

ROBERT E. DENTON
Vice President
Nuclear Energy

Baltimore Gas and Electric Company
Calvert Cliffs Nuclear Power Plant
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Lusby, Maryland 20657
410 586-2200 Ext. 4455 Local
410 260-4455 Baltimore



March 10, 1995

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
1994 Annual Report

In accordance with the requirements of 10 CFR 50.71(b), enclosed please find a copy of the Baltimore Gas and Electric Company's 1994 Annual Report to its shareholders.

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

Very truly yours,

A handwritten signature in dark ink, appearing to read 'R. E. Denton', is written over a horizontal line.

RED/DWM/bjd

Enclosure

cc: P. R. Wilson, NRC

(Without Enclosure)

D. A. Brune, Esquire

J. E. Silberg, Esquire

L. B. Marsh, NRC

D. G. McDonald, Jr., NRC

T. T. Martin, NRC

R. I. McLean, DNR

J. H. Walter, PSC

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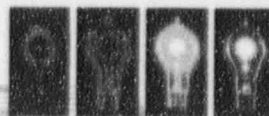
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1994 ANNUAL REPORT TO SHAREHOLDERS

Reliable and Affordable Electricity



Real-Time
Pricing



1	2	3	4	5	6	7	8	9	10	11	12
1.00	1.05	1.10	1.15	1.20	1.25	1.30	1.35	1.40	1.45	1.50	1.55
1.60	1.65	1.70	1.75	1.80	1.85	1.90	1.95	2.00	2.05	2.10	2.15
2.20	2.25	2.30	2.35	2.40	2.45	2.50	2.55	2.60	2.65	2.70	2.75
2.80	2.85	2.90	2.95	3.00	3.05	3.10	3.15	3.20	3.25	3.30	3.35
3.40	3.45	3.50	3.55	3.60	3.65	3.70	3.75	3.80	3.85	3.90	3.95
4.00	4.05	4.10	4.15	4.20	4.25	4.30	4.35	4.40	4.45	4.50	4.55

New Products and Services

Diversified Businesses



Gas
Brokering

Clean Natural Gas

BGE: Still Your Best Choice

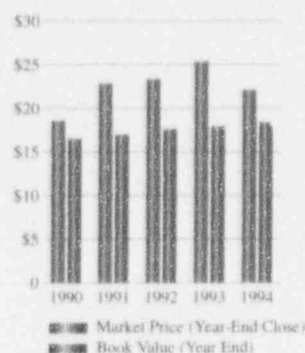
BGE

1994	1993	% Change
\$ 1.81	\$ 1.77	2.3 %
0.12	0.08	50.0 %
\$ 1.93	\$ 1.85	4.3 %
\$ 1.51	\$ 1.47	2.7 %
147.1	145.1	1.4 %
10.63%	10.39%	2.3 %
\$18.42	\$17.94	2.7 %
\$ 22%	\$ 25%	(12.8) %
\$2,127	\$2,112	0.7 %
421	433	(2.8) %
235	196	19.9 %
\$2,783	\$2,741	1.5 %
\$ 324	\$ 310	4.5 %
\$ 284	\$ 268	6.0 %
\$6,986	\$6,820	2.4 %
1,158	1,167	(0.8) %
\$8,144	\$7,987	2.0 %
\$ 449	\$ 455	(1.3) %
\$ 319	\$ 307	3.9 %
27.5	26.8	2.5 %
108.7	108.0	0.6 %

Earnings and Dividends Declared per Share of Common Stock



Common Stock Market Price and Book Value



1. We're Committed to Remaining Your Best Investment Choice

What does the future hold for the utility industry? How will BGE respond? In his annual letter to shareholders, Chairman of the Board and Chief Executive Officer Christian H. Poindexter discusses why BGE is still a smart investment choice.

5. We're Earning Our Customers' Confidence Every Day

Building tighter bonds with our customers is key, says President and Chief Operating Officer Edward A. Crooke. His letter looks at BGE's performance in 1994, with an eye on our goals for 1995—and beyond.

8. BGE at a Glance

Here's a snapshot of BGE and its subsidiaries, including our products and markets, our 1994 results, significant developments in our industries, and a look at what's ahead.

10. BGE: Still Your Best Choice

Drawing on nearly 180 years of experience, we're committed to excellence in everything we do: serving our customers, staying cost-conscious, providing energy products and services to fit our customers' needs, making the most of our diversified businesses, and investing in the quality of life in our community.


20. Glossary of Terms

21. Financial Contents

58. BGE Boards of Directors and Officers

63. Shareholder Information

Ⓢ This annual report is printed on recycled paper, which was made from the 500 tons of waste paper BGE recycles each year.



BGE has supplied energy to customers in Central Maryland for nearly 180 years. While the utility industry is changing rapidly, our customers know that one thing doesn't change: our reputation for quality people, products, and services.

In 1994, we strengthened our commitment to giving our customers the best value for their energy dollar, while working to keep our costs as low as possible. That's why we're the best energy choice they can make.

We have also strengthened our commitment to continuously improving our performance as an investment. Strong, profitable, stable, we've been paying uninterrupted dividends for 84 years. That's why we're still one of the best investment choices you can make.

The cover of this year's annual report illustrates our dedication to our core utility businesses: affordable electricity and natural gas. We intend to keep doing what we already do well—even as we begin exciting and profitable enterprises in gas brokering, real-time pricing, new energy technologies, home products and services, and diversified businesses.

Yesterday, today, and tomorrow. BGE: Still your best choice.

