. "We're the front door of the company and the main contact with customers."

Although BG&E has always prided itself in providing good customer service, Ted and his supervisors and customer representatives knew they could do even better. So, when OPIP began, they took management at its word and made extensive changes in their workplace and how they did their jobs—all to better serve the customer.

They formed task forces and studied staffing levels to find out how many reps were necessary to serve the 3.5 million customer calls each year, ranging from routine billing concerns and appliance repair requests, to electromagnetic fields and conservation program inquiries. They also took responsibility for the workplace environment, representatives' training, and employee empowerment. The results are a case study in the way OPIP works. "We created a vision of where we wanted to go with a customer focus," says Ted. "And management supported us all the way."

More than 50 employees participated in the team effort. Maureen Tomcala served on the efficiency task force facilitated by Rose Darone. Ron Hokemeyer facilitated the workshop committee on training needs. Tom Pellegrini coordinated the staffing study, while Carol Weber was part of a task force to examine the electromagnetic field issue and how it would affect the number of customer calls. Kimberly Rosenberg and Helen Handy served on the development and communications task force, and Marguerite Horne worked on the renovations committee. "While we were studying the way we did business," says Rose, "we asked ourselves, 'How can we change to help the customer better?'"

The most noticeable change at the Customer Communications Center is the physical transformation of the work space. An unusual office design for BG&E, it's the direct result of employees working to get everything they need to do their jobs. Everyone agrees they were right. "After the renovation," Marguerite notes, "morale, and even production, went up." Rows of desks, harsh lighting, and lots of noise have been replaced by modern office pods, cheerful colors, and noise-absorbing carpet and walls.

The most far-reaching change, however, is one you can't see—the renewed enthusiasm of the employees themselves.

"OPIP works," Maureen points out. "This was a grassroots movement. Being empowered helps us resolve more customer problems on the spot." She continues, "The reps generate so many ideas. OPIP allows us to put those ideas into effect quickly."

"I think we're all doing our jobs right the first time," Helen says. "That's our goal, and OPIP is allowing us to do that."

▼ ▼ ▼

"BG&E has always had good, well-trained people in customer relations. And now we've empowered them to use even more of their tremendous energy, knowledge, and experience to serve the customer as professionals. They're not just call takers, they're decision makers."

Ken DeFonte,
Manager,
Customer Relations

◂Customer Representatives Diane Tunstall and Helen Handy work together to resolve customers' questions.

◂◂Representing the teams that revamped the Customer Communications Center are (rear) Tom Pellegrini, Ron Hokemeyer, (center row) Kimberly Rosenberg, Carol Weber, Maureen Tomcala, Marguerite Horne, Rose Darone, Helen Handy, and (front) Ted Berzinski.

▸ *Brenda Barrick consults with John Ihnacik (foreground) and Richard Condello on electrical studies in the Electrical Engineering Unit.*

Many companies talk a good game of employee empowerment. At BG&E, we'd rather put talk into action. Take Richard Condello of Nuclear Engineering at Calvert Cliffs. He believed he could get a better deal on engineering work from outside vendors with a change in the purchasing process. The existing bidding system worked well, but he thought applying it in a different way could save money and time at Calvert Cliffs. But Richard didn't stop there. He felt he had the freedom to act on his belief.

"OPIP encourages our people to think in non-conventional ways. This group of employees found a way to apply existing processes in a non-conventional way, resulting in large savings for the company."

Peter Katz,
Manager,
Nuclear Engineering

Richard got together with Martin Proctor, Mark Sade, and Brenda Barrick of Nuclear Support Services, and Mike Jeffreys of Purchasing and Materials Management. Through teamwork and innovation, they devised a new application of the blanket contract process. A limited number of contractors with blanket contracts are pre-approved for a specific type of work. Bids from each of them assure that we get the best deal, and the advance approval of the blankets saves time.

"Richard can now choose among four companies with competitive rates," says Mark. "One may be able to do it with the best people in 50 hours versus a so-so team that may take 100 hours. That's where the savings are."

The results have been tangible and impressive. Instead of 12 weeks for the bidding process, the first jobs each took three weeks—and, with further refinements, Richard and his group believe they can reduce that. The first three jobs saved an astonishing 25 percent, with potential yearly savings of $200,000. It's become a model for other areas of the plant.

How this group collaborated to accomplish its goal testifies to OPIP at work. "I think what started it was a questioning attitude," Brenda points out. "We all challenge ourselves by asking, 'How can we do it better?' We're very open to change."

A spirit of cooperation and communication among departments helped make change easy. "I think group dynamics played an important role here," says Mike. "Some people might feel their part of the process is precious. It's their turf and can't be questioned. Here, all team members opened themselves up to doing the job better."

Management support helped, too. As Richard points out, "Each of us has different management, yet we were able to implement this process. We had a good idea, and we were empowered."

This group epitomizes so many of our corporate values. Taking responsibility to get results, they exemplified the effectiveness, teamwork, and innovation needed to find better ways of doing business. They took advantage of existing systems and applied them in a new way. The outcome was an easier, more efficient process that got the desired results.

Martin says he sees the new values company-wide. "How we apply them may be different," he says, "but I see people taking great efforts to improve quality, save money, and become more personally accountable for what they do."

▼ ▼ ▼

▸▸ *The team of Richard Condello, Brenda Barrick, Mark Sade, Martin Proctor, and Mike Jeffreys gather in the main corridor at the Calvert Cliffs Nuclear Power Plant office complex.*


ASSEMBLY
09
AREA
CHALLENGE

Environmental concern has become a popular bandwagon in Americ... .hat's good, because the planet Earth can use all the help it can get. How that affects the bottom line, however, is a dilemma many corporations face. At BG&E, Greg Kappler and his co-workers in Environmental Programs balance care for the environment with profitability every day.

Greg may look like a bearded "tree hugger," trudging through the woods in flannel shirt and jeans. But tomorrow he may wear a suit and tie while negotiating for the company on an environmental regulation. His job is a balancing act, he admits. But he believes company profitability and environmental concerns need not be at odds. While the company has always worked to comply with all regulations, Greg believes we can respect the environment and the bottom line at the same time.

OPIP and the accompanying corporate values have helped this environmental scientist with a background in business juggle his roles. "I'm really glad to see that we have environmental responsibility as a value," says Greg. "I can make my decisions and take personal responsibility for them, knowing they are justified by our corporate values."

Greg's osprey nest relocation project is one example of the kind of creative thinking OPIP encourages. What started as an isolated nest on a utility pole has expanded to a project that will help the birds, keep customers in service, prevent costly fires and damage, and save the company money.

The project began in June '91, when an employee spied a four-foot diameter osprey nest on some electrical feeder lines in eastern Baltimore County. The potential for fire was great, so the nest had to go. With a permit, the law allows for destruction of empty osprey nests, but Greg thought it would be a better idea to move it. The osprey project was born. He moved the nest to a specially designed extension on the utility pole. The bird family returned a few hours later and raised three young in their new home that summer.

Since that first nest relocation, Greg has found nine more osprey nests on BG&E property. Many have been moved. The result of this environmental stewardship was the successful fledging of 17 osprey young in 1992.

The osprey project began largely as a safety concern that needed to be handled in compliance with the law. But Greg's vision, along with the enthusiastic help of many other departments and the backing of management, turned it into something more. Through publicity, he encourages employees as well as customers to report nest sightings on BG&E property. "As the Chesapeake Bay gets healthier, we're going to have more osprey and they're going to continue to nest on our structures. I can't be everywhere, but I need to know about nests on our property. If we lose customers due to a pole fire, then we've got problems."

Greg has other responsibilities, including all facets of land-use management. In a state-certified sediment and erosion control training course, he teaches BG&E designers, engineers, and construction personnel how to do their jobs with minimal effect on the environment.

The ospreys are one of his favorite programs, though. Moving the nests, he says, "makes the ospreys happy, makes the community happy, keeps us from having an outage, and it costs very little."

«Environmental Scientist Greg Kappler balances business considerations with environmental concerns. Here at our Riverside plant, black-crowned night herons make their home in a 200-nest rookery they built on company property.

« Overhead mechanics from our distribution crews assist Greg in moving an osprey nest atop a utility pole.

"There's been a growing realization in this country that environmental stewardship and profitability are inseparable. At BG&E, we seek not only to comply with the letter of the law, we often go beyond it. If we can help the environment while providing our services, we want to do so."

Dr. Elizabeth Bauerets,
Director of
Environmental Programs

UTILITY OPERATING STATISTICS

	1992	1991	1990	1989	1988
ELECTRIC OPERATING STATISTICS					
Revenues (In Thousands)					
Residential	$ 839,954	$ 882,591	$ 718,032	$ 648,883	$ 620,660
Small Commercial	242,345	246,669	220,687	194,573	178,727
Large Commercial and Industrial	802,299	816,233	732,837	666,042	626,300
System Sales	1,884,598	1,945,493	1,671,556	1,509,498	1,425,687
Interchange Sales	64,323	23,845	26,629	17,802	43,919
Other	19,002	25,187	14,268	19,867	22,528
Total	$1,967,923	$1,994,525	$1,712,453	$1,547,167	$1,492,134
Sales (In Thousands) - MWH					
Residential	9,735	10,097	9,283	9,451	9,196
Small Commercial	2,666	2,673	2,561	2,461	2,293
Large Commercial and Industrial	12,906	12,742	12,534	12,879	12,491
System Sales	25,307	25,512	24,378	24,791	23,980
Interchange Sales	3,180	1,166	1,088	595	2,052
Total	28,487	26,678	25,466	25,386	26,032
Customers					
Residential	956,570	939,734	930,880	913,910	895,881
Small Commercial	95,684	93,808	92,102	90,647	87,049
Large Commercial and Industrial	7,750	8,030	7,991	7,587	8,175
Total	1,060,004	1,041,572	1,030,973	1,012,144	991,105
Average use per Residential Customer - KWH	10,256	10,799	10,064	10,438	10,362
Average Rate per KWH (System Sales) - ¢	7.45	7.63	6.86	6.09	5.95
Peak Load (One-hour) - MW	5,558	5,910	5,477	5,304	5,381
Capability at Summer Peak - MW	6,687	6,608	6,159	6,164	5,930
GAS OPERATING STATISTICS					
Revenues (In Thousands)					
Residential	$ 242,737	$ 220,653	$ 218,967	$ 242,389	$ 225,035
Small Commercial	37,121	33,538	34,622	40,011	36,394
Large Commercial and Industrial					
Excluding Delivery Service	96,150	77,506	87,389	90,983	92,637
Delivery Service	17,880	17,319	21,156	27,069	19,364
Other	9,049	9,179	11,285	11,349	8,106
Total	$ 402,937	$ 358,195	$ 373,419	$ 411,801	$ 381,536
Sales (In Thousands) - DTH					
Residential	39,042	36,519	35,026	39,806	40,140
Small Commercial	6,622	6,154	6,144	6,889	6,792
Large Commercial and Industrial					
Excluding Delivery Service	22,169	18,138	19,324	18,772	21,770
Delivery Service	40,741	40,673	40,593	45,230	40,827
Total	108,574	101,484	101,087	110,697	109,529
Customers					
Residential	486,863	482,085	482,680	482,538	482,011
Small Commercial	32,596	32,336	31,981	31,881	31,582
Large Commercial and Industrial	5,816	5,610	5,373	5,307	5,160
Total	525,275	520,031	520,034	519,726	518,753
Average use per Residential Customer - Therms	806	757	726	826	833
Average Rate per Therm (Excluding Delivery Service) - $	.55	.55	.56	.57	.52
Peak Day Sendout - DTH	609,200	610,200	653,900	663,200	669,500
Peak Day Capability - DTH	847,000	817,000	853,000	761,000	793,000

SELECTED FINANCIAL DATA

	1992	1991	1990	1989	1988
	Dollar amounts in thousands, except per-share amounts				
SUMMARY OF OPERATIONS					
Total Revenues	$2,491,343	$2,448,853	$2,178,112	$2,032,009	$1,921,241
Expenses Other Than Interest and Income Taxes	1,955,998	1,959,665	1,854,183	1,555,424	1,424,291
Income From Operations	535,345	489,188	323,929	476,585	496,950
Other Income					
Allowance for equity funds used during construction	13,892	23,596	27,086	18,564	16,056
Other income	8,204	3,032	9,588	12,364	7,498
Total other income	22,096	26,628	36,674	30,928	23,554
Income Before Interest and Income Taxes	557,441	515,816	360,603	507,513	520,504
Interest Expense					
Interest charges	197,912	210,458	191,471	164,369	136,071
Allowance for borrowed funds used during construction	(8,165)	(13,870)	(26,266)	(14,776)	(12,075)
Net interest expense	189,747	196,588	165,205	149,593	123,996
Income Before Income Taxes	367,694	319,228	195,398	357,920	396,508
Income Taxes	103,347	85,547	19,952	81,629	93,096
Income Before Cumulative Effect of Changes in Accounting Methods	264,347	233,681	175,446	276,291	303,412
Cumulative Effect of Change in the Method of Accounting for Income Taxes	–	19,745	–	–	–
Cumulative Effect of Change in the Method of Accounting for Unbilled Revenues, Net of Taxes	–	–	37,754	–	–
Net Income	264,347	253,426	213,200	276,291	303,412
Preferred and Preference Stock Dividends	42,247	42,746	40,261	32,381	29,375
Earnings Applicable to Common Stock	$ 222,100	$ 210,680	$ 172,939	$ 243,910	$ 274,037
Earnings Per Share of Common Stock					
Before Cumulative Effect of Changes in Accounting Methods	$1.63	$1.51	$1.09	$2.03	$2.31
Cumulative Effect of Change in the Method of Accounting for Income Taxes	–	.16	–	–	–
Cumulative Effect of Change in the Method of Accounting for Unbilled Revenues	–	–	.31	–	–
Total Earnings Per Share of Common Stock	$1.63	$1.67	$1.40	$2.03	$2.31
Dividends Declared Per Share of Common Stock	$1.43	$1.40	$1.40	$1.38	$1.32
Ratio of Earnings to Fixed Charges	2.65	2.27	1.78	3.02	3.71
Ratio of Earnings to Fixed Charges and Preferred and Preference Stock Dividends Combined	2.08	1.82	1.47	2.44	2.94
FINANCIAL STATISTICS AT YEAR END					
Total Assets	$7,374,957	$7,137,989	$6,710,375	$5,985,679	$5,126,362
Capitalization					
Long-term debt	$2,376,950	$2,390,115	$2,193,844	$2,076,620	$1,769,066
Preferred stock	59,185	59,185	59,185	59,185	59,185
Redeemable preference stock	395,500	398,500	365,000	322,800	229,600
Preference stock not subject to mandatory redemption	110,000	110,000	110,000	110,000	110,000
Common shareholders' equity	2,534,639	2,153,306	2,073,158	2,001,188	1,885,245
Total capitalization	$5,476,274	$5,111,106	$4,801,187	$4,569,793	$4,053,096
Book Value Per Share of Common Stock	$17.63	$17.00	$16.58	$16.60	$15.85
Number of Common Shareholders	80,371	71,131	73,049	75,762	79,808

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

All per-share amounts have been restated to reflect the 3-for-2 common stock split to shareholders of record as of April 23, 1992.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

RESULTS OF OPERATIONS

Earnings per Share of Common Stock

Consolidated earnings per share for 1992 were $1.63, which represents a decrease of $.04 from the 1991 level of $1.67 based on the increased average number of shares of common stock outstanding as a result of the public issuance of 15 million common shares during 1992. All per-share amounts have been adjusted to reflect the three-for-two common stock split to shareholders of record as of April 23, 1992. (See Note 6.) The earnings per share are summarized as follows:

	1992	1991	1990
Utility business			
Current-year operations	$1.52	$1.60	$1.16
Provision for possible disallowance of replacement energy costs (see Note 14)	-	-	(.19)
Cumulative effect of change in the method of accounting for unbilled revenues (see Note 1)	-	-	.31
Total utility business	1.52	1.60	1.28
Diversified activities			
Current-year operations	.11	(.09)	.12
Cumulative effect of change in the method of accounting for income taxes (see Note 1)	-	.16	-
Total diversified activities	.11	.07	.12
Total	$1.63	$1.67	$1.40

Earnings Applicable to Common Stock

Earnings applicable to common stock increased in 1992 and 1991. The increase in 1992 reflects increases in both utility earnings and earnings from diversified activities. The 1991 increase resulted from higher utility earnings, partially offset by a decrease in earnings from diversified activities.