Corporate Profile

Baltimore Gas and Electric Company

- Combines a core utility business (electric and gas) with diversified, nonutility operations
- Serves 2,300 square miles in Central Maryland with electricity, and 617 square miles with natural gas
- Holds assets of over \$8 billion in utility and nonutility operations
- Earned combined revenues of \$2.8 billion in 1994 from utility and diversified operations
- Employs 8,100 full-time workers as Maryland's ninth largest employer
- Is the nation's oldest gas company and one of the earliest electric utilities

BGE serves

- More than 2.6 million Maryland residents
- More than 1 million electric customers
- More than 535,000 gas customers

In millions, except per-share amounts

Common Stock Data

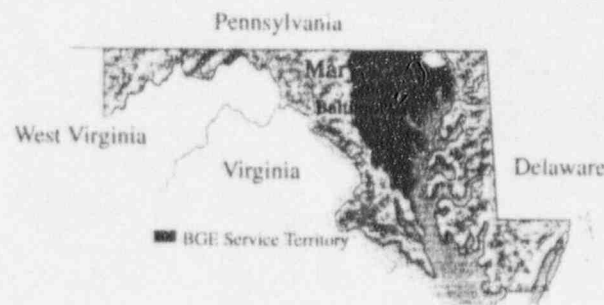
Earnings per share
Utility operations
Diversified activities
Total
Dividends declared per share
Average shares outstanding
Return on average common equity
Book value per share—year-end
Market price per share—year-end

Financial Data

Revenues
Electric
Gas
Diversified activities
Total
Net income
Earnings applicable to common stock
Assets
Utility
Diversified
Total
Utility construction expenditures
BGE investment in Constellation Companies

Utility System Data

Electric system sales—megawatt-hours
Gas sales—dekatherms



We're Committed to Remaining **YOUR BEST INVESTMENT** *Choice*

In 1994, BGE made solid progress in a rapidly changing energy industry. We took aggressive steps to improve our cost structure. We're revitalizing virtually every part of our business to support our mission: achieving complete customer satisfaction by providing superior energy products and services. And we successfully countered our competition's every move by giving our customers a better value for their energy dollars.

Still, the true test of our abilities will come in the next few years as federal and state regulatory changes reshape our industry. That's the crux of my message—to share with you my thoughts on what lies before us, how we will respond, and why BGE remains your best investment choice.



Christian H. Poindexter

When I look back over the past few years, I'm delighted by how far we've come, and how fast. In a letter that follows this one, Ed Crooke, BGE's President and Chief Operating Officer, describes our 1994 accomplishments at greater length. Let me give you a few highlights.

- Common-stock earnings increased by \$16 million, or 6 percent, over 1993, as a result of record cold weather last winter, offset by unseasonably mild temperatures in late summer and fall.
- BGE increased its annual dividend last spring 3 percent, to \$1.52 per share, the first utility to do so after two other large utilities cut dividends deeply.
- Our people and systems performed exceptionally well throughout an incredibly harsh winter that shattered demand records for both gas and electricity.
- We added more than 9,500 new gas customers and 160 miles of new gas mains, exceeding 1993's growth by over 50 percent.

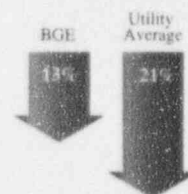
- We made excellent strides in improving our cost structure by reducing operating and maintenance costs 6 percent below '93 levels.
- We downsized our labor force about 13 percent through special retirement, severance, and career-assistance programs, reaching our lowest employment level since 1975.
- And earnings from our Constellation subsidiaries increased 16 percent over 1993.

Last year was not without its disappointments, though. Fear of the unknown—namely, how the electric industry will handle competition—combined with rising interest rates to cause our stock price to decline by nearly 13 percent. This was not too bad, however, compared to the Dow Jones Utility Average, which dropped almost 21 percent.

New Regulations Transform Gas Business

The regulatory changes we're experiencing on the electric side of our business are similar to those we've experienced in the natural gas

BGE Stock Fares Better Than Market



Rising interest rates and uncertainty over industry competition combined to cause the value of electric stocks to decline in 1994. BGE's stock fared relatively well, however, decreasing just under 13 percent. That was much better than the Dow Jones Utility Average, which fell by almost 21 percent.

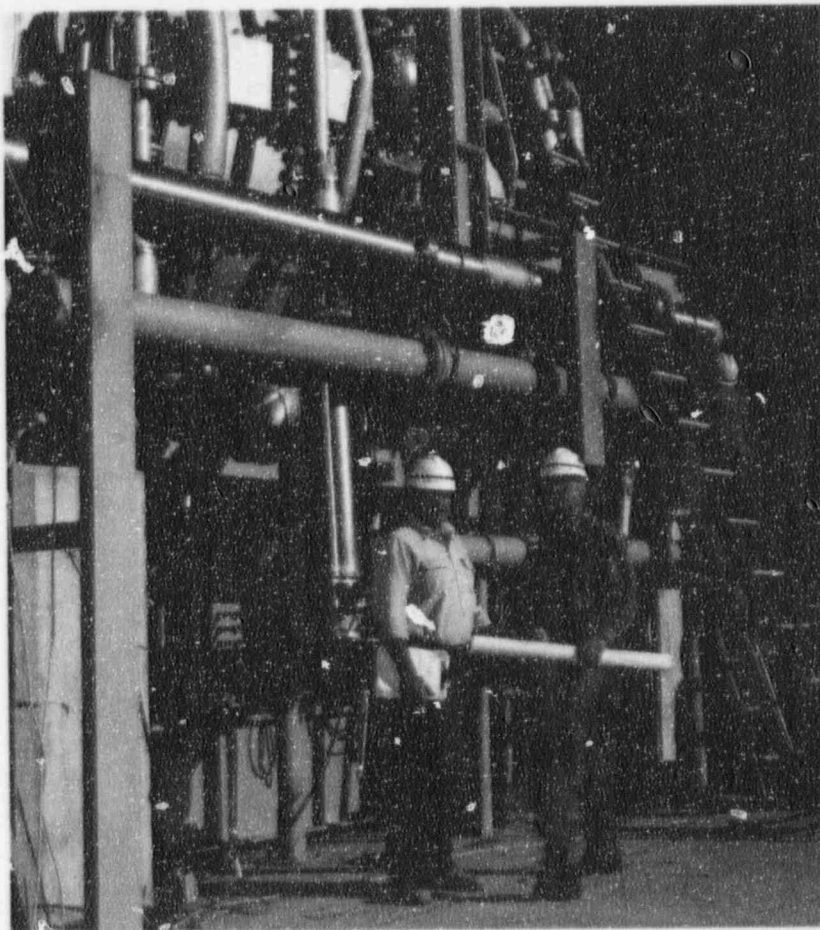
industry over the past decade. The efforts of the Federal Energy Regulatory Commission (FERC) to stimulate competition in the gas industry culminated in Order 636, which unbundled gas-service elements. Now gas users have an array of purchasing, transportation, brokering, and storage options from which to choose. These options are intended to minimize gas costs while maintaining the reliability of gas sources.

Before Order 636, we bought gas primarily from the pipelines. Now BGE and other local distribution companies buy gas directly from several suppliers and arrange separately for transportation and storage. BGE's large gas customers are arranging for their own supplies, too, and are contracting with us for transportation to their facilities. Although the Maryland Public Service Commission (PSC) is still investigating options for reforming the state's gas regulation, BGE is now beginning to take advantage of new growth opportunities made available by deregulation, such as the gas-brokering market.

Electric Regulatory Changes Ahead

Over the past two years, FERC has been carrying out the basic tenets of the Energy Policy Act of 1992. Its top priority is to promote efficiency by ensuring a competitive bulk power market through equal access to utility transmission systems. Last November, FERC also began examining the role of power pooling and electric utility restructuring in an era of increased competition.

State regulators are moving just as quickly to redefine the electric energy market. Last September, Maryland's PSC announced it would hold hearings in 1995 to consider electric utility restructuring, the impact of competition, and regulatory reform. In its issue paper called "New Directions in Energy Regulations," the PSC defined possible scenarios ranging from limited to full competition. BGE filed its response with the PSC on



January 17. The PSC plans to issue a general policy statement in June of 1995 on changes recommended for Maryland's electric industry.

BGE Responds to PSC Inquiry

I welcome the PSC's examination into electric utility regulation as an important step toward reducing the uncertainty in the financial markets. As we told the PSC in our response, we believe there are only two practical alternatives for the course that regulation should take in Maryland.

Under the first alternative, which I believe embodies the spirit of the Energy Policy Act, the market for electric generation is opened up. This will allow utilities and independent power producers to offer their generating capacity to local utilities, and utility customers to continue to buy energy from their local utility. This choice would require little regulatory reform.

▲ "To be competitive, you have to think like a competitor," says Project Manager Pete Buote, right, who oversees the construction of a small-scale, flexible plant BGE is building at our Perryman site to meet peak demand. "We've kept the organization small, the accountability clear, and given the builder incentives to reduce costs," says Buote, shown with Project Controls Administrator Ron Ballance. It's a strategy that's paying off. BGE expects to realize multi-million-dollar savings by the time the 140-megawatt combustion turbine unit comes on line in 1995.

The second alternative is to allow retail competition, under which all customers could choose their generation suppliers. Generation would be fully competitive without rate regulation; transmission and distribution would continue to be regulated. This option would require a dramatic change in the way we're regulated currently.

Unfortunately, we can't wait for FERC and the PSC to define the future before we start preparing for it. To make sure we're ready for any eventuality, we're planning along two separate paths.

The first path extends decisions we made in early 1994. It assumes that keeping our generation and distribution businesses within a single company is still our best option. We'd continue operating as a combination gas and electric utility while looking to increase revenues from nontraditional sources. The second planning path will prepare us to separate into individual businesses if regulators decide unbundling electric services is in the best interests of consumers.

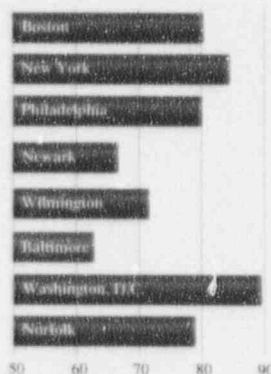
Our current transmission system and pooling arrangement probably will change no matter what scenario the PSC chooses, although it will continue to be federally regulated. A team of BGE employees is at work with the following objectives: develop a structure that doesn't harm reliability, maintain a fair rate of return on our investment, and ensure that the interests of BGE's customers and shareholders are represented.

Distribution Remains Key Strategic Asset

Regardless of which path we ultimately take, we're likely to maintain the franchise status of the electric and gas distribution systems, which give us direct links to our customers. Our goal, therefore, is to increase the energy products and services we offer as a gas and electric distribution business.

Creating competitively priced products and services is the work of our newly formed Marketing & Sales Division. To improve our

**BGE Gas Prices
Well Below Average**
(Cents per Therm)



Gas business expansion is a key element of BGE's revenue-growth strategy. Our efforts are helped by the fact that our residential gas price is about 20 percent lower than the average gas price in major East Coast cities.

quality of service, we created dedicated teams of employees to serve the needs of specific customer groups—for example, large industrials, hospitals, schools, and government agencies. We're developing a marketing strategy that first identifies customers with the most revenue potential. Next, we will establish quantifiable marketing and sales plans that include complete portfolios of products, services, and price offerings for various customer segments. And we're strengthening our team by filling certain critical marketing positions with people who have successful track records in competitive industries.