Utility earnings increased in 1992 as a result of increased electric and gas sales during the 1992 winter due to colder weather as compared to 1991, lower operations expense, lower interest charges, and greater other income. This increase was substantially offset by lower electric sales during the 1992 summer due to cooler summer weather as compared to the prior year. The effect of weather on utility earnings is discussed below. Utility earnings increased during 1991 primarily as a result of higher revenues from the electric base rate increases authorized by the Public Service Commission of Maryland (Maryland Commission) in December 1990 and increased electric sales due to warmer summer weather as compared to 1990, partially offset by higher operations and maintenance expenses and higher financing costs.

Earnings from utility operations are affected by the regulation of BG&E's rates by the Maryland Commission and by the effect on sales of economic and weather conditions. During 1992 and 1991, unfavorable economic conditions in the Company's service territory have negatively impacted sales, and operations and maintenance expenses have increased above the levels provided for in the December 1990 base rate increase. If current economic conditions in the Company's service territory continue, electric and gas sales growth is expected to be low in 1993. During 1992, BG&E filed an application for a $164 million increase in electric base rates and a $5 million increase in gas base rates which is currently pending before the Maryland Commission. An order from the Maryland Commission is expected in April 1993. Earnings will be impacted during 1993 by the outcome of this case. In addition, there are currently several fuel rate cases pending before the Maryland Commission, as discussed in Notes 1 and 14, which could also impact future years' earnings.

Excluding the impact of the change in the method of accounting for income taxes, earnings from diversified activities, which primarily represent the operations of Constellation Holdings, Inc. and its subsidiaries (collectively, the Constellation Companies), increased during 1992 and decreased during 1991. The reasons for the changes in diversified activities earnings are discussed on page 23.

Effect of Weather on Utility Sales

Weather conditions affect the level of BG&E's utility sales. Colder weather during the winter, as measured by greater heating degree days, results in greater demand for electricity and gas to operate heating systems. Cooler weather during the summer, as measured by fewer cooling degree days, results in less demand for electricity to operate cooling systems. Conversely, warmer weather during the winter, as measured by fewer heating degree days, results in less demand for electricity and gas to operate heating systems. Warmer weather during the summer, as measured by greater cooling degree days, results in greater demand for electricity to operate cooling systems. The degree days chart below illustrates changes in cooling and heating degree days for the years 1992 and 1991.

	1992	1991
Cooling degree days	707	1,026
% change compared to prior year	(31.1)%	19.2%
Heating degree days	4,975	4,343
% change compared to prior year	14.6%	9.5%

BG&E Utility Revenues and Sales

The changes in electric revenues during 1992 and 1991 as compared to the respective prior year were a result of the following factors:

	1992	1991
	In millions	
Changes in system sales volumes	$ (32.0)	$ 59.0
Increased base rates	84.9	176.4
Changes in fuel rates	(113.8)	38.5
Changes in revenues from system sales	(60.9)	273.9
Changes in interchange sales	40.5	(2.8)
Changes in other revenues	(6.2)	11.0
Total changes in electric revenues	$ (26.6)	$282.1

Electric system sales represent volumes sold to customers within the Company's service territory at rates determined by the Maryland Commission. These amounts exclude interchange sales, as discussed below. The changes in electric system sales volumes as compared to the respective prior year were as follows:

	1992	1991
Residential	(3.6)%	8.8%
Small commercial	(0.2)	4.4
Large commercial and industrial	1.3	1.7
Total	(0.8)	4.7

Sales to the residential and small commercial classes of customers in 1992 reflect the negative effects of cooler weather during the 1992 summer, partially offset by the positive effects of colder weather during the 1992 winter and growth in the number of customers. Sales to large commercial and industrial customers in 1992 reflect modestly improved economic conditions in that segment as compared to 1991 and increased sales volumes to Bethlehem Steel due to the start-up of Bethlehem Steel's newly modernized hot strip mill. The increases in sales during 1991 were due to warmer weather during the 1991 summer as compared to 1990 and growth in the number of customers in each class, partially offset by the effects of less favorable economic conditions as compared to 1990. In addition, sales to large commercial and industrial customers during 1991 reflect lower sales volumes to Bethlehem Steel compared to 1990 due to a lengthy planned outage at Bethlehem Steel's hot strip mill.

The increased base rate revenues in 1992 and 1991 reflect the effects of the Maryland Commission's December 1990 rate order which authorized a $124 million base rate increase to provide rate recognition for BG&E's investment and operating expenses at Brandon Shores Unit 2 effective with that Unit's initial commercial operation in May 1991 and a $53 million surcharge to base rates effective in October 1991 to recover certain purchased capacity charges. Although these base rate increases have increased BG&E's electric revenues during 1992 and 1991, they have had little effect on net income because they have essentially been offset by 1) a decrease in the allowance for funds used during construction and higher depreciation expense and other taxes due to the completion and commercial operation of Brandon Shores Unit 2, and 2) increased purchased capacity charges. In addition to the base rate increases discussed above, the Maryland Commission's December 1990 rate order also authorized an immediate base rate increase of $77 million which increased revenues in 1991. Electric base rate revenues are expected to be impacted positively in 1993 by the Maryland Commission's anticipated April 1993 order relating to BG&E's pending application for a $164 million annual increase in electric base rates.

The changes in fuel rate revenues for both periods resulted from the operation of the electric fuel rate formula. (See Notes 1 and 14.) Changes in fuel rate revenues and interchange sales normally do not impact earnings. Fuel rate revenues are designed to recover the actual cost of fuel, net of revenues from interchange sales. If the Maryland Commission were to disallow recovery of any part of these costs, earnings would be impacted negatively as discussed in Note 14.

The decrease in fuel rate revenues during 1992 resulted primarily from a lower fuel rate which reflects the remaining effect of 1) a less-costly twenty-four-month generation mix compared to 1991 due to greater generation at the Calvert Cliffs Nuclear Power Plant, 2) $58 million of annual fuel cost savings resulting from the commercial operation of Brandon Shores Unit 2, and 3) the October 1991 expiration of a surcharge to the electric fuel rate. Increased fuel rate revenues in 1991 resulted from higher sales volumes, partially offset by the fuel rate reduction to reflect the fuel cost savings resulting from the commercial operation of Brandon Shores Unit 2. Electric fuel rate revenues are expected to continue to decrease during 1993 as a result of a less-costly generation mix expected to be reflected in the fuel rate formula due to the continued operation of both units at Calvert Cliffs.

Interchange sales increased during 1992 due primarily to BG&E's less costly generation mix in relation to that of other Pennsylvania-New Jersey-Maryland Interconnection utilities. The less costly generation mix during 1992 reflects the operation of the Calvert Cliffs Nuclear Power Plant and a full year of commercial operation at Brandon Shores Unit 2.

Gas revenues increased in 1992 and decreased in 1991 as a result of the following factors:

	1992	1991
	In millions	
Increases in sales volumes	$ 8.6	$ 5.6
Increased base rates	3.3	1.3
Changes in gas cost adjustments	32.9	(20.1)
Changes in other revenues	(0.1)	(2.0)
Total changes in gas revenues	$44.7	$(15.2)

The changes in gas sales volumes as compared to the respective prior year were as follows:

	1992	1991
Residential	6.9%	4.3%
Small commercial	7.6	0.2
Large commercial and industrial	7.0	(1.8)
Total	7.0	0.4

Sales to all classes of customers during 1992 reflect the positive effects of colder weather during the winter of 1992 and growth in the number of customers. Gas sales to large commercial and industrial customers for 1992 also reflect increased sales volumes to Bethlehem Steel due to greater use of gas in Bethlehem Steel's production and processing businesses. The increased sales to residential and small commercial customers during 1991 were attributable to the colder weather during the 1991 winter as compared to 1990. The decrease in sales to large commercial and industrial customers in 1991 was attributable primarily to less favorable economic conditions and, to a lesser extent, to decreased sales to Bethlehem Steel resulting from a planned outage at that company's hot strip mill.

Gas base rate revenues increased during both years as a result of a $4 million gas base rate increase authorized by the Maryland Commission effective October 1, 1991. Gas base rate revenues are expected to be impacted positively by the Maryland Commission's anticipated April 1993 order relating to BG&E's pending application for $5 million of increased gas base rates.

The changes in gas cost adjustments in each year reflect the operation of the purchased gas adjustment clause (See Note 1). Changes in gas cost adjustments normally do not impact earnings. Gas cost adjustment revenues are designed to recover the actual gas costs incurred. The increase in 1992 is attributable to a combination of higher sales volumes and increased prices to recover higher costs of purchased gas. The decrease in 1991 reflects a settlement of certain take-or-pay issues with BG&E's principal gas pipeline suppliers. Take-or-pay costs refunded to BG&E are passed on to customers through the purchased gas adjustment clause.

BG&E Utility Expenses

Electric fuel and purchased energy expense was as follows:

	1992	1991	1990
	In millions		
Actual costs	$445.2	$492.6	$659.2
Net recovery (deferral) of costs under electric fuel rate clause (see Note 1)	111.0	105.6	(107.8)
Total expense	$556.2	$598.2	$551.4

The decrease in actual electric fuel and purchased energy costs during both 1992 and 1991 was due primarily to a less costly generation mix as a result of the return to operation of the Calvert Cliffs Nuclear Power Plant following the completion of extended maintenance and repair outages and the May 1991 commercial operation of Brandon Shores Unit 2. The decreases in both years were partially offset by purchased capacity charges beginning in October 1991 under the Pennsylvania Power & Light Company Energy and Capacity Purchase Agreement. As discussed in Note 14, during 1990 BG&E recorded a provision of $35 million for the possible disallowance of certain replacement energy costs associated with the extended outages at the Calvert Cliffs plant during 1989-1991.

Purchased gas expense was as follows:

	1992	1991	1990
	In millions		
Actual costs	$213.6	$185.1	$181.1
Net recovery (deferral) of costs under purchased gas adjustment clause (see Note 1)	0.5	(3.6)	19.7
Total expense	$214.1	$181.5	$200.8

The increases in actual purchased gas costs in 1992 and 1991 reflect primarily increased output due to colder winter weather as compared to the respective prior year. The increase in 1992 also reflects higher gas costs. The Federal Energy Regulatory Commission recently issued Order No. 636 which requires the unbundling of pipeline services, the elimination of pipeline sales service, and greater competition at the wellhead. This Order, which is expected to significantly increase BG&E's responsibility for ensuring that adequate transmission and storage capacity is maintained and is also expected to increase BG&E's transmission and storage costs, will become effective during 1993 on a pipeline-by-pipeline basis.

Operations expense decreased in 1992 due to lower nuclear contractor costs and lower payroll costs attributable to the Company's Voluntary Special Early Retirement Program (VSERP) and other cost control measures. These decreased costs were partially offset by the $9.8 million one-time cost of termination benefits associated with the VSERP and by higher fringe benefit costs. Operations expense increased in 1991 due primarily to higher payroll and fringe benefit costs. Operations expense is expected to increase in 1993 due to increased payroll costs and due to the implementation of Statement of Financial Accounting Standards No. 106, Accounting for Postretirement Benefits, which is effective January 1, 1993, as discussed in Note 11.

Maintenance expense was essentially unchanged in 1992 due to lower costs at certain fossil-fuel electric generating plants, substantially offset by higher costs at the Calvert Cliffs Nuclear Power Plant due to an extended refueling outage at Unit 1. Maintenance expense increased in 1991 due to the extended maintenance and repair outage at Calvert Cliffs Unit 2.

Depreciation expense increased in both years as a result of higher levels of depreciable plant in service, including Brandon Shores Unit 2 which began commercial operation in May 1991. Depreciation expense for 1991 also reflects a $1.2 million annual increase in nuclear decommissioning accruals as authorized by the Maryland Commission in its December 1990 rate order.

Taxes other than income taxes increased in 1992 due primarily to higher property taxes attributable to increased property assessments. The 1991 increase reflects higher public service company franchise, payroll, and property taxes attributable to increased gas and electric revenues, wages, and property assessments, respectively.

Inflation affects the Company through increased operating expenses and higher replacement costs for utility plant assets. Although the effects of inflation can be mitigated through

timely rate relief, the regulatory process imposes a time lag during which increased costs may not be recovered. This regulatory lag is attributable in part to rate relief being based on past costs rather than projected costs. It has been the Maryland Commission's practice to permit recovery of the cost of replacing plant assets, together with the opportunity to earn a fair return thereon, beginning at the time of replacement.

Diversified Activities Earnings

Earnings per share from diversified activities were as follows:

	1992	1991	1990
Diversified activities			
Power generation systems	$ .08	$ .03	$ .07
Financial investments	.09	.01	.08
Real estate and senior living facilities	(.05)	(.11)	(.02)
Other	(.01)	(.02)	(.01)
Current-year operations	.11	(.09)	.12
Cumulative effect of change in the method of accounting for income taxes (see Note 1)	-	.16	-
Total diversified activities	$ .11	$ .07	$ .12

The Constellation Companies' power generation systems business includes the development, ownership, management, and operation of wholesale power generating projects in which the Constellation Companies hold ownership interests, as well as the provision of services to power generation projects under operation and maintenance contracts. Earnings from the Constellation Companies' power generation systems business increased during 1992 primarily due to a gain on the sale of a portion of the Constellation Companies' ownership interest in a power generation project. Earnings decreased during 1991, reflecting the absence of tax credits from new power generation projects, partially offset by income from energy projects in which the Constellation Companies have an equity interest, income from operating energy projects on a contractual basis, and the sale of a limited partnership interest in one project.

Earnings from the Constellation Companies' portfolio of financial investments include capital gains and losses, dividends, income from financial limited partnerships, and income from financial guaranty insurance companies. Investment earnings increased in 1992 due to an improvement in the performance of certain financial limited partnerships and the effect on 1991 earnings of 1) a $10.5 million write-down to reflect the market value of certain of the Constellation Companies' marketable equity securities, substantially all of which were subsequently sold, and 2) a $3.1 million write-down on two financial limited partnerships (banking and financial services) that were adjusted to reflect market value. Investment earnings in 1991 were further reduced due to the reallocation of the investment portfolio to emphasize more liquid but lower yielding securities and a decline in the size of the investment portfolio following the sale of selected assets to provide liquidity for ongoing activities of the Constellation Companies. During 1993, investment earnings are expected to continue to reflect the reallocation of the investment portfolio to emphasize more liquid but lower-yielding securities and a decline in the size of the investment portfolio following the sale of certain assets during 1992 and 1991 to provide liquidity for other ongoing activities of the Constellation Companies. In addition, approximately $8 million of investments are expected to mature during 1993, and the proceeds will be available for reinvestment or for other cash needs of the Constellation Companies.

The Constellation Companies' real estate development business includes land under development; office buildings; retail projects; commercial projects; an entertainment, dining and retail complex in Orlando, Florida; and a mixed-use planned-unit-development in Anne Arundel County, Maryland. The majority of these projects are in the Baltimore-Washington corridor and have been adversely affected by the depressed real estate and economic markets, resulting in reduced demand for the purchase or lease of available land, office, and retail space, as well as the inability to complete anticipated sales and leases of real estate projects. Due to these conditions, in 1991 the Constellation Companies recorded write-downs aggregating $10.0 million on certain real estate projects and a $3.6 million reserve for loans where the value of the collateral was determined to be less than the outstanding loan balances. Additionally, the Constellation Companies' real estate portfolio has experienced continuing carrying costs and depreciation and, during 1991, the Constellation Companies began expensing rather than capitalizing interest on certain undeveloped land where development activities are at minimal levels. These factors have negatively impacted earnings in both 1992 and 1991 and are expected to continue to do so until the current market conditions improve. Cash flow from real estate operations has been insufficient to cover the debt service requirements of certain of these projects. Resulting cash shortfalls have been satisfied through equity infusions and loans from Constellation Holdings, Inc., which obtained the funds through a combination of cash flow generated by other Constellation Companies and its corporate borrowings. As long as the real estate market and local economic conditions remain soft, earnings from real estate activities are expected to remain depressed.

The Constellation Companies plan to hold real estate projects until the market improves. This condition is a function of market demand, interest rates, credit availability, and the strength of the economy in general. The Constellation Companies' Management believes that until the economy shows sustained growth and until excess inventory in the market in the Baltimore-Washington corridor is reduced, real estate values are not anticipated to improve. If the Constellation Companies were to sell their real estate projects in the current depressed market, losses in amounts difficult to determine would occur. Depending upon market conditions, future sales also could result in losses. In addition, were the Constellation Companies

to change their intent about any project from an intent to hold until market conditions improve to an intent to sell, applicable accounting rules would require a write-down of the project to market value at the time of such change in intent if market value is below book value.

Other Income and Expenses

The allowance for funds used during construction (AFC) decreased in both years due to the completion and commercial operation of Brandon Shores Unit 2. In 1992, this decrease was partially offset by the effects of the expansion of the AFC policy as discussed in Note 1. The decrease in 1991 was partially offset by the use of a pre-tax AFC rate of 9.94% effective January 1, 1991 in connection with the adoption of the liability method of accounting for income taxes under Statement of Financial Accounting Standards No. 109. However, net income was not affected by this change in recording AFC. Under Statement No. 109, income taxes representing the difference between a pre-tax and net-of-tax AFC rate are recorded as a component of income tax expense rather than as a reduction of AFC.

Net other income and deductions increased in 1992 primarily due to lower charitable donations and decreased in 1991 primarily due to lower earnings from merchandising operations.

Interest charges decreased in 1992 primarily as a result of decreased levels of debt outstanding and lower interest rates, partially offset by the discontinuation of interest capitalization on certain of the Constellation Companies' real estate projects. The decreased debt levels in 1992 are attributable to the issuance of additional shares of common stock and the recovery of previously deferred electric fuel costs. The increase in interest charges in 1991 primarily reflects increased levels of debt outstanding, partially offset by lower interest rates. The 1991 increased debt levels were primarily attributable to continuing utility construction expenditures.

Income tax expense increased during both periods as a result of higher pre-tax earnings. In 1991, the increase was also due to the implementation of the liability method of accounting for income taxes, which requires that income taxes previously recorded as a reduction of AFC be recorded as a component of income tax expense.

Preferred and preference stock dividends decreased in 1992 due to the redemption of redeemable preference stock during 1992 and 1991. Preferred and preference stock dividends increased in 1991 as a result of greater amounts of preference stock outstanding.

LIQUIDITY AND CAPITAL RESOURCES

BG&E Capital Requirements

BG&E's construction program is subject to continuous review and modification, and actual expenditures may vary from the estimates on page 25. Potentially, the most significant project in the construction program is the new Perryman generating facility. However, in light of the Maryland Commission's introduction of a competitive bidding process for the construction of future electric generating capacity, BG&E's role in the construction of the facility is uncertain at this time. Other electric construction expenditures are attributable primarily to improvements to BG&E's existing generating plants and to its transmission and distribution facilities. The Company currently estimates that expenditures for compliance with the Clean Air Act of 1990 will total approximately $55 million through 1995.

During 1992, 1991, and 1990, the internal generation of cash from utility operations provided 81%, 74%, and 14%, respectively, of the funds required for BG&E's capital requirements exclusive of debt retirements. The significant increase in the 1991 level is due to the recovery of deferred electric fuel costs, lower construction expenditures, and higher net income. During the three-year period 1993 through 1995, approximately 60% of the funds required for BG&E's capital requirements exclusive of debt retirements and redemptions of preference stock are expected to be provided through utility operations.

Utility capital requirements not met through the internal generation of cash are met through the issuance of debt and equity securities. During the three-year period ended December 31, 1992, BG&E's issuances of long-term debt, preferred and preference stock, and common stock were $1,066 million, $100 million, and $475 million, respectively. During the same three-year period, BG&E's retirements of long-term debt and redemptions of preferred and preference stock were $853 million and $32 million, respectively. The amount and timing of future issuances and redemptions will depend upon market conditions and BG&E's needs.

As disclosed on pages 24 and 25 in the section titled "Diversified Activities Capital Requirements—Debt and Liquidity," certain debt of the Constellation Companies is scheduled to mature in 1993. Also, as disclosed in the Company's Form 8-K dated January 29, 1993, the Constellation Companies will need to provide significant funds to complete the Puna project, which is scheduled for 1993. The Constellation Companies plan to meet all such cash requirements with a combination of additional debt and cash from operations. If these plans are not entirely successful, BG&E may provide a portion of the necessary funds through loans to Constellation Holdings, Inc.

Diversified Activities Capital Requirements

Debt and Liquidity

As explained in greater detail on pages 41 and 42 in Note 8, during 1992 Constellation Holdings, Inc. renegotiated its bank debt facilities and issued $120 million of unsecured serial notes. Debt maturities are disclosed in detail in the chart below. Also, as discussed in detail in the Company's Form 8-K dated January 29, 1993, significant funds will be required to complete the Puna project, which is scheduled for 1993. Constellation Holdings, Inc. and its subsidiaries are negotiating the refinancing of

all indebtedness as it matures as well as the potential issuance of additional debt in order to satisfy ongoing capital requirements. No assurances can be provided that Constellation Holdings, Inc. and its subsidiaries will be successful in obtaining additional funds from banks and other institutional lenders. As mentioned above in the section titled "BG&E Capital Requirements," BG&E may provide a portion of the necessary funds through loans to Constellation Holdings, Inc.

The following chart sets forth the scheduled maturities of the Constellation Companies' debt outstanding at December 31, 1992:

	1993	1994	1995 and Later Years
	In millions		
Constellation Holdings, Inc.'s Bank Debt	$ 56	$56	$ 40
Constellation Holdings, Inc.'s Privately Placed Debt	40	-	215
Constellation Companies' Project Debt	4	7	158
Total	$100	$63	$413

The amounts presented in the table above are exclusive of unused capacity available under the bank debt facility, as described in Note 8, which Constellation Holdings, Inc. expects to utilize during 1993.

Constellation Holdings, Inc. will attempt to continue, through private placements and further refinancing of existing indebtedness, to restructure its indebtedness to achieve longer maturities. Constellation Holdings, Inc. also intends to pay down outstanding debt through internally generated cash which includes cash that may be generated from operations, maturing financial limited partnerships, sales from the securities portfolio, the sale of other assets, and cash generated by tax benefits earned by Constellation Holdings, Inc. and its subsidiaries. In the event that the real estate market rebounds and the Constellation Companies can obtain reasonable value for the properties, additional cash may become available through the sale of projects (for additional information see the discussion of the real estate business and market on pages 23 and 24 under the heading "Diversified Activities Earnings"). The ability of the Constellation Companies to sell or liquidate the assets described above will depend on market conditions, and no assurances can be given that such sales or liquidations can be made.

Investment Requirements

The investment requirements shown below include the Constellation Companies' portion of equity funding to committed projects under development as well as net loans made to project partnerships. Investment requirements for the years 1993-1995 reflect the Constellation Companies' estimate of funding during such periods for ongoing and anticipated projects and are subject to continuous review and modification. Actual investment requirements may vary significantly from the amounts below due to the type and number of projects selected for development, the impact of market conditions on those projects, the ability to obtain financing, and the availability of internally generated cash. The Constellation Companies' investment requirements have been met in the past through the internal generation of cash and through borrowings from institutional lenders.

Capital Requirements

The Company's capital requirements reflect the capital-intensive nature of the utility business. Actual capital requirements for 1990 through 1992, al ng with estimated amounts for 1993 through 1995, are shown below.

	1990	1991	1992	1993	1994	1995
	In millions					
Utility Business						
Construction expenditures (excluding AFC)						
Electric	$362	$ 328	$ 292	$ 371	$373	$ 360
Gas	39	43	36	69	70	92
Common	81	48	39	60	57	48
Total construction expenditures	482	419	367	500	500	500
AFC	53	37	22	26	34	40
Deferred nuclear expenditures	28	23	16	20	12	-
Deferred energy conservation expenditures	-	3	20	48	67	69
Nuclear fuel (uranium purchases and processing charges)	21	2	40	38	42	40
Retirement of long-term debt and redemption of preference stock	60	339	486	191	74	291
Total utility business	644	823	951	823	729	940
Diversified Activities						
Retirement of long-term debt	8	167	118	100	63	143
Investment requirements	122	109	80	90	39	33
Total diversified business activities	130	276	198	190	102	176
Total	$774	$1,099	$1,149	$1,013	$831	$1,116

REPORT OF MANAGEMENT

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

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

Coopers & Lybrand, independent auditors, are engaged to audit the financial statements and express their opinion thereon. Their audit is made in accordance with generally accepted auditing standards.

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

REPORT OF INDEPENDENT AUDITORS

To the Shareholders of
Baltimore Gas and Electric Company

We have audited the accompanying consolidated balance sheets and statements of capitalization of Baltimore Gas and Electric Company and Subsidiaries at December 31, 1992 and 1991, and the related consolidated statements of income, cash flows, common shareholders' equity, and income taxes for each of the three years in the period ended December 31, 1992. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Baltimore Gas and Electric Company and Subsidiaries at December 31, 1992 and 1991, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1992 in conformity with generally accepted accounting principles.

As discussed in Note 14 to the consolidated financial statements, the Public Service Commission of Maryland is currently reviewing the replacement energy costs resulting from the 1989-1991 outages at the Company's nuclear power plant, and the Company established in 1990 a reserve of $35 million for the possible disallowance of replacement energy costs. The ultimate outcome of the fuel rate proceedings, however, cannot be determined but may result in a disallowance in excess of the reserve provided.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for income taxes in 1991 and changed its method of accounting for unbilled revenues in 1990.

Coopers & Lybrand

Coopers & Lybrand
Baltimore, Maryland
January 15, 1993

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	1992	1991	1990
	In thousands, except per-share amounts		
Revenues			
Electric	$1,967,923	$1,994,525	$1,712,453
Gas	402,937	358,195	373,419
Diversified activities	120,483	96,133	92,240
Total revenues	2,491,343	2,448,853	2,178,112
Expenses Other Than Interest and Income Taxes			
Electric fuel and purchased energy	556,184	598,208	551,385
Provision for possible disallowance of replacement energy costs (See Note 14)	-	-	35,000
Gas purchased for resale	214,103	181,455	200,762
Operations	606,498	634,309	576,271
Maintenance	172,726	173,648	163,457
Depreciation	223,483	201,264	170,586
Taxes other than income taxes	183,004	170,781	156,722
Total expenses other than interest and income taxes	1,955,998	1,959,665	1,854,183
Income from Operations	535,345	489,188	323,929
Other Income			
Allowance for equity funds used during construction	13,892	23,596	27,086
Equity in earnings of Safe Harbor Water Power Corporation	4,267	4,388	4,900
Net other income and deductions	3,937	(1,356)	4,688
Total other income	22,096	26,628	36,674
Income Before Interest and Income Taxes	557,441	515,816	360,603
Interest Expense			
Interest charges, net of capitalized interest	197,912	210,458	191,471
Allowance for borrowed funds used during construction	(8,165)	(13,870)	(26,266)
Net interest expense	189,747	196,588	165,205
Income Before Income Taxes	367,694	319,228	195,398
Income Taxes	103,347	85,547	19,952
Income Before Cumulative Effect of Changes in Accounting Methods	264,347	233,681	175,446
Cumulative Effect of Change in the Method of Accounting for Income Taxes (See Note 1)	-	19,745	-
Cumulative Effect of Change in the Method of Accounting for Unbilled Revenues, Net of Taxes (See Note 1)	-	-	37,754
Net Income	264,347	253,426	213,200
Preferred and Preference Stock Dividends	42,247	42,746	40,261
Earnings Applicable to Common Stock	$222,100	$210,680	$172,939
Average Shares of Common Stock Outstanding	136,248	126,093	123,550
Earnings Per Share of Common Stock			
Before cumulative effect of changes in accounting methods	$1.63	$1.51	$1.09
Cumulative effect of change in the method of accounting for income taxes	-	.16	-
Cumulative effect of change in the method of accounting for unbilled revenues	-	-	.31
Total earnings per share of common stock	$1.63	$1.67	$1.40

See Notes to Consolidated Financial Statements.