Expansion of our gas business is a key element of our marketing strategy as well. We now serve about 30 percent of our electric service territory with gas, leaving room for significant growth. Our residential gas prices average about 20 percent less than those of nearby local distribution companies, giving us a strong advantage. And customers are requesting gas for both home and business use because it's clean, affordable, and dependable. Our ultimate goal is to reposition ourselves as a full-service energy company that is the provider of choice.

Controlling Costs Is Very Important

No matter what FERC and the PSC ultimately decide, we have already seen the beginnings of price competition in the electric market. That's why we will continue to reduce our operating, maintenance, and capital expenditures and have set aggressive targets to reduce total generation costs.

Investment rating agencies are also giving far more weight to generation costs when judging utilities' financial health. They believe utilities with low-cost generation will maintain or even improve their credit ratings because they're better able to keep old customers and attract new ones. The agencies are also paying close attention to the percentage of revenues a utility receives from industrial sales, reasoning that those revenues are most vulnerable to competition. So the lower the percentage, the better.

On both counts, BGE looks good. Our average industrial rate is more than 20 percent below the regional average. And BGE's reliance on industrial sales is among the lowest in the Mid-Atlantic region. In fact, industrial customers provided only 10 percent of BGE's total electric system revenues in 1994. Two other factors also improve our competitive position: We have no municipal utilities or other large wholesale customers within our service territory, and we don't have to incur heavy capital expenses to meet Clean Air Act requirements.

Diversified Businesses Build Customer Value

Our diversified businesses will continue to provide profit opportunities, but with one important difference. In 1994, we adopted a synergistic approach to total customer service. The combined talents of BGE and Constellation Holdings developed a proposal that includes a 10-year contract with the Johns Hopkins Hospital and University, one of our largest customers. The proposal, which will be finalized in early 1995, addresses some of Hopkins' key energy and real estate needs in return for a long-term commitment. The Hopkins' proposal includes a long-term energy supply contract, building construction, and energy systems management.

Besides working closely with BGE to support the utility's existing customers, the Constellation Companies will continue to pursue their individual objectives. Constellation Energy is taking action to further enhance the profitability of its 24 wholesale power projects, while exploring growth opportunities in North and South America. Constellation Real Estate Group will continue to reduce real estate assets by selling fully mature projects at reasonable values. The company also plans to add 15 or more assisted-living facilities for seniors.

Our newly formed BGE Home Products & Services subsidiary will also enhance our ability to be a full-service energy company. Although we've been in the appliance and

"We plan to remain the yield-oriented equity investment we have always been. All our long-term financial targets and competitive strategies support this goal."

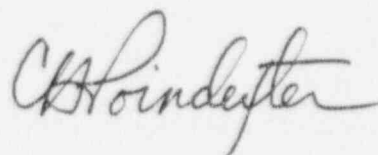
home electronics sales and service businesses for decades, we've now broadened our scope to increase revenues and strengthen customer ties. In December, BGE purchased Maryland Environmental Systems, Inc. (MESI), a company specializing in the installation and service of commercial and residential heating, air conditioning, and plumbing. MESI's owner and president, William H. Munn, was named President and Chief Executive Officer of BGE Home Products & Services effective January 1, 1995.

We'll Remain a Yield-Oriented Investment

By voting last May to increase our dividend, BGE's Board of Directors showed its confidence in BGE's financial strength, flexibility, and competitive position. But we also wanted to send a clear message to our investors: We plan to remain the yield-oriented equity investment we have always been. All our long-term financial targets and competitive strategies support this goal.

Now more than ever, success is in our own hands. We will continue to respond to our new business environment in ways that enable us to produce higher earnings that will support dividend growth. This no doubt influenced your initial decision to invest in BGE, and I hope it will continue to do so. We're committed to providing even higher levels of customer satisfaction and service reliability. And as we reach that goal, you, our investors, will share in the rewards.

I thank you for your continued confidence in BGE.



Christian H. Poindexter
Chairman of the Board and
Chief Executive Officer
February 10, 1995

We're Earning Our **CUSTOMERS' CONFIDENCE** *Every Day*



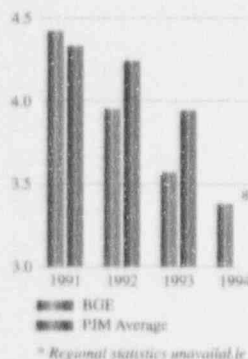
Edward A. Crooke

In years past, we measured our success with statistics on the nuts and bolts of running a utility. Kilowatt-hours and dekatherms sold. Degree-days and system upgrades. Plants under construction and rate cases under review.

In 1995, these traditional measures of operating performance are not sufficient. What counts even more today is our ability to earn our customers' confidence—day in, day out.

In a competitive market, combination companies have an inherent advantage. We can offer our customers one-stop shopping for energy products and services, an important distinction at a time when customers are discovering they have options.

BGE Generation Costs Decrease Faster Than Region's (Cents per Kilowatt-Hour)



Over the past three years, BGE has taken aggressive steps to reduce total generation costs to prepare for competition, steps that have caused those costs to decrease much faster than PJM average.

We must be adamant about identifying and delivering services that meet our customers' needs. That means meeting several criteria that directly and indirectly benefit our customers and strengthen our relationship with them.

Our Financial and Competitive Position Improved

In 1994, our strategies drew votes of confidence from the financial community. Several investment agencies improved BGE's credit outlook, citing the strength of our financial performance and aggressive cost cutting. We reduced operating and maintenance costs by \$45 million and held the line on construction expenditures. In 1995, we plan to reduce construction expenditures by \$100 million, or 22 percent.

Since generation is the area of our business most at risk to competition, we are focusing on enhancing the price competitiveness of our electric generating plants. This will require us to get

more kilowatt-hour output from less resource input in the power production process. Last year our fossil plants decreased their average unit cost of power generation by over 10 percent. And we are creating a more flexible and efficient fossil work force by cross-training plant personnel to perform a full range of operations and maintenance work.