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

CONSOLIDATED BALANCE SHEETS

	At December 31, 1992	1991
	In thousands	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 27,122	$ 17,417
Accounts receivable (net of allowance for uncollectibles)	299,568	304,802
Accrued unbilled revenues	69,576	60,429
Fuel stocks	85,063	83,182
Materials and supplies	141,611	128,892
Prepaid taxes other than income taxes	54,510	46,121
Other prepayments	17,080	18,506
Other	12,524	6,675
Total current assets	707,054	666,024
Investments and Other Assets		
Real estate projects	462,042	448,661
Power generation systems	259,996	215,757
Financial investments	207,011	248,258
Nuclear decommissioning trust fund	43,118	31,969
Safe Harbor Water Power Corporation	34,176	34,229
Senior living facilities	24,538	25,857
Other	64,986	67,175
Total investments and other assets	1,095,867	1,071,906
Utility Plant		
Plant in service		
Electric	5,474,590	5,215,399
Gas	526,058	494,949
Common	468,264	446,200
Total plant in service	6,468,912	6,156,548
Accumulated depreciation	(1,980,361)	(1,822,380)
Net plant in service	4,488,551	4,334,168
Construction work in progress	308,908	307,765
Nuclear fuel (net of amortization)	147,374	152,881
Plant held for future use	21,486	17,990
Net utility plant	4,966,319	4,812,804
Deferred Charges		
Income taxes recoverable through future rates	216,939	198,878
Deferred fuel costs (net of allowance for possible disallowance)	181,591	287,021
Deferred nuclear expenditures (net of amortization)	76,549	63,[illegible]4
Deferred cost of decommissioning of uranium enrichment facilities (See Note 14)	55,000	-
Deferred energy conservation expenditures (net of amortization)	20,519	3,514
Other	55,119	34,118
Total deferred charges	605,717	587,255
Total Assets	$7,374,957	$7,137,989

See Notes to Consolidated Financial Statements.

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

CONSOLIDATED BALANCE SHEETS

	At December 31, 1992	1991
	In thousands	
LIABILITIES AND CAPITALIZATION		
Current Liabilities		
Short-term borrowings	$ 11,900	$ 212,170
Current portions of long-term debt and preference stock	291,270	294,507
Accounts payable	175,495	185,782
Customer deposits	20,027	14,573
Accrued taxes	20,925	29,612
Accrued interest	55,537	49,173
Dividends declared	62,282	54,914
Accrued vacation costs	28,908	30,142
Other	3,167	11,619
Total current liabilities	669,511	882,492
Deferred Credits and Other Liabilities		
Deferred income taxes	983,534	938,559
Deferred investment tax credits	165,697	174,442
Decommissioning of uranium enrichment facilities (See Note 14)	55,000	-
Other	24,941	31,390
Total deferred credits and other liabilities	1,229,172	1,144,391
Capitalization		
Long-term debt	2,376,950	2,390,115
Preferred stock	59,185	59,185
Redeemable preference stock	395,500	398,500
Preference stock not subject to mandatory redemption	110,000	110,000
Common shareholders' equity	2,534,639	2,153,306
Total capitalization	5,476,274	5,111,106
Commitments, Guarantees, and Contingencies — See Note 14		
Total Liabilities and Capitalization	$7,374,957	$7,137,989

See Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	1992	1991	1990
		In thousands	
Cash Flows From Operating Activities			
Net income	$ 264,347	$ 253,426	$ 213,200
Adjustments to reconcile to net cash provided by operating activities			
Cumulative effect of change in the method of accounting for income taxes	-	(19,745)	-
Cumulative effect of change in the method of accounting for unbilled revenues	-	-	(37,754)
Depreciation and amortization	273,549	244,017	179,793
Deferred income taxes	26,914	30,725	56,995
Investment tax credit adjustments	(8,854)	(6,225)	(4,450)
Deferred fuel costs	105,430	102,754	(79,671)
Provision for possible disallowance of replacement energy costs	-	-	35,000
Write-down of financial investments	-	13,575	-
Write-down of real estate projects	-	9,988	-
Allowance for equity funds used during construction	(13,892)	(23,596)	(27,086)
Equity in earnings of affiliates and joint ventures (net)	(11,525)	8,707	14,029
Changes in current assets	(26,206)	(6,563)	8,388
Changes in current liabilities, other than short-term borrowings	(9,612)	(6,027)	(62,559)
Other	(31,005)	(5,373)	(10,376)
Net cash provided by operating activities	569,144	595,663	285,509
Cash Flows From Financing Activities			
Proceeds from issuance of			
Short-term borrowings (net)	(139,600)	(15,530)	103,893
Long-term debt	603,400	1,015,950	1,987,426
Preference stock	-	34,801	64,342
Common stock	355,759	32,263	86,881
Reacquisition of long-term debt	(687,052)	(959,379)	(1,595,463)
Redemption of preference stock	(2,924)	(22,800)	(6,800)
Common stock dividends paid	(189,180)	(176,007)	(171,623)
Preferred and preference stock dividends paid	(42,300)	(42,743)	(38,490)
Other	(399)	(442)	(34)
Net cash (used in) provided by financing activities	(102,296)	(133,887)	430,132
Cash Flows From Investing Activities			
Utility construction expenditures	(389,416)	(456,244)	(535,316)
Allowance for equity funds used during construction	13,892	23,596	27,086
Nuclear fuel expenditures	(39,486)	(1,854)	(20,519)
Deferred nuclear expenditures	(15,809)	(22,681)	(27,755)
Deferred energy conservation expenditures	(19,918)	(3,489)	-
Nuclear decommissioning trust fund	(8,900)	(8,900)	(8,108)
Financial investments	52,616	67,282	(9,907)
Real estate projects	(23,385)	(45,322)	(49,745)
Power generation systems	(31,483)	(33,204)	(62,494)
Senior living facilities	(95)	(737)	(2,492)
Other	4,841	(2,685)	(5,412)
Net cash used in investing activities	(457,143)	(484,238)	(694,662)
Net Increase (Decrease) in Cash and Cash Equivalents	9,705	(22,462)	20,979
Cash and Cash Equivalents at Beginning of Year	17,417	39,879	18,900
Cash and Cash Equivalents at End of Year	$ 27,122	$ 17,417	$ 39,879
Other Cash Flow Information			
Cash paid during the year for:			
Interest (net of amounts capitalized)	$ 183,209	$ 189,271	$ 157,273
Income taxes	$ 87,693	$ 16,078	$ (56,937)

See Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS' EQUITY

	Years Ended December 31, 1992, 1991, and 1990					
	Common Stock Shares	Common Stock Amount	Premium on Preferred Stock	Retained Earnings	Net Unrealized Loss on Marketable Securities	Total Amount
	In thousands					
Balance at December 31, 1989	120,522	$860,767	$157	$1,140,264	$ -	$2,001,188
Net income				213,200		213,200
Dividends declared						
Preferred and preference stock				(40,261)		(40,261)
Common stock ($1.40 per share)				(173,204)		(173,204)
Common stock issued under						
Public offering	3,000	57,062				57,062
Dividend Reinvestment and Stock Purchase Plan	1,404	27,474				27,474
Employee Savings Plan	113	2,345				2,345
Costs associated with issuance of redeemable preference stock		(658)				(658)
Change in net unrealized loss on marketable securities					(13,988)	(13,988)
Balance at December 31, 1990	125,039	946,990	157	1,139,999	(13,988)	2,073,158
Deferred taxes on net unrealized loss					4,756	4,756
Net income				253,426		253,426
Dividends declared						
Preferred and preference stock				(42,746)		(42,746)
Common stock ($1.40 per share)				(176,584)		(176,584)
Common stock issued under						
Dividend Reinvestment and Stock Purchase Plan	1,515	29,747				29,747
Employee Savings Plan	136	2,516				2,516
Costs associated with issuance of redeemable preference stock		(199)				(199)
Change in net unrealized loss on marketable securities					13,988	13,988
Change in deferred taxes on net unrealized loss					(4,756)	(4,756)
Balance at December 31, 1991	126,690	979,054	157	1,174,095	-	2,153,306
Net income				264,347		264,347
Dividends declared						
Preferred and preference stock				(42,247)		(42,247)
Common stock ($1.43 per share)				(196,601)		(196,601)
Common stock issued under						
Public offerings	15,000	309,966				309,966
Dividend Reinvestment and Stock Purchase Plan	1,798	39,924				39,924
Employee Savings Plan	300	6,340				6,340
Costs associated with common stock split		(383)				(383)
Fractional shares in connection with stock split	(4)	(88)				(88)
Retirement of redeemable preference stock		32		43		75
Balance at December 31, 1992	143,784	$1,334,845	$157	$1,199,637	$ -	$2,534,639

See Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CAPITALIZATION

	At December 31, 1992	1991
	In thousands	
Long-Term Debt		
First refunding mortgage bonds		
4⅜% Series, due July 15, 1992	$ -	$ 24,726
4% Series, due March 1, 1993	24,061	24,061
4½% Series, due July 15, 1994	29,921	29,921
9⅛% Series, due October 15, 1995	200,000	200,000
5⅛% Series, due April 15, 1996	26,585	26,585
8½% Series, due June 15, 1997	-	99,500
6⅛% Series, due August 1, 1997	24,957	24,957
5⅝% Installment Series, due August 15, 1998	50,000	53,000
7% Series, due December 15, 1998	28,638	28,638
8¼% Series, due September 15, 1999	-	22,062
8.40% Series, due October 15, 1999	100,000	100,000
8⅝% Series, due September 15, 2000	-	11,338
7¼% Series, due April 15, 2001	59,919	59,919
8⅜% Series, due August 15, 2001	125,000	125,000
7⅜% Series, due September 1, 2001	59,975	59,985
7⅛% Series, due January 1, 2002	49,999	49,999
7¼% Series, due July 1, 2002	125,000	-
7½% Series, due July 1, 2002	49,985	49,985
5½% Installment Series, due July 15, 2002	12,500	12,500
7½% Series, due September 15, 2002	49,990	49,990
8⅛% Series, due February 1, 2004	74,983	74,983
6.80% Series, due September 15, 2004	20,000	20,000
8⅝% Series, due September 15, 2006	74,960	74,960
7½% Series, due January 15, 2007	125,000	-
8¼% Series, due September 15, 2007	75,000	75,000
9⅜% Series, due July 1, 2008	12,718	29,995
6.90% Installment Series, due September 15, 2009	55,000	55,000
9⅛% Series, due March 1, 2016	98,000	98,000
Total first refunding mortgage bonds	1,552,186	1,480,104
Other long-term debt		
Loan under unsecured credit facilities	-	175,000
Medium-term notes, Series A	69,500	100,000
Medium-term notes, Series B	100,000	63,100
Medium-term notes, Series C	138,050	-
9½% Notes, due May 1, 1993	100,000	100,000
Floating rate notes, due October 15, 1995 Series II	-	100,000
Pollution control loan, due July 1, 2011	36,000	36,000
Port facilities loan, due June 1, 2013	48,000	48,000
Adjustable rate pollution control loan, due July 1, 2014	20,000	20,000
Economic development loan, due December 1, 2018	35,000	35,000
Total other long-term debt	546,550	677,100
Long-term debt of Constellation Companies		
Mortgage and construction loans and other collateralized notes		
7.75%, due December 16, 1995	5,575	-
Variable rates, due through 1998	160,572	181,532
10.31%, due August 1, 1997	-	18,877
8.5%, due May 1, 2001	3,300	-
Industrial park facilities bonds	-	750
Loans under revolving credit agreements	152,000	167,330

continued on page 33

CONSOLIDATED STATEMENTS OF CAPITALIZATION

	At December 31, 1992	1991
	In thousands	
Unsecured notes		
8.30%, due April 12, 1993	$ 40,000	$ 70,000
8.35%, due August 28, 1995	20,000	20,000
8.71%, due August 28, 1996	23,000	23,000
8.93%, due August 28, 1997	52,000	52,000
8.23%, due October 15, 1997	30,000	-
8.48%, due October 15, 1998	75,000	-
8.73%, due October 15, 1999	15,000	-
Total long-term debt of Constellation Companies	576,447	533,489
Unamortized discount and premium	(8,463)	(7,571)
Current portion of long-term debt	(289,770)	(293,007)
Total long-term debt	2,376,950	2,390,115
Preferred Stock		
Cumulative, $100 par value, 1,000,000 shares authorized		
Series B, 4½%, 222,921 shares outstanding, callable at $110 per share	22,292	22,292
Series C, 4%, 68,928 shares outstanding, callable at $105 per share	6,893	6,893
Series D, 5.40%, 300,000 shares outstanding, callable at $101 per share	30,000	30,000
Total preferred stock	59,185	59,185
Preference Stock		
Cumulative, $100 par value, 6,500,000 shares authorized		
Redeemable preference stock		
7.50%, 1986 Series, 485,000 and 500,000 shares outstanding, respectively. Callable at $105 per share prior to October 1, 1996 and at lesser amounts thereafter	48,500	50,000
6.75%, 1987 Series, 485,000 and 500,000 shares outstanding, respectively. Callable at $104.50 per share prior to April 1, 1997 and at lesser amounts thereafter	48,500	50,000
6.95%, 1987 Series, 500,000 shares outstanding	50,000	50,000
7.64%, 1988 Series, 500,000 shares outstanding, callable at $107.64 per share prior to July 1, 1993 and at lesser amounts thereafter	50,000	50,000
7.80%, 1989 Series, 500,000 shares outstanding	50,000	50,000
8.25%, 1989 Series, 500,000 shares outstanding	50,000	50,000
8.625%, 1990 Series, 650,000 shares outstanding	65,000	65,000
7.85%, 1991 Series, 350,000 shares outstanding	35,000	35,000
Current portion of redeemable preference stock	(1,500)	(1,500)
Total redeemable preference stock	395,500	398,500
Preference stock not subject to mandatory redemption		
7.88%, 1971 Series, 500,000 shares outstanding, callable at $101 per share	50,000	50,000
7.75%, 1972 Series, 400,000 shares outstanding, callable at $101 per share	40,000	40,000
7.78%, 1973 Series, 200,000 shares outstanding, callable at $101 per share	20,000	20,000
Total preference stock not subject to mandatory redemption	110,000	110,000
Common Shareholders' Equity		
Common stock—without par value —175,000,000 shares authorized; 143,783,581 and 126,689,373 shares issued and outstanding at December 31, 1992 and 1991, respectively. (At December 31, 1992, 166,893 shares were reserved for the Employee Savings Plan and 1,566,187 shares were reserved for the Dividend Reinvestment and Stock Purchase Plan.)	1,334,845	979,054
Premium on preferred stock	157	157
Retained earnings	1,199,637	1,174,095
Total common shareholders' equity	2,534,639	2,153,306
Total Capitalization	$5,476,274	$5,111,106