In 1994, we reduced nuclear generation costs by 14 percent over 1993. In the year ahead, we will strive to shorten our nuclear outages and to reduce operating costs, as well as explore the benefits of renewing the operating licenses of Calvert Cliffs' two nuclear units due to expire in 2014 and 2016.

Although cost awareness is now a part of our daily operations, we are guarding against overzealous cost cutting. We will not sacrifice our long-term ability to deliver superior customer service by focusing strictly on short-term savings. Going forward, we will emphasize reducing costs primarily through productivity gains.

We Sharpened Our Customer Focus

Because customer service is a top priority, we must move beyond simply supplying gas and electricity. Last year, we countered every competitive proposal by offering a superior package of products and services. We joined a partnership to build a district chilled-water system that will supply air conditioning to groups of office buildings. And we offered our customers a full range of services for their energy facilities from construction to operation and maintenance contracts.

We also greatly advanced our efforts to bring natural gas within reach of many more customers. We created a separate gas division made up of three departments to manage every facet of gas expansion—operations, planning, as well as engineering and construction. We are targeting considerable capital for main extensions to areas forecasting high growth. Along those mains, we will maximize opportunities for conversions to gas heat.

As Chris mentioned in his letter, late last year the PSC approved our entry into the gas-brokering business. Until now, BGE only offered transportation services to its delivery service customers from their gas suppliers. With gas brokering, those customers now have the option of purchasing brokered gas from BGE. Brokering also gives us the opportunity to earn a profit on our ability to provide the lowest price gas service. The key to success in this business will be our ability to put together economical packages that best meet our customers' needs and buying preferences.

Last Winter Redefined Customer Service

Last winter forever changed our understanding of customer service. From Christmas '93 to early March of '94, BGE battled its way through six ice and snow storms. One of the most memorable began on January 15, when an arctic cold front sent temperatures plummeting below zero with a windchill of minus 40 degrees. The record-breaking cold froze everything it came in



▲ During the winter of '93-'94, a seemingly endless succession of intense storms hit the Baltimore area. Beginning on Christmas and ending in early March, the extreme cold broke long-standing demand records for both electricity and gas. During that time, BGE employees saw just about everything: frozen coal piles; trees shattering under the weight of ice; a baby born in an automobile; rain, sleet, snow, ice, and lightning in the same storm; and record numbers of almost everything, from broken mains to service calls.

Throughout it all, BGE employees persevered. "I was cold, tired, and wet, but the effort was worth it," says Overhead Mechanic Kenny Younger. "Our crews work storm duty well. Each time, we just kept going until we got the power back on."

contact with—fuel, lubricants, and fuel lines. Our problems were compounded by icy roads, rail lines, and waterways that greatly slowed oil and coal shipments to our power plants.

On January 18, the PJM (Pennsylvania-New Jersey-Maryland) Interconnection, a power pool of eight Mid-Atlantic electric companies, hit a new all-time winter electric peak of 41,350 megawatts. While the PJM system's capacity is 55,000 megawatts, only 40,000 megawatts were available during the peak hour because of several planned and unplanned outages. At 8 a.m. the following morning, BGE set an all-time electric peak demand 17 percent higher than our previous winter record.

The PJM companies had no choice but to begin emergency measures. Load management programs were activated across the entire system. Customers were asked to reduce energy consumption, and controlled rotating outages were initiated throughout the PJM to protect the integrity of the system. BGE's share of the outages was activated for about four hours out of a six-hour period. They averaged between 5 and 10 minutes each and affected 15,000 to 45,000 customers at a clip.

On the gas side of our business, it was a record-setting week as well. On January 19, we surpassed a 12-year demand record for natural gas by 10 percent. During that week, new daily sendout records were set, our peak-shaving plant established new production records, while our propane air plant achieved a remarkable 91 percent rated capacity five out of seven days that week.

Thanks to the tireless dedication of BGE's employees, both our electric and gas systems withstood the winter strain. In the wake of some of the worst weather our region has ever experienced, our employees demonstrated the attributes that set them apart: absolute competency under fire, unwavering dedication to duty, and a remarkable capacity for helping



▲ In 1994, BGE won the coveted Eagle Award for superior customer service from the American Gas Association and Edison Electric Institute. Two days after an arctic cold wave set new demand records last January, BGE created a Severe Weather Payment Option that gave customers the ability to spread payment of their January bills over several months without additional charges. About 114,000 customers took advantage of this payment option.

others. Even more impressive, our employees worked through these crises with no significant personal injuries or motor vehicle accidents while on the job.

Investing Today For Better Service Tomorrow

The storms reaffirmed what we've always known: To our customers, there's no substitute for reliable service. And although competition will initially focus on price, what will determine long-term success will be our ability to deliver the right combination of price and service. We have developed an aggressive program to improve our distribution system, mainly through a strong focus on preventive maintenance—improvements designed to reduce by half the number of sustained customer outages over the next four years. On the transmission side of our business, last year we improved system stability and access to power outside our service territory by completing the last leg of the 500-kilovolt transmission loop around Washington, D.C.

We Have an Enduring Tradition

I said in my introduction to this letter that we see success as the ability to maintain customer confidence. We have a unique advantage meeting that goal because we have an enduring tradition of quality people, products, and services. This tradition has never been more strongly tested or performed so well as in 1994. I want to thank our employees for their extraordinary efforts over the past year.

You'll learn more about our accomplishments and plans for the future in the pages that follow.

Edward A. Crooke
President and Chief Operating Officer
February 10, 1995

BGE at a Glance

Products and Markets

Key 1994 Results

Electric



- Owns and operates 10 generating plants, including two units at Calvert Cliffs Nuclear Power Plant (CCNPP); is part owner of Keystone, Conemaugh, and Safe Harbor generating plants in Pennsylvania; manages electric assets of \$6 billion
- Provides electricity and related services to over 1 million customers in 2,300-square-mile service territory in Central Maryland
- Belongs to PJM (Pennsylvania-New Jersey-Maryland) Interconnection, a power pool of eight Mid-Atlantic companies that provides reliability and the opportunity for bulk power sales

- Decreased fossil generation costs by 10 percent and nuclear generation costs by 14 percent below 1993
- Signed BGE's largest customer, Bethlehem Steel, to a 10-year contract
- Signed agreement with PECO Energy Company to purchase 140 megawatts (MW) of electricity for 25 years
- Increased system stability and access to power from outside our service territory by completing last leg of 500-kV transmission loop around Washington, D.C.
- On January 19, set all-time hourly peak demand record of 6,077 MW of electricity—a 17 percent increase over the previous winter high

Gas



- Provides residential storage and distribution as well as commercial delivery through two gas plants and 10 gate stations in and around Baltimore
- Serves nearly 550,000 customers in 617-square-mile service territory
- Acts as gas broker for large industrial and commercial customers, which requires locating, buying, and transmitting gas

- Launched aggressive expansion plan to increase gas sales
- Secured PSC approval to offer gas-brokering service to large gas customers
- Installed 161 miles of gas main, an 80 percent increase over 1993 growth
- Added 9,500 new gas customers, a 50 percent increase over 1993 growth
- On January 19, set all-time record for daily sendout of natural gas at 762,000 dekatherms—a 10 percent increase over the previous high

Constellation Holdings



- Constellation Holdings, Inc. (CHI) consists of three businesses contributing to BGE profits and objectives
- Constellation Energy, Inc. (CEI) develops, owns, and operates 24 wholesale power projects in the U.S., and holds operations and maintenance contracts in 14 other plants
- Constellation Real Estate Group, Inc. (CREG) develops, owns, and operates commercial properties
- Constellation Investments, Inc. (CII) provides current income from investments in securities, partnerships, and financial services companies

- CHI partnered with BGE in a proposal to provide Johns Hopkins Hospital and University with research facility and central energy services, including construction and ongoing building and energy services management; the proposal will be finalized in early 1995
- CEI's wholesale power projects had a solid operating year, particularly the company's coal- and wood-fueled plants
- CREG sold, at a profit, two shopping centers and one office building; increased occupancy rate on all developed properties to 94 percent

BGE Home Products & Services

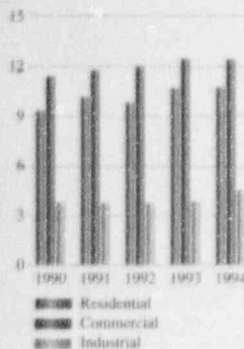


- Provides revenue growth opportunities in markets relating to core gas and electric businesses
- Markets home appliances, electronics, replacement windows and doors, kitchen remodeling, installation of commercial and residential heating and air-conditioning systems, and plumbing services
- Operates 11 retail stores throughout service territory
- Provides repair service and offers service contracts for appliances, electronics, and heating and cooling equipment

- Created new subsidiary, BGE Home Products & Services, Inc. (HPS) in July 1994
- Defeated legislative challenge to BGE's right to expand into nonregulated markets
- Acquired Maryland Environmental Systems, Inc., a company specializing in installation and service of commercial and residential heating, air conditioning, and plumbing

In the Industry

Sales of Electricity
(Billions of Kilowatt-Hours)



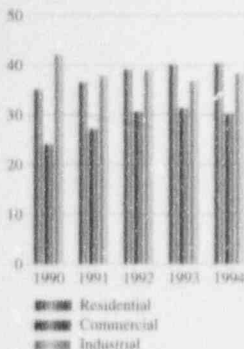
- The Federal Energy Regulatory Commission (FERC) opened inquiry on issues relating to power pooling and utility restructuring
- California's Public Utility Commission proposes open access for all electric customers by 2002
- Maryland Public Service Commission (PSC) begins process of examining regulatory reform for Maryland utilities; a general policy order is expected in mid-1995

◀ BGE's electric system sales of 27.5 billion kWh were a 2.5 percent increase over 1993

What's Ahead

- Reduce generation costs and improve system efficiency to reposition BGE as one of the lowest priced PJM companies by 1998
- Prepare for possibility of retail competition by developing a plan to unbundle generation, transmission, and distribution capabilities
- Expand real-time pricing and off-site meter-reading pilot programs
- Evaluate benefits of renewing operating licenses of CCNPP's two nuclear units that will expire in 2014 and 2016

Sales of Gas
(Millions of Dekatherms)

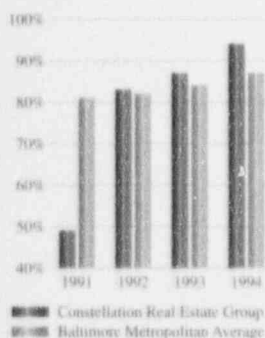


- FERC recommends more open access to gas distribution systems, creates electronic bulletin board system for supply and pricing transfer
- Gas Industry Standards Board created to govern transactions in deregulated marketplace
- East Coast Natural Gas Co-op formed to enhance regional service and supply reliability
- PSC releases draft recommendations for further unbundling of gas services in Maryland

◀ BGE's overall gas sales increased 1 percent in 1994, including a 4 percent increase in sales to industrial customers

- Expand gas distribution system to areas of high residential growth
- Route gas mains to increase conversions from other fuels
- Seek opportunities to expand territory
- Expand gas-brokering business
- Further unbundling of gas services expected in late 1995