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME TAXES

	Year Ended December 31, 1992	1991	1990
	Dollar amounts in thousands		
Income Taxes			
Current	$ 85,287	$ 61,047	$ (33,338)
Deferred			
Tax effect of temporary differences	44,975	23,605	-
Income taxes recoverable through future rates	(18,061)	(12,625)	-
Tax effect of normalized timing differences	-	-	77,189
Deferred taxes charged to expense	26,914	10,980	77,189
Investment tax credit adjustments	(8,854)	(6,225)	(4,450)
Total income taxes	103,347	65,802	39,401
Cumulative effect of change in the method of accounting for income taxes			
Increase in deferred tax liability	-	286,787	-
Amounts recorded on the balance sheet	-	(267,042)	-
Amount recognized in income	-	19,745	-
Income taxes included in cumulative effect of change in the method of accounting for unbilled revenues	-	-	(19,449)
Income taxes per Consolidated Statements of Income	$103,347	$ 85,547	$ 19,952
Reconciliation of Income Taxes Computed at Statutory Federal Rate to Total Income Taxes			
Income before income taxes (including cumulative effect of accounting changes)	$367,694	$319,228	$252,601
Statutory federal income tax rate	34%	34%	34%
Income taxes computed at statutory federal rate	125,016	108,538	85,884
Increases (decreases) in income taxes due to			
Depreciation differences not normalized on regulated activities	8,955	7,008	4,301
Allowance for equity funds used during construction	(4,723)	(8,023)	(18,140)
Amortization of deferred investment tax credits	(8,854)	(9,344)	(7,337)
Tax credits flowed through to income	(804)	(1,335)	(15,283)
Dividends received deduction	(1,635)	(2,108)	(4,352)
Equity in earnings of Safe Harbor Water Power Corporation	(1,451)	(1,492)	(1,666)
Loss on disposition of assets	(3,726)	(3,295)	(1,892)
Reversal of deferred taxes on nonregulated activities	-	(19,745)	-
Amortization of deferred tax rate differential on regulated activities	(7,365)	(5,024)	(3,062)
Other	(2,066)	622	948
Total income taxes	$103,347	$ 65,802	$ 39,401
Effective federal income tax rate	28.1%	20.6%	15.6%

	At December 31, 1992	1991
	In thousands	
Deferred Income Taxes		
Deferred tax liabilities		
Accelerated depreciation	$ 714,019	$ 653,713
Allowance for funds used during construction	199,577	197,118
Income taxes recoverable through future rates	73,759	67,618
Deferred fuel costs	61,741	97,587
Leveraged leases	33,867	35,005
Percentage repair allowance	33,367	32,031
Other	95,963	79,747
Total deferred tax liabilities	1,212,293	1,162,819
Deferred tax assets		
Alternative minimum tax	72,189	71,331
Deferred investment tax credits	56,337	59,310
Other	100,233	93,619
Total deferred tax assets	228,759	224,260
Deferred income taxes per Consolidated Balance Sheets	$ 983,534	$ 938,559

See Notes to Consolidated Financial Statements.

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Nature of the Business

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

Principles of Consolidation

The consolidated financial statements include the accounts of BG&E and all subsidiaries in which BG&E owns directly or indirectly a majority of the voting stock. Intercompany balances and transactions have been eliminated in consolidation. Under this policy, the accounts of Constellation Holdings, Inc. and its subsidiaries (collectively, the Constellation Companies) and BNG, Inc. are consolidated in the financial statements, and Safe Harbor Water Power Corporation is reported under the equity method. Corporate joint ventures, partnerships, and affiliated companies in which a 50% or less voting interest is held are accounted for under the equity or cost methods. Investments in power generation systems and certain financial investments generally represent ownership interests of 20% to 50% and are accounted for under the equity method. Diversified activities' revenues and interest expense for 1991 and 1990 have been restated to eliminate certain intercompany transactions which were not previously eliminated.

Regulation of Utility Operations

BG&E's utility operations are subject to regulation by the Public Service Commission of Maryland (Maryland Commission). The accounting policies and practices used in the determination of service rates are also generally used for financial reporting purposes in accordance with generally accepted accounting principles for regulated industries. Under these accounting principles, certain utility expenses and credits normally reflected in income are deferred on the balance sheet as regulatory assets and liabilities and are recognized in income as the related amounts are included in service rates and recovered from or refunded to customers in utility revenues.

Utility Revenues

Effective January 1, 1990, BG&E changed its revenue recognition policy to provide for the accrual of revenue for service rendered but unbilled as of the end of each month. Prior to 1990, revenues were recognized at the time customers' meters were read on a monthly cycle basis. The new policy was adopted in order to provide a better matching of revenues and expenses and to conform with the predominant practice within the utility industry. This change in policy resulted in an increase in 1990 net income of $31,675,000, or 26¢ per common share. This increase consisted of an increase of $37,754,000, or 31¢ per common share, attributable to the cumulative effect of the change at January 1, 1990, partially offset by a decrease of $6,079,000, or 5¢ per common share, in the December 31, 1990 accrual.

Revenues from interchange sales of electricity are included in the electric fuel rate formula as a reduction of electric fuel and purchased energy costs and, accordingly, do not contribute to income from operations.

Fuel and Purchased Energy Costs

Subject to the approval of the Maryland Commission, the cost of fuel used in generating electricity and the cost of gas sold may be recovered through zero-based electric fuel rate (see Note 14) and purchased gas adjustment clauses. To the extent actual fuel costs differ from revenues under the clauses, BG&E defers the fuel costs and accumulates them on the balance sheet to be recovered from or refunded to customers in future periods.

As implemented by the Maryland Commission, the electric fuel rate formula is based upon the latest twenty-four-month generation mix and the latest three-month average fuel cost for each generating unit. Effective June 1, 1990, the Maryland Commission modified the electric fuel rate formula and ordered BG&E to include a minimum level of nuclear generation in its twenty-four-month generation mix. The fuel rate does not change unless the calculated rate is more than 5% above or below the rate then in effect. In addition, BG&E recovered deferred electric fuel costs of $14,798,000 and $17,179,000 in 1991 and 1990, respectively, through a surcharge to the electric fuel rate which expired in October 1991.

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

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

	At December 31,	
	1992	1991
	In thousands	
Electric		
Costs deferred	**$210,483**	$322,064
Reserve for possible disallowance of replacement energy costs (see Note 14)	**(35,000)**	(35,000)
Net electric	**175,483**	287,064
Gas	**6,108**	(43)
Total	**$181,591**	$287,021

At December 31, 1992 and 1991, the amount of electric deferred fuel costs included in rate base by the Maryland Commission for ratemaking purposes was $72,795,000.

Income Taxes

The Company has adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," retroactive to January 1, 1991. Statement No. 109 supersedes Statement of Financial Accounting Standards No. 96, which the Company adopted in 1991. Both Statement No. 109 and Statement No. 96 require the use of the liability method of accounting for income taxes. Under the liability method, the deferred tax liability represents the tax effect of temporary differences between the financial statement and tax bases of assets and liabilities and is measured using presently enacted tax rates. The portion of BG&E's deferred tax liability applicable to utility operations which has not been reflected in current service rates represents income taxes recoverable through future rates and has been recorded as a regulatory asset on the balance sheet. Deferred income tax expense represents the net change in the deferred tax liability and regulatory asset during the year. Income taxes recoverable through future rates and a corresponding portion of the deferred income tax liability are excluded from rate base by the Maryland Commission for ratemaking purposes.

As a result of its effect on nonregulated activities, the cumulative effect of the change in the method of accounting for income taxes resulted in an increase in 1991 net income of $19,745,000, or 16¢ per common share, due to the reversal of deferred income taxes on nonregulated activities accrued in prior years at tax rates in excess of the presently enacted tax rate. As required by Statement No. 109, effective January 1, 1991, the Company restated its utility plant in service balance to reclassify the deferred taxes implicit in the allowance for funds used during construction accrued prior to 1991 under the net-of-tax method to the pre-tax equivalent. The combined effect of adopting Statement No. 109 and refining certain portions of the original quantification of the effect of the liability method of accounting for income taxes resulted in an increase in utility plant of $40,531,000, an increase in income taxes recoverable through future rates of $10,724,000, and an increase in deferred taxes of $51,255,000.

Prior to 1991, deferred income taxes were generally provided on all timing differences between revenues and expenses for financial statement and income tax purposes except for timing differences pertaining to accelerated depreciation on pre-1976 property additions.

The 1992 current tax expense consists solely of regular tax. The 1991 current tax expense consists of a regular tax of $46,844,000 and an alternative minimum tax (AMT) of $14,203,000. The 1990 current tax refund consists of a regular tax refund of $65,130,000 reduced by an AMT of $31,792,000. The regular tax refund represents principally the tax benefit of net operating losses incurred in 1990 which have been carried back to recover taxes previously paid in 1987 at the federal tax rate of 40%. The AMT liabilities can be carried forward indefinitely as tax credits to future years in which the regular tax liability exceeds the AMT liability. As of December 31, 1992, this carryforward totaled $73,206,000.

The investment tax credit (ITC) associated with BG&E's regulated utility operations is deferred and amortized to income ratably over the lives of the subject property. ITC and other tax credits associated with nonregulated diversified business activities other than leveraged leases are flowed through to income. As of December 31, 1992, the Company had energy and other tax credit carryforwards of $3,473,000 which expire in the years 2005 through 2007.

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

Deferred income taxes have not been provided on the $17,256,000 portion of the Company's investment in Safe Harbor Water Power Corporation representing accumulated undistributed earnings as of December 31, 1992. In the future, if such undistributed earnings were remitted, the Company would incur income taxes of $1,173,000.

Inventory Valuation

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

Real Estate Projects

Real estate projects consist of the Constellation Companies' investment in rental and operating properties and properties under development. Rental and operating properties are held for investment. Properties under development are held for future development and sale. Costs incurred in the acquisition and active development of such properties are capitalized. Rental and operating properties and properties under development are stated at cost unless the amount invested exceeds the expected amounts to be recovered through operations and sales. In these cases, the projects have been written down to the amount estimated to be recoverable.

Investments

Marketable equity securities are stated at the lower of aggregate cost or market value, and other securities are stated at cost. Where appropriate, cost reflects amortization of premium and discount computed on a straight-line basis. Gains and losses on the sale of the Constellation Companies' investment securities are included in revenues from diversified activities on the income statement and are recognized upon realization on a specific identification basis.

Utility Plant, Depreciation, and Decommissioning

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

Additions to utility plant and replacements of units of property are capitalized to utility plant accounts. The original cost of plant retired is removed from utility plant, and such cost, plus removal cost, less salvage value, is charged to the accumulated

provision for depreciation. Maintenance and repairs of property and replacements of items of property determined to be less than a unit of property are charged to maintenance expense. In connection with the adoption of Statement No. 109, the Company restated its utility plant in service balances effective January 1, 1991 as described above.

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

Nuclear decommissioning costs are accrued by and recovered through a sinking fund methodology. In its December 1990 rate order, the Maryland Commission granted BG&E additional revenue to provide for an increase in its nuclear decommissioning accrual in order to accumulate a reserve of $275 million in 1989 dollars by the end of Calvert Cliffs' service life, adjusted to reflect expected inflation. The reserve will provide financial assurance that decommissioning funds in an amount at least equal to a Nuclear Regulatory Commission (NRC)-prescribed minimum level will be accumulated over the remaining service life of the Calvert Cliffs plant. The total decommissioning reserve of $77,808,000 and $64,310,000 at December 31, 1992 and 1991, respectively, is included in accumulated depreciation in the Consolidated Balance Sheets. In accordance with NRC regulations, BG&E has established an external decommissioning trust to which a portion of decommissioning costs accrued have been contributed.

Allowance for Funds Used During Construction and Capitalized Interest

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

During the period January 1, 1990 through December 17, 1990 an after-tax AFC rate of 8.80%, compounded annually, was applied to all major electric projects. Effective December 17, 1990, a rate order of the Maryland Commission reduced the after-tax AFC rate to 8.69%, compounded annually.

Effective January 1, 1991, the Company began accruing AFC at a pre-tax rate of 9.94% in connection with the adoption of the liability method of accounting for income taxes under Statement No. 109. Under Statement No. 109, which prohibits net-of-tax accounting and reporting, income taxes represented by the difference between a pre-tax and net-of-tax AFC rate are recorded as a component of income tax expense rather than as a reduction of AFC. The pre-tax rate of 9.94% is equivalent to the 8.69% after-tax AFC rate. Thus, the use of a pre-tax AFC rate does not affect net income.

Effective January 1, 1992, the Maryland Commission authorized the accrual of AFC on all electric, gas, and common utility construction projects with a construction period of more than one month. Prior to 1992, AFC was accrued on major electric projects only.

The Constellation Companies capitalize interest on qualifying real estate development projects. Capitalized interest totaled $13,800,000, $20,953,000, and $25,748,000 in 1992, 1991, and 1990, respectively, and is included as a reduction of interest charges in the Consolidated Statements of Income.

Nuclear Fuel

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

Deferred Nuclear Expenditures

Deferred nuclear expenditures represent the net unamortized balance of certain operations and maintenance costs which, in accordance with orders of the Maryland Commission, have been deferred, included in rate base, and are being amortized over the remaining life of the Calvert Cliffs Nuclear Power Plant. These expenditures consist of costs incurred from 1979 through 1982 for inspecting and repairing seismic pipe supports, expenditures incurred from 1989 through 1992 associated with nonrecurring phases of certain nuclear operations projects, and expenditures incurred during 1990 for investigating leaks in the pressurizer heater sleeves.

Deferred Energy Conservation Expenditures

Deferred energy conservation expenditures represent the net unamortized balance of certain operations costs which, in accordance with orders of the Maryland Commission, have been deferred, included in rate base, and are being amortized over five years. These expenditures consist of labor, materials, and indirect costs associated with the conservation programs approved by the Maryland Commission.