Baltimore Area
Commercial Office Occupancy
(% Leased)



- The expansion of wholesale power business increases opportunities for utilities to use energy expertise through nonregulated power subsidiaries
- International energy markets provide growth opportunity for U.S. utilities
- Demand for senior-living facilities accelerates as significant portion of population approaches retirement age
- Economic trends point to upswing in real estate market

◀ CREG commercial office properties reached 94 percent occupancy in 1994, outperforming area average for commercial occupancy rates by 9 percent

- CHI will continue to partner with utility to retain existing customers and attract new ones to BGE's service territory
- CREG will continue to reduce existing real estate assets, expand service business, and invest in select, profitable new projects
- CEI will continue to develop, own, and operate energy supply projects in the U.S., while exploring growth opportunities in North and South America
- Constellation will further expand in the senior living area with emphasis on the development, ownership, and operation of assisted-living facilities in the Mid-Atlantic region

Home Products & Services
Sales Mix



◻ Appliance and Electronics Sales
◻ Appliance Service
◻ Kitchen Remodeling

- General upswing in retail growth continues
 - Growth in consumer sales is due to new product introductions and increased emphasis on larger stores with broader product selections
- ◀ In 1994, 66 percent of HPS sales were in major appliances and electronics sales, 31 percent in appliance service, and 3 percent in kitchen remodeling

- Position HPS to increase market share
- Locate new retail stores in areas forecasting high residential growth
- Capture a significant share of the untapped market for heat pump and air-conditioning service contracts

Because
CUSTOMER SERVICE
Is a Top Priority

"Ten years ago, customer service was reacting to what customers said they needed," says Tom Brady, BGE's Vice President of Customer Service & Distribution. "Today, we've taken steps to stay ahead in a competitive market so we can provide service improvements before customers have to ask."

In 1994, we reorganized the areas of our business that directly serve our customers to meet their needs better. We consolidated our customer service and distribution areas and reorganized our Marketing & Sales Division. We divided our customers into categories according to the market segments they belonged to—for example, hospitals, schools, county governments, and large industrial users. Then we assigned account representatives to each segment. By focusing on customer segments, we're personalizing our service and getting to know our customers' businesses as well.

Maximizing Our Employee Advantage

In 1994, BGE customer surveys confirmed what we already knew—our employees are one of our greatest resources. We want to develop that resource even more to strengthen our customer service efforts. We have improved training and qualifications for account representatives, linked compensation to performance, and empowered employees to take immediate actions to satisfy customers. In addition, BGE executives meet regularly with our top industrial customers to gain a better understanding of their business and service needs.

**Service Customers
Can Rely On**

After price, service reliability is our customers' highest priority. One way we have responded to this need is by investigating every opportunity to enhance the reliability of our electric systems, including developing new technologies.

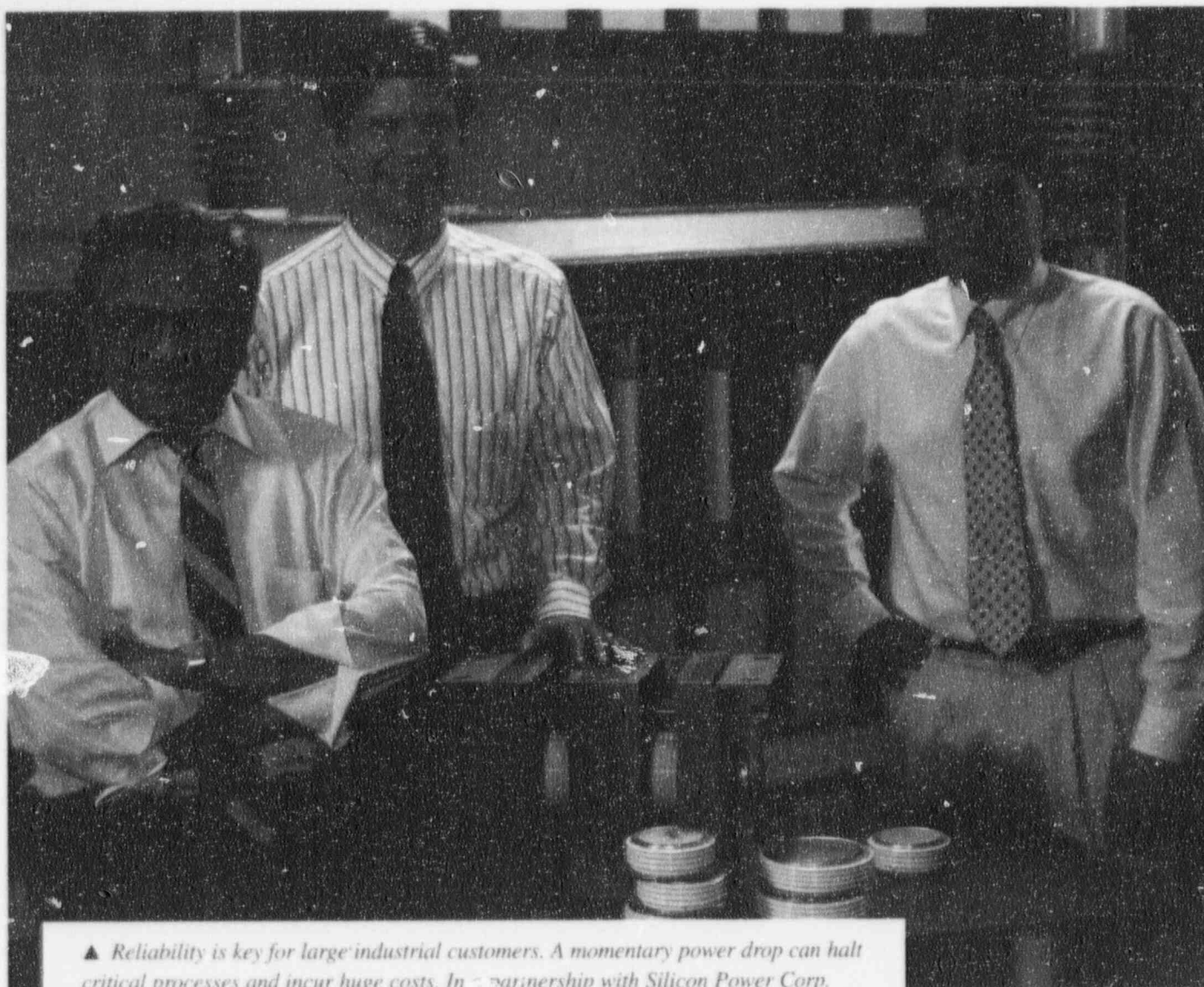
In 1994, BGE created Silicon Power Networks General Partnership, a partnership that is developing a new switch that will virtually eliminate the time it takes a large company's backup electric system to restart after a power interruption. This switch is being field tested this year.