Long-Term Debt

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

Cash Flows

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

NOTE 2. SEGMENT INFORMATION

	Year Ended December 31,		
	1992	1991	1990
	In thousands		
Electric			
Revenues	$1,967,923	$1,994,525	$1,712,453
Income from operations	441,784	444,530	264,814
Income from operations net of income taxes	350,429	352,385	233,863
Depreciation	191,970	173,349	146,188
Cumulative effect of change in the method of accounting for unbilled revenues	-	-	30,173
Construction expenditures (including AFC)	346,728	406,008	482,529
Identifiable assets at December 31	5,063,137	4,970,543	4,761,542
Gas			
Revenues	$ 402,937	$ 358,195	$ 373,419
Income from operations	45,552	35,607	35,919
Income from operations net of income taxes	37,514	30,945	30,654
Depreciation	21,364	18,896	17,243
Cumulative effect of change in the method of accounting for unbilled revenues	-	-	7,581
Construction expenditures (including AFC)	42,688	50,236	52,787
Identifiable assets at December 31	476,579	453,578	438,809
Diversified Activities			
Revenues	$ 120,483	$ 96,133	$ 92,240
Income from operations	48,009	9,051	23,196
Income from operations net of income taxes	44,055	20,313	39,460
Depreciation	10,149	9,019	7,155
Cumulative effect of change in the method of accounting for income taxes	-	19,745	-
Identifiable assets at December 31	1,023,315	1,001,313	1,041,365
Total			
Revenues	$2,491,343	$2,448,853	$2,178,112
Income from operations	535,345	489,188	323,929
Income from operations net of income taxes	431,998	403,641	303,977
Depreciation	223,483	201,264	170,586
Cumulative effect of change in the method of accounting for income taxes	-	19,745	-
Cumulative effect of change in the method of accounting for unbilled revenues	-	-	37,754
Construction expenditures (including AFC)	389,416	456,244	535,316
Identifiable assets at December 31	6,563,031	6,425,434	6,241,716
Other assets at December 31	811,926	712,555	468,659
Total assets at December 31	7,374,957	7,137,989	6,710,375

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

NOTE 3. SUBSIDIARY INFORMATION

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

Constellation Holdings, Inc., a wholly owned subsidiary, holds all of the stock of three other subsidiaries, Constellation Real Estate Group, Inc., Constellation Energy, Inc., and Constellation Investments, Inc. These companies are engaged in real estate development and ownership of senior living facilities; development, ownership, and operation of power generation systems; and financial investments.

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

BG&E's investment in Safe Harbor Water Power Corporation, a producer of hydroelectric power, is reported under the equity method. This investment represents two-thirds of Safe

Harbor's total capital stock, including one-half of the voting stock, and a two-thirds interest in its retained earnings.

The following is condensed financial information for Constellation Holdings, Inc. and its subsidiaries and Safe Harbor Water Power Corporation. Similar information is not presented for BNG, Inc. as its financial position (shareholder's equity of $5.9 million) and results of operations (contribution of less than 1¢ per-share to the Company's 1992 earnings) are immaterial to the consolidated financial statements. The condensed financial information for the Constellation Companies does not reflect the elimination of intercompany balances or transactions which are eliminated in the Company's consolidated financial statements.

	1992	1991	1990
	In thousands, except per-share amounts		
Constellation Holdings, Inc. and Subsidiaries			
Income Statements			
Revenues			
Real estate projects	$ 76,582	$ 75,205	$ 73,237
Power generation systems	28,084	17,732	3,328
Financial investments	21,485	8,059	20,160
Total revenues	126,151	100,996	96,725
Expenses other than interest and income taxes	77,872	91,848	73,537
Income from operations	48,279	9,148	23,188
Minority interest	718	3,550	952
Interest expense	30,103	32,938	27,895
Income tax expense (benefit)	3,637	(9,005)	(17,859)
Cumulative effect of change in the method of accounting for income taxes	-	19,745	-
Net income	$ 15,257	$ 8,510	$ 14,104
Contribution to the Company's earnings per share of common stock	$ .11	$ .07	$ .11
Balance Sheets			
Current assets	$ 29,899	$ 20,463	$ 71,837
Noncurrent assets	990,273	976,179	964,095
Total assets	$1,020,172	$ 996,642	$1,035,932
Current liabilities	$ 113,404	$ 285,130	$ 439,687
Noncurrent liabilities	611,370	431,370	343,602
Shareholder's equity	295,398	280,142	252,643
Total liabilities and shareholder's equity	$1,020,172	$ 996,642	$1,035,932
Safe Harbor Water Power Corporation			
Income Statements			
Revenues	$ 28,367	$ 28,059	$ 28,793
Expenses other than interest and income taxes	13,879	13,468	13,163
Income from operations	14,488	14,591	15,630
Other income	249	428	721
Interest expense	4,367	4,695	4,702
Income taxes	3,970	3,742	4,299
Net income	$ 6,400	$ 6,582	$ 7,350
BG&E's equity in earnings	$ 4,267	$ 4,388	$ 4,900
Dividends paid to BG&E by Safe Harbor Water Power Corporation	$ 4,340	$ 4,570	$ 11,084
Balance Sheets			
Current assets	$ 12,188	$ 13,517	$ 10,803
Noncurrent assets	117,869	120,472	122,044
Total assets	$ 130,057	$ 133,989	$ 132,847
Current liabilities	$ 3,260	$ 3,409	$ 3,798
Noncurrent liabilities	75,532	79,235	77,686
Shareholders' equity	51,265	51,345	51,363
Total liabilities and shareholders' equity	$ 130,057	$ 133,989	$ 132,847
BG&E's investment	$ 34,176	$ 34,229	$ 34,241

NOTE 4. REAL ESTATE PROJECTS AND FINANCIAL INVESTMENTS

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

	At December 31, 1992	1991
	In thousands	
Rental and operating properties (net of accumulated depreciation)	$227,412	$232,154
Properties under development	231,856	213,439
Other real estate ventures	2,774	3,068
Total	$462,042	$448,661

In 1991, a subsidiary of Constellation Holdings, Inc. recognized a loss of $9,988,000 to write down the carrying value of certain operating properties and properties under development to reflect the depressed real estate and economic markets.

In July 1990, a subsidiary of Constellation Holdings, Inc. obtained control of several real estate partnerships which had previously been accounted for under the equity method. Accordingly, the financial statements reflect assets totaling $155,635,000, including $154,182,000 of real estate property, and liabilities totaling $76,277,000, including $74,734,000 of long-term debt, in place of the previous $79,358,000 equity investment.

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

	At December 31, 1992	1991
	In thousands	
Marketable equity securities	$ 25,304	$ 38,817
Other securities	8,142	16,767
Financial limited partnerships	41,076	67,269
Insurance companies	93,048	85,307
Leveraged leases	39,441	40,098
Total	$207,011	$248,258

In 1991, a subsidiary of Constellation Holdings, Inc. recognized a loss of $10,503,000 to write down the carrying value of financial investments to reflect previously unrealized losses on certain marketable equity securities. Substantially all of the securities written down were subsequently sold. A subsidiary of Constellation Holdings, Inc. also recognized a loss of $3,071,000 on two financial limited partnerships that were adjusted to reflect market value when the partnerships were reclassified as short-term investments.

As of December 31, 1992, gross unrealized gains and losses applicable to marketable equity securities totaled $1,358,000 and $232,000, respectively. Net realized gains (losses) from financial investments included in net income totaled $9,829,000 in 1992, $(11,593,000) in 1991, and $1,395,000 in 1990.

NOTE 5. JOINTLY OWNED ELECTRIC UTILITY PLANT

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

The following data represent BG&E's share of the jointly owned properties at December 31, 1992:

	Keystone	Conemaugh	Transmission Line
	Dollar amounts in thousands		
Ownership interest	20.99%	10.56%	7.00%
Utility plant in service	$84,104	$44,677	$1,486
Accumulated depreciation	25,639	16,725	715
Construction work in progress	2,230	12,801	-

NOTE 6. CHANGES IN COMMON STOCK

On January 17, 1992, the Board of Directors approved a three-for-two split of the Company's common stock, subject to approval by the shareholders of an amendment to the charter of the Company to increase the authorized number of common shares from 100,000,000 to 175,000,000 shares. This amendment was approved at the annual shareholders meeting on April 15, 1992. The stock split was effected by the distribution of one additional share for each two shares owned by shareholders of record on April 23, 1992. All share and per-share amounts have been restated to give retroactive effect to the stock split.

NOTE 7. SHORT-TERM BORROWINGS

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

	1992	1991	1990
	Dollar amounts in thousands		
BG&E's Commercial Paper Notes			
Borrowings outstanding at December 31	$ 11,900	$159,500	$163,700
Weighted average interest rate of notes outstanding at December 31	3.62%	4.75%	7.91%
Unused lines of credit supporting commercial paper notes at December 31	$203,000	$303,000	$225,000
Maximum borrowings during the year	$393,650	$336,200	$344,200
Average daily borrowings during the year (a)	$ 98,892	$210,883	$218,642
Weighted average interest rate for the year (b)	4.79%	6.08%	8.29%
Constellation Companies' Lines of Credit			
Borrowings outstanding at December 31	$ -	$ 52,670	$ 64,000
Weighted average interest rate of borrowings outstanding at December 31	-	5.94%	8.89%
Unused lines of credit at December 31	$ -	$ 8,000	$ 10,000
Maximum borrowings during the year	$ 60,670	$ 75,000	$ 64,000
Average daily borrowings during the year (a)	$ 31,773	$ 61,860	$ 38,932
Weighted average interest rate for the year (b)	6.01%	7.19%	8.93%

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

NOTE 8. LONG-TERM DEBT

First Refunding Mortgage Bonds of BG&E

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

On August 1 of each year, BG&E is required to pay to the mortgage trustee an annual sinking fund payment equal to 1% of the largest principal amount of Mortgage Bonds outstanding under the mortgage during the preceding twelve months. Such funds are to be used, as provided in the mortgage, for the purchase and retirement by the trustee of Mortgage Bonds of any series other than the Installment Series of 1998, 2002, and 2009, the 9⅛% Series of 1995, the 8.40% Series of 1999, the 8⅜% Series of 2001, the 7¼% Series of 2002, the 6.80% Series of 2004, and the 7½% Series of 2007. Purchases may be made by the trustee in the open market and/or through responses to invitations for sealed proposals if purchases are possible at or below the applicable redemption price, or directly through the redemption provisions to which the Mortgage Bonds are subject if purchases at a more favorable price are not possible. BG&E may purchase outstanding Mortgage Bonds from time to time and may submit its sealed proposal for the sale of such Mortgage Bonds to the trustee for the sinking fund.

Other Long-Term Debt of BG&E

BG&E maintains revolving credit agreements providing for borrowings of up to a total of $175 million. These agreements expire at various times during 1994 and 1995. Under the terms of the agreements, BG&E may, at its option, obtain loans at various interest rates. A commitment fee is paid on the daily average of the unborrowed portion of the commitment. At December 31, 1992, BG&E had no borrowings under these revolving credit agreements and had available $175 million of unused capacity under these agreements.

The Medium-term Notes Series A mature at various dates from January 1993 through February 1996. The weighted average interest rate for notes outstanding at December 31, 1992 is 7.67%.

The Medium-term Notes Series B mature at various dates from July 1998 through September 2006. The weighted average interest rate for notes outstanding at December 31, 1992 is 8.43%.

The Medium-term Notes Series C mature at various dates from June 1996 through June 2003. The weighted average interest rate for notes outstanding at December 31, 1992 is 7.31%.

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

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

Long-Term Debt of Constellation Companies

The mortgage and construction loans and other collateralized notes have varying terms. Of the $160,572,000 of variable rate notes, $68,028,000 requires monthly interest only payments with various maturities from September 1995 through February 1996, and $92,544,000 requires monthly payment of principal and interest with various maturities from April 1993 through January 1998. The $5,575,000, 7.75% mortgage note and the $3,300,000, 8.5%, mortgage note require monthly principal and interest payments through December 1995 and May 2001, respectively.

Constellation Companies renegotiated its existing $261,000,000 of bank debt facilities effective May 29, 1992. These facilities were combined into one new revolving bank debt facility with an aggregate amount available of $282,170,000. This facility permits loans at various interest rates. Commitment fees are paid on the daily average of the unborrowed portion of the commitment. The amount available under this facility was decreased to $226,170,000 by a scheduled $56,000,000 reduction on September 1, 1992. The facility will be reduced again by $56,000,000 each year on May 1 of 1993 through 1995 with the remaining $58,170,000 maturing on May 1, 1996. The terms of the facility require that the Constellation Companies obtain additional capital of at least $145,000,000 by issuing additional debt maturing after May 15, 1996, issuing additional equity or selling assets. The majority of this requirement was met by the $120,000,000 private placement, described below, and the remaining $25,000,000 must be obtained by February 1, 1995. At December 31, 1992, $152,000,000 is outstanding under the revolving bank debt facility. At December 31, 1992, the Constellation Companies total unsecured indebtedness was $407,000,000, and is limited by other terms of the facility to $435,000,000 during 1993. As such, although $74,170,000 of unused capacity is available under the revolving bank debt facility at December 31, 1992, only $28,000,000 can be borrowed so long as the Constellation Companies total unsecured indebtedness remains at $407,000,000.

In October 1992, the Constellation Companies closed a private placement of $120,000,000 of unsecured serial notes with several insurance companies. The proceeds were used to pay down amounts borrowed under the new revolving bank debt facility discussed above and a $56,000,000 short-term bank loan. The notes mature in accordance with the following schedule: $30,000,000 in 1997, $75,000,000 in 1998, and $15,000,000 in 1999.

Weighted Average Interest Rates for Variable Rate Debt

The weighted average interest rates for variable rate debt during 1992 and 1991 were as follows:

	1992	1991
BG&E		
Loans under unsecured credit facilities	- %	8.81%
Loans under revolving credit agreements	4.23	6.93
Floating rate notes	-	8.00
Floating rate notes Series II	7.90	7.92
Pollution control loan	2.90	4.42
Port facilities loan	3.04	4.43
Adjustable rate pollution control loan	4.13	5.48
Economic development loan	3.11	4.69
Constellation Companies		
Mortgage and construction loans and other collateralized notes	6.74	8.95
Loans under credit agreements	6.15	7.65

Aggregate Maturities

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

Year	BG&E	Constellation Companies
	In thousands	
1993	$189,520	$100,250
1994	61,468	62,936
1995	218,237	142,531
1996	73,140	61,612
1997	81,565	112,464

NOTE 9. REDEEMABLE PREFERENCE STOCK

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

The following series are subject to an annual mandatory redemption of the number of shares shown below at par beginning in the year shown below. At BG&E's option, an additional number of shares, not to exceed the same number as are mandatory, may be redeemed at par in any year, commencing in the same year in which the mandatory redemption begins. The 8.25%, 1989 Series, the 8.625%, 1990 Series, and the 7.85%, 1991 Series listed below are not redeemable except through operation of a sinking fund.

Series	Shares	Beginning Year
7.50%, 1986 Series	15,000	1992
6.75%, 1987 Series	15,000	1993
7.64%, 1988 Series	100,000	1994
8.25%, 1989 Series	100,000	1995
8.625%, 1990 Series	130,000	1996
7.85%, 1991 Series	70,000	1997

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

Year	
	In thousands
1993	$ 1,500
1994	13,000
1995	73,000
1996	36,000
1997	93,000

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

A charter amendment which increased the authorized number of shares of preference stock from 6,000,000 to 6,500,000 shares was approved at the annual meeting of shareholders on April 15, 1992.

NOTE 10. PENSION BENEFITS

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

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

The Company's funding policy is to contribute annually the cost of the Pension Plan as determined under the projected unit credit cost method. Plan assets at December 31, 1992 consisted primarily of marketable fixed income and equity securities, group annuity contracts, and short-term investments.

BG&E offered a Voluntary Special Early Retirement Program (the Program) to eligible employees who retired during the period February 1, 1992 through April 1, 1992. In accordance with Statement of Financial Accounting Standards No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," the one-time cost of termination benefits associated with the Program was recognized in 1992 and reduced net income by $6.6 million, or 5¢ per common share. The cost of the termination benefits is not reflected in net pension cost.

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

	At December 31,	
	1992	1991
	Dollar amounts in thousands	
Actuarial present value of		
Vested benefit obligation	$ 485,098	$ 418,170
Nonvested benefit obligation	9,814	11,372
Accumulated benefit obligation	494,912	429,542
Projected benefits related to increase in future compensation levels	86,882	94,176
Projected benefit obligation	581,794	523,718
Plan assets at fair value	(542,190)	(516,967)
Projected benefit obligation less plan assets	39,604	6,751
Unrecognized prior service cost	(17,671)	(19,112)
Unrecognized net gain (loss)	(28,017)	12,015
Unamortized net asset from adoption of FASB Statement No. 87	2,039	2,265
Accrued pension (asset) liability	$ (4,045)	$ 1,919
Assumptions		
Discount rate	8.75%	9.0%
Average increase in future compensation levels	4.5%	4.5%
Expected long-term rate of return on assets	9.5%	9.5%

	Year Ended December 31,		
	1992	1991	1990
	In thousands		
Components of net pension cost			
Service cost-benefits earned during the period	$11,771	$ 11,729	$ 11,257
Interest cost on projected benefit obligation	47,355	43,143	40,455
Actual return on plan assets	(33,685)	(56,737)	(18,881)
Net amortization and deferral	(12,257)	12,810	(23,066)
Total net pension cost	13,184	10,945	9,765
Amounts capitalized as construction cost	(1,839)	(1,500)	(1,377)
Amounts charged to expense	$11,345	$ 9,445	$ 8,388

The Company also sponsors a defined contribution savings plan covering all eligible BG&E employees and certain employees of the Constellation Companies. Under this plan, the Company makes contributions on behalf of participants. Company contributions to this plan totaled $14.8 million, $10.6 million, and $10.0 million in 1992, 1991, and 1990, respectively.

NOTE 11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The Company provides certain health care and life insurance benefits for retired BG&E employees and certain retired employees of the Constellation Companies. The cost of these benefits is generally recognized as the benefits are paid and totaled $15,887,000 for 1992, $14,054,000 for 1991, and $11,464,000 for 1990.

Statement of Financial Accounting Standards No. 106, which will be adopted by the Company in January 1993, requires a change in the method of accounting for postretirement benefits other than pensions from the present pay-as-you-go method to an accrual method. The accumulated postretirement benefit obligation existing at the beginning of 1993 (transition obligation) is approximately $270 million and will be recognized on a delayed basis over the average remaining

service period of active plan participants. The adoption of Statement No. 106 will increase operating expenses by approximately $20 million annually. In its pending application for increased electric and gas base rates, the Company has requested the Maryland Commission to provide current rate recovery for the increase in operating expenses as a result of adopting Statement No. 106 and to authorize deferral of any increased expenses for which service rates are not provided currently under the provisions of generally accepted accounting principles for regulated enterprises. Therefore, the adoption of Statement No. 106 is not expected to have a significant impact on the Company's financial statements. However, if the Maryland Commission were to recognize postretirement benefit costs under a method different than that prescribed by Statement No. 106, earnings could be impacted negatively.

The Company also provides certain pay continuation payments to employees of BG&E and certain of the Constellation Companies who are determined to be disabled under BG&E's Long-Term Disability Plan. The cost of these benefits is generally recognized as the benefits are paid. Statement of Financial Accounting Standards No. 112, which must be adopted by 1994, requires a change in the method of accounting for these benefits from the present pay-as-you-go method to an accrual method. The unrecognized liability for these benefits must be recognized at the time Statement No. 112 is adopted. The increase in the annual cost of these benefits subsequent to the adoption of accrual accounting is not expected to have a material impact on the Company's financial statements.

NOTE 12. LEASES

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

	1992	1991	1990
		In thousands	
Operating leases	$13,697	$12,365	$13,240
Capital leases	321	274	330
Total lease expense	$14,018	$12,639	$13,570

The future minimum lease payments at December 31, 1992 for long-term noncancelable leases are as follows:

Year	Operating Leases	Capital Leases
	In thousands	
1993	$ 4,071	$ 392
1994	3,934	378
1995	3,811	368
1996	3,381	365
1997	2,724	177
Thereafter	4,332	397
Total minimum lease payments	$22,253	$2,077
Interest portion		(618)
Present value of net minimum lease payments		$1,459

Certain of the Constellation Companies, as lessor, have entered into operating leases for office and retail space. These leases expire over periods ranging from 1 to 25 years, with options to renew. The net book value of property under operating leases was $175,523,000 at December 31, 1992. The future minimum rentals to be received under operating leases in effect at December 31, 1992 are as follows:

Year	
	In thousands
1993	$ 12,728
1994	15,461
1995	13,330
1996	11,670
1997	10,300
Thereafter	83,696
Total minimum rentals	$147,185

NOTE 13. TAXES OTHER THAN INCOME TAXES

Taxes other than income taxes are as follows:

	Year Ended December 31,		
	1992	1991	1990
		In thousands	
Real and personal property	$100,419	$ 89,379	$ 85,372
Public service company franchise	45,654	46,041	42,812
Social security	34,911	33,121	30,344
Other	9,355	9,026	6,770
Total taxes other than income taxes	190,339	177,567	165,298
Amounts included above charged to accounts other than taxes	(7,335)	(6,786)	(8,576)
Taxes other than income taxes per Consolidated Statements of Income	$183,004	$170,781	$156,722

NOTE 14. COMMITMENTS, GUARANTEES, AND CONTINGENCIES

Commitments

BG&E has made substantial commitments in connection with its construction program for 1993 and subsequent years. In addition, BG&E has entered into two long-term contracts for the purchase of electric generating capacity and energy. The contracts expire in 2001 and 2013. Total payments under these contracts were $55,051,000, $23,716,000, and $17,957,000 during 1992, 1991, and 1990, respectively. At December 31, 1992, the estimated future payments for capacity and energy that BG&E is obligated to buy under these contracts are as follows:

Year	*In thousands*
1993	$ 70,058
1994	71,735
1995	72,119
1996	71,243
1997	73,769
Thereafter	722,992
Total payments	$1,081,916

Certain of the Constellation Companies have committed to contribute additional capital and to make additional loans to certain affiliates, joint ventures, and partnerships in which they have an interest. As of December 31, 1992, the total amount of investment requirements committed to by the Constellation Companies is $54 million.

Guarantees

BG&E has agreed to guarantee two-thirds of certain indebtedness incurred by Safe Harbor Water Power Corporation. The amount of such indebtedness totals $45 million, of which $30 million represents BG&E's share of the guarantee. BG&E assesses that the risk of material loss on the loans guaranteed is minimal.

As of December 31, 1992, the total outstanding loans and letters of credit of certain power generation and real estate projects guaranteed by the Constellation Companies were $52 million. Also, the Constellation Companies have agreed to guarantee certain other borrowings of various power generation and real estate projects and to provide certain performance guarantees of power generation projects. The Company assesses that the risk of material loss on the loans guaranteed and performance guarantees is minimal.

Environmental Matters

The Clean Air Act of 1990 (the Act) contains provisions designed to reduce sulfur dioxide and nitrogen oxide emissions from electric generating stations in two separate phases. Under Phase I of the Act, which must be implemented by 1995, BG&E expects to incur expenditures of approximately $55 million, most of which is attributable to its portion of the cost of installing a flue gas desulfurization system at the Conemaugh generating station, in which BG&E owns a 10.56% interest. BG&E is currently examining what actions will be required in order to comply with Phase II of the Act, which must be implemented by 2000. However, BG&E anticipates that compliance will be attained by some combination of fuel switching, flue gas desulfurization, unit retirements, or allowance trading.

At this time, plans for complying with nitrogen oxide (NO_x) control requirements under the Act are less certain because all implementation regulations have not yet been finalized by the government. It is expected that by the year 2000 these regulations will require additional NO_x controls for acid rain abatement at BG&E's generating plants and ozone nonattainment at all BG&E facilities. The controls will result in additional expenditures that are difficult to predict prior to the issuance of such regulations. Based on existing and proposed acid rain and ozone nonattainment regulations, BG&E currently estimates that the NO_x controls at BG&E's generating plants will cost approximately $40 million. BG&E is currently unable to predict the cost of compliance with the additional requirements at other BG&E facilities.

BG&E has been notified by the Environmental Protection Agency (EPA) and several state agencies that it is being considered a potentially responsible party with respect to the clean-up of certain environmentally contaminated sites owned and operated by third parties. Although the clean-up costs for certain environmentally contaminated sites could be significant, BG&E believes that the resolution of these matters will not have a material effect on its financial position or results of operations.

Also, BG&E is voluntarily coordinating investigation of several former coal gas manufacturing plant sites, including exploration of corrective action options to remove coal tar. However, no formal legal proceedings have been instituted. The technology for cleaning up such sites is still developing, and potential remedies for these sites have not been identified. Consequently, the clean-up costs for these sites, which could be significant in total, cannot presently be estimated.

The Energy Policy Act of 1992 contains provisions requiring domestic utilities to contribute to a fund for decommissioning and decontaminating the Department of Energy's (DOE) uranium enrichment facilities. These contributions are generally payable over a fifteen-year period with escalation for inflation and are based upon the amount of uranium enriched by DOE for each utility. At December 31, 1992, BG&E has recorded a liability and a deferred charge equal to its estimated total contribution of approximately $55 million in 1992 dollars. The Act provides that these costs are recoverable through utility service rates as a cost of fuel.

Nuclear Insurance

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

In addition, in the event of an incident at any commercial nuclear power plant in the country, BG&E could be assessed for a portion of any third party claims associated with the incident. Under the provisions of the Price Anderson Act, the limit for third party claims from a nuclear incident is $7.8 billion. If third party claims relating to such an incident exceed $200 million (the amount of primary insurance), BG&E's share of the total liability for third party claims could be up to $132 million per incident, that would be payable at a rate of $20 million per year.

BG&E and other operators of commercial nuclear power plants in the United States are required to purchase insurance to cover claims of certain nuclear workers. Other non-governmental commercial nuclear facilities may also purchase such insurance.

Coverage of up to $400 million is provided for claims against BG&E or others insured by these policies for radiation injuries. If certain claims were made under these policies, BG&E and all policy holders could be assessed, with BG&E's share being up to $6.3 million in any one year.

For physical damage to Calvert Cliffs, BG&E has $2.625 billion of property insurance, including $1.325 billion from an industry mutual insurance company. If accidents at any insured plants cause a shortfall of funds at the industry mutual, BG&E and all policyholders could be assessed, with BG&E's share being up to $14.5 million.

If an outage at Calvert Cliffs is caused by an insured physical damage loss and lasts more than 21 weeks, BG&E has up to $426 million per unit of insurance, provided by a different industry mutual insurance company for replacement power costs. This amount can be reduced by up to $85 million per unit if an outage to both units at Calvert Cliffs is caused by a singular insured physical damage loss. If an outage at a[illegible] plant causes a shortfall of funds at the industry mutual, [illegible]&E and all policyholders could be assessed, with BG&E's share being up to $9.6 million.

Recoverability of Electric Fuel Costs

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

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

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

In May 1989, BG&E filed its fuel rate case in which 1988 performance will be examined. BG&E met the system-wide and nuclear plant performance targets in 1988. People's Counsel alleges that BG&E imprudently managed several outages at Calvert Cliffs, and BG&E estimates that the total replacement energy costs associated with these 1988 outages were approximately $2 million. On November 14, 1991, a Hearing Examiner at the Maryland Commission issued a proposed Order, which became final on December 17, 1991 and concluded that no disallowance was warranted. The Hearing Examiner found that BG&E maintained the productive capacity of the Plant at a reasonable level, noting that it produced a near record amount of power and exceeded the GUPP standard. Based on this record, the Order concluded there was sufficient cause to excuse any avoidable failures to maintain productive capacity at higher levels.

During 1989, 1990, and 1991, BG&E experienced extended outages at its Calvert Cliffs Nuclear Power Plant. In the Spring of 1989, a leak was discovered around the Unit 2 pressurizer heater sleeves during a refueling outage. BG&E shut down Unit 1 as a precautionary measure on May 6, 1989 to inspect for similar leaks and none were found. However, Unit 1 was out of service for the remainder of 1989 and 285 days of 1990 to undergo maintenance and modification work to enhance the reliability of various safety systems, to repair equipment, and to perform required periodic surveillance tests. Unit 2, which returned to service on May 4, 1991, remained out of service for the remainder of 1989, 1990, and the first part of 1991 to repair the pressurizer, perform maintenance and modification work, and complete the refueling. The replacement energy costs associated with these extended outages for both units at Calvert Cliffs, concluding with the return to service of Unit 2, is estimated to be $458 million.

In a December 1990 order issued by the Maryland Commission in a BG&E base rate proceeding, the Maryland Commission found that certain operations and maintenance expenses incurred at Calvert Cliffs during the test year should not be recovered from ratepayers. The Maryland Commission found that this work, which was performed during the 1989-1990 Unit 1 outage and fell within the test year, was avoidable and caused by BG&E actions which were deficient.

The Commission noted in the order that its review and findings on these issues pertain to the reasonableness of BG&E's test-year operations and maintenance expenses for purposes of setting base rates and not to the responsibility for replacement power costs associated with the outages at Calvert Cliffs. The Maryland Commission stated that its decision in the base rate case will have no *res judicata* (binding) effect in the fuel rate proceeding examining the 1989-1991 outages. The work characterized as avoidable significantly increased the duration of the Unit 1 outage. Despite the Maryland Commission's statement regarding no binding effect, BG&E recognizes that the views expressed by the Maryland Commission make the full recovery of all of the replacement energy costs associated with the Unit 1 outage doubtful. Therefore, in December 1990, BG&E recorded a provision of $35 million against the possible disallowance of such costs which reduced 1990 earnings by 19¢ per common share. BG&E cannot determine whether replacement energy costs may be disallowed in the present fuel rate proceedings in excess of the provision, but such amounts could be material.

NOTE 15. FAIR VALUE OF FINANCIAL INSTRUMENTS

As required by Statement of Financial Accounting Standards No. 107, the following table presents the carrying value and fair value of financial instruments included in the Consolidated Balance Sheets.

	At December 31, 1992	
	Carrying Amount	Fair Value
	In thousands	
Current assets	$ 408,790	$ 408,790
Investments and other assets	93,834	97,135
Current liabilities	649,650	649,650
Capitalization	2,772,450	2,871,291

The carrying amount of current assets and current liabilities approximates fair value because of the short maturity of these instruments.

The fair value of investments and other assets is based on quoted market prices where available. Certain investments with a carrying amount of $71 million are excluded from the amounts shown in investments and other assets because it was not practicable to determine their fair values. These investments include partnership investments in public and private equity and debt securities, partnership investments in solar powered energy production facilities, and investments in stock trusts.

Financial instruments included in capitalization are long-term debt and redeemable preference stock. The fair value of fixed-rate long-term debt and redeemable preference stock generally is estimated by discounting the remaining cash flows at the current market rate to maturity. The carrying amount of variable-rate long-term debt approximates fair value.

BG&E and the Constellation Companies have loan guarantees totalling $30 million and $38 million, respectively, for which it is not practicable to determine fair value. It is not anticipated that these loan guarantees will need to be funded.

NOTE 16. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following data are unaudited but, in the opinion of Management, include all adjustments necessary for a fair presentation. BG&E's utility business is seasonal in nature with the peak sales periods generally occurring during the summer and winter months. Accordingly, comparisons among quarters of a year may not be indicative of overall trends and changes in operations.

	Quarter Ended				Year Ended
	March 31	June 30	September 30	December 31	December 31
	In thousands, except per-share amounts				
1992					
Revenues	$669,253	$540,895	$677,059	$604,136	$2,491,343
Income from operations	127,121	91,309	222,627	94,288	535,345
Net income	59,254	38,049	124,620	42,424	264,347
Earnings applicable to common stock	48,680	27,475	114,047	31,898	222,100
Earnings per share of common stock	0.37	0.20	0.84	0.22	1.63
1991					
Revenues	$592,364	$564,257	$699,149	$593,083	$2,448,853
Income from operations	85,916	115,450	222,015	65,807	489,188
Income before cumulative effect of change in accounting method	41,110	59,192	116,671	16,708	233,681
Cumulative effect of change in the method of accounting for income taxes	19,745	-	-	-	19,745
Net income	60,855	59,192	116,671	16,708	253,426
Earnings applicable to common stock	50,285	48,164	106,097	6,134	210,680
Earnings per share of common stock					
Before cumulative effect of change in accounting method	0.24	0.38	0.84	0.05	1.51
Cumulative effect of change in accounting for income taxes	0.16	-	-	-	0.16
Total earnings per share of common stock	0.40	0.38	0.84	0.05	1.67

Results for the first and third quarters of 1992 reflect the cost of termination benefits associated with the Voluntary Special Early Retirement Program (see Note 10).
Results for the third and fourth quarters of 1991 reflect the write-down of the Constellation Companies' investments in certain financial investments and real estate projects, respectively (see Note 4).
The sum of the quarterly earnings per-share amounts may not equal the total for the year due to changes in the average number of shares outstanding throughout the year.
Certain prior-year amounts have been restated to conform with the current year's presentation.

CORPORATE AND UTILITY OFFICERS

Christian H. Poindexter
Chairman of the Board and Chief Executive Officer
Age: 54, Years of service: 25

Edward A. Crooke
President and Chief Operating Officer
Age: 54, Years of service: 24

George C. Creel
Senior Vice President, Generation
Age: 58, Years of service: 37

Thomas F. Brady
Vice President, Customer Service and Accounting
Age: 43, Years of service: 23

Michael J. Chesser
Vice President, Marketing
Age: 44, Years of service: 21

Herbert D. Coss, Jr.
Vice President, Electric Interconnection and Transmission
Age: 58, Years of service: 36

Robert E. Denton
Vice President, Nuclear Energy
Age: 49, Years of service: 22

George D. England
Vice President, Distribution
Age: 61, Years of service: 38

Jon M. Files
Vice President, Management Services
Age: 57, Years of service: 35

Ronald W. Lowman
Vice President, Fossil Energy
Age: 48, Years of service: 24

G. Dowell Schwartz, Jr.
Vice President, General Services
Age: 56, Years of service: 34

Charles W. Shivery
Vice President, Corporate Finance, Treasurer, and Secretary
Age: 47, Years of service: 20

Joseph A. Tiernan
Vice President, Corporate Affairs
Age: 54, Years of service: 24

Jeffrey L. Davis
Assistant Secretary
Age: 44, Years of service: 20

Thomas E. Ruszin, Jr.
Assistant Treasurer
Age: 38, Years of service: 16

CHANGES IN ORGANIZATION

Effective January 1, 1993, Christian H. Poindexter, former Vice Chairman of the Board, was elected Chairman of the Board and Chief Executive Officer. He succeeded George V. McGowan, who retired with more than 41 years of service.

Edward A. Crooke, former President of Utility Operations, was named President and Chief Operating Officer, effective September 1, 1992.

Effective January 1, 1993, George C. Creel, former Vice President of Nuclear Energy, was elected Senior Vice President of Generation, assuming responsibility for the Nuclear Energy and Fossil Energy Divisions.

Robert E. Denton, former Plant General Manager of the Calvert Cliffs Nuclear Power Plant, was elected Vice President of Nuclear Energy, effective September 1, 1992, replacing Mr. Creel.

Ronald W. Lowman, former Manager of Fossil Engineering, was elected Vice President of Fossil Energy, effective January 1, 1993. He replaced J. Thomas Wellener, who retired with more than 38 years of service.

Christian H. Poindexter
Chairman of the Board and Chief Executive Officer, *First elected to the board: 1988*

H. Furlong Baldwin
Chairman of the Board and Chief Executive Officer, Mercantile Bankshares Corporation (bank holding company), Baltimore, *First elected to the board: 1988*

Beverly B. Byron
Former Congresswoman, United States House of Representatives (government), Frederick, Md., *First elected to the board: 1993*

J. Owen Cole
Chairman of the Executive Committee, First Maryland Bancorp (bank holding company), Baltimore, *First elected to the board: 1977*

Dan A. Colussy
Chairman of the Board, President, and Chief Executive Officer, UNC Incorporated (aviation services), Annapolis, Md., *First elected to the board: 1992*

Edward A. Crooke
President and Chief Operating Officer, *First elected to the board: 1988*

Leslie B. Disharoon
Former Chairman of the Board and President, Monumental Corporation (insurance), Baltimore, *First elected to the board: 1978*

Jerome W. Geckle
Chairman of the Board (retired), PHH Corporation (vehicle, relocation and management services), Baltimore, *First elected to the board: 1980*

George V. McGowan
Chairman of the Executive Committee, *First elected to the board: 1980*

Paul G. Miller
Chairman of the Board, Supercomputer Systems, Inc. (design, manufacture, and sale of supercomputers), Baltimore, *First elected to the board: 1981*

George G. Radcliffe
Former Chairman of the Board and Chief Executive Officer, The Baltimore Life Insurance Company (insurance), Baltimore, *First elected to the board: 1982*

George L. Russell, Jr., Esq.
Partner, Piper & Marbury (law firm), Baltimore, *First elected to the board: 1988*

Michael D. Sullivan
President and Chief Executive Officer, Merry-Go-Round Enterprises, Inc. (specialty retailing), Joppa, Md., *First elected to the board: 1992*

Harry K. Wells
Chairman of the Board (retired), McCormick & Company, Inc. (food processing, spices, etc.), Baltimore, *First elected to the board: 1975*

CHANGE IN DIRECTORS

Bernard C. Trueschler retired from the board effective December 31, 1992.

Sister Kathleen Feeley, S.S.N.D. retired from the board effective July 1, 1992.

Beverly B. Byron, former Congresswoman, U.S. House of Representatives, was elected to the board effective February 1, 1993.

COMMITTEES OF THE BOARD

Audit Committee
Mr. Radcliffe, *Chairman*
Mr. Baldwin
Mr. Cole
Mr. Russell

Executive Committee
Mr. McGowan, *Chairman*
Mr. Baldwin
Mr. Crooke
Mr. Disharoon
Mr. Poindexter
Mr. Radcliffe

Committee on Management
Mr. Geckle, *Chairman*
Mr. Cole
Mr. Disharoon
Mr. Sullivan

Committee on Nuclear Power
Mr. Wells, *Chairman*
Mrs. Byron
Mr. Colussy
Mr. McGowan
Mr. Miller

CONSTELLATION SUBSIDIARIES

OFFICERS

Christian H. Poindexter
Chairman of the Board, Constellation Holdings, Inc.
Age: 54

Bruce M. Ambler
President and Chief Executive Officer,
Constellation Holdings, Inc.
Age: 53

Douglas S. Perry
Vice President and General Counsel,
Constellation Holdings, Inc.
Age: 43

Terry L. Ogletree
President, Constellation Energy, Inc.
Age: 49

Steven D. Kesler
President, Constellation Investments, Inc.
Age: 41

Bruce M. Ambler
Acting President, Constellation Real Estate Group, Inc.
Age: 53

J. Richard O'Connell
President, Constellation Real Estate, Inc.
Age: 57

James W. Jeffcoat
President, Constellation Health Services, Inc.
Age: 39

Robert E. Windham
President, Church Street Station, Inc.
Age: 50

CONSTELLATION HOLDINGS

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

CONSTELLATION ENERGY

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

CONSTELLATION REAL ESTATE GROUP

This is the parent company of several businesses, including Church Street Station in Orlando, Florida, that operate projects in several real estate categories. Constellation Real Estate, Inc. (formerly the KMS Group) performs development, construction, and operational activities, and Constellation Health Services, through joint ventures, owns senior-living and retirement communities, as well as nursing facilities for the elderly.

CONSTELLATION INVESTMENTS

Constellation Investments serves as the primary provider of current income from its investments in various securities, investment partnerships, and financial-service companies.

BOARD OF DIRECTORS

Christian H. Poindexter
Chairman of the Board,
Baltimore Gas and Electric Company, *First elected to the board: 1985*

Bruce M. Ambler
President and Chief Executive Officer,
Constellation Holdings, Inc., *First elected to the board: 1989*

H. Furlong Baldwin
Chairman of the Board and Chief Executive Officer,
Mercantile Bankshares Corporation, *First elected to the board: 1987*

Leslie B. Disharoon
Former Chairman of the Board and President,
Monumental Corporation, *First elected to the board: 1987*

Jerome W. Geckle
Chairman of the Board (retired), PHH Corporation,
First elected to the board: 1985

Edward W. Kay
Former Co-Chairman and Chief Operating Officer,
Ernst & Young, *First elected to the board: 1988*

George V. McGowan
Former Chairman of the Board, Constellation Holdings, Inc.;
Former Chairman of the Board and Chief Executive Officer,
Baltimore Gas and Electric Company, *First elected to the board: 1983*

Paul G. Miller
Chairman of the Board, Supercomputer Systems, Inc.,
First elected to the board: 1984

Bernard C. Trueschler
Former Chairman of the Board and Chief Executive Officer,
Baltimore Gas and Electric Company, *First elected to the board: 1983*

COMMITTEES OF THE BOARD

Audit Committee
Mr. Kay, *Chairman*
Mr. Baldwin
Mr. Miller

Committee on Management
Mr. Geckle, *Chairman*
Mr. Disharoon

CHANGES IN ORGANIZATION AND DIRECTORS

Christian H. Poindexter was elected Chairman of the Board of Constellation Holdings, Inc., effective January 1, 1993. He replaced George V. McGowan, who resigned as Chairman of the Board of Constellation Holdings, Inc., at that time. Mr. McGowan will continue as a director.

SHAREHOLDER INFORMATION

COMMON STOCK DIVIDENDS AND PRICE RANGES

	1992			1991		
	Dividend Declared	Price High	Price Low	Dividend Declared	Price High	Price Low
First Quarter	$ .35	$23⅛	$19¾	$ .35	$19⅝	$17⅛
Second Quarter	.36	22⅝	19⅞	.35	19⅞	18¾
Third Quarter	.36	24⅜	21½	.35	21⅜	19⅜
Fourth Quarter	.36	24⅛	21¾	.35	22⅞	21⅛
Total	$1.43			$1.40		

DIVIDEND POLICY

The common stock is entitled to dividends when and as declared by the Board of Directors. There are no limitations in any indenture or other agreements on payment of dividends. Holders of preferred stock (first) and holders of preference stock (next), however, are entitled to receive, when and as declared from the surplus or net profits, cumulative yearly dividends at the fixed preferential rate specified for each series and no more, payable quarterly, and to receive when due the applicable preference stock redemption payments, before any dividend on the common stock shall be paid or set apart. Dividends have been paid on the common stock continuously since 1910. Future dividends depend upon future earnings, the financial condition of the company, and other factors. Quarterly dividends were declared on the common stock during 1992 and 1991 in the amounts set forth above.

COMMON STOCK DIVIDEND DATES

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

DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

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

STOCK TRADING

The company's common stock, which is traded under the ticker symbol BGE, is listed on the New York, Midwest, and Pacific stock exchanges, and has unlisted trading privileges on the Boston, Cincinnati, and Philadelphia exchanges. As of December 31, 1992, there were 80,371 common shareholders of record.

TRANSFER AGENT AND REGISTRAR

Maryland National Bank, Baltimore

ANNUAL MEETING

The annual meeting of shareholders will be held at 10:00 a.m. on Tuesday, April 13, 1993, in the Hunt Valley Ballroom of Marriott's Hunt Valley Inn, 245 Shawan Road (I-83 at Shawan Road), Hunt Valley, Maryland.

FORM 10-K

Upon written request, the company will furnish, without charge, a copy of its Form 10-K annual report, including financial statements, after it is filed with the Securities and Exchange Commission in March 1993. Requests should be addressed to Charles W. Shivery, Vice President, Corporate Finance, Treasurer, and Secretary, P.O. Box 1475, Baltimore, Maryland 21203-1475.

AUDITORS

Coopers & Lybrand

EXECUTIVE OFFICES

Gas and Electric Building
Charles Center
Baltimore, Maryland 21201

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

SHAREHOLDERS' INQUIRIES AND ASSISTANCE

Shareholders desiring assistance with lost or stolen stock certificates or dividend checks, name changes, address changes, stock transfers, or other matters should call the shareholder services representatives on our toll-free telephone numbers.

The following toll-free telephone numbers are available during our business hours, 8:00 a.m. to 4:45 p.m.:

Baltimore Metropolitan Area	783-5920
Within Maryland	1-800-492-2861
Outside of Maryland	1-800-258-0499

Letters should be addressed to:

Baltimore Gas and Electric Company
Shareholder Services
P.O. Box 1642
Baltimore, Maryland 21203-1642

BALTIMORE GAS AND ELECTRIC

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