The reliability of our electric distribution system is also a priority. In 1994, a team of employees was asked to identify distribution problems and develop a long-term, cost-effective plan to improve system reliability. The Genesis team, as it is called, has recommended a number of improvements that are expected to reduce sustained customer outages by nearly 50 percent over the next four years.



▲ BGE's off-site meter-reading project calls for a phased-in installation of 200,000 radio-equipped gas and electric meters to collect data without entering customers' homes or businesses.

"To the customer, this means a more accurate bill. To BGE, it means better efficiency," says Meter Reading Trainer Marilyn Gordon, shown here with Meter Installer Andy Tippet. "Last year, we replaced 85,000 meters with only one billing problem. We're proud of that record," Tippet says.

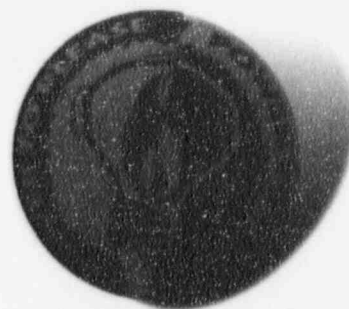


▲ Reliability is key for large industrial customers. A momentary power drop can halt critical processes and incur huge costs. In partnership with Silicon Power Corp. (SPCO), BGE is developing and testing a prototype device to address the problem.

"The solid-state switch safely allows commercial customers to switch to backup power sources instantaneously," says Walt Mendenhall, BGE's Chief Electrical Designer on the project, center, with SPCO's Harshad Mehta, CEO and President, left, and John Schwartzberg, SPCO's chief engineer.

The switch is a good example of how improving customer service can also lead to new revenue sources. Several large industrial customers, as well as other utilities, have already expressed interest in the switch.

► Providing superior customer service is the job of the more than 8,100 BGE and subsidiary employees. Efforts to improve our customer service include moving our employees closer to the front lines of service by improving training and empowering workers to take actions to meet customer needs on the spot.





▲ Improving the way we work was an important part of BGE's efforts to reduce costs in 1994. A good example was Calvert Cliffs' saltwater pipe replacement project, a critical component of 1994's Unit One refueling outage. The project, which brought together employees of BGE's Mobile Maintenance Force and Calvert Cliffs Nuclear Power Plant, was a tremendous success.

"Through thorough pre-planning, outstanding teamwork, and a commitment to safety, the project team replaced a crucial piping system ahead of schedule and well under budget, saving millions of dollars," says Senior Engineer Ken Boone. Some project team members shown from left front, are Todd Cuba and Terry Hatch. Standing are Wayne Bodnar, Ken Boone, Chris Davenport, and Mike Telmanowski.

Because
COST AWARENESS
Is Keeping Us Competitively Priced

"In a competitive environment, customers want the best value for their money, and that creates an obligation for businesses to be aware of their costs," says Chuck Shivery, BGE's Chief Financial Officer. "This is not a new idea for BGE. The changing market has prompted us to continuously find more effective ways to work."

Last year's annual report outlined our actions to reduce costs by using resources more effectively. That meant studying every function in the company to eliminate those not contributing to BGE's mission: to achieve complete customer satisfaction by providing superior energy products and services.

Those initiatives have produced tangible results. In 1994, we reduced our operating and maintenance expenses more than \$45 million from 1993, a 6 percent decrease. We've also projected a \$100 million—or 22 percent—decrease in construction expenditures in 1995, and have concentrated our capital spending on transmission and distribution system upgrades. Moreover, we set aggressive cost-reduction targets to position BGE among the lowest priced regional utilities in generating costs.

We're Generating at Lower Costs

Competitive success means owning or having access to the lowest cost sources of energy. One strategy to achieve low-cost generation is to avoid building new plants. We're investigating ways to meet projected increases in electric demand without new construction.

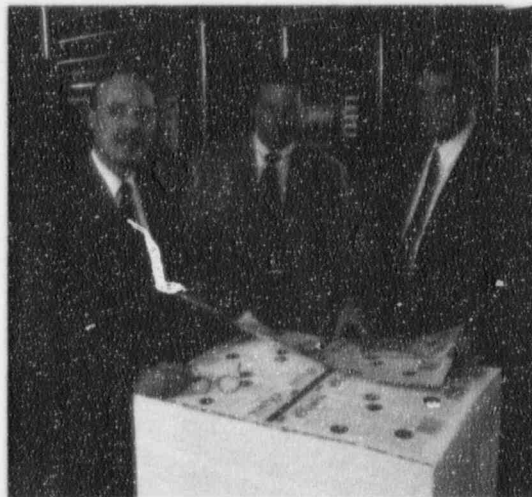
We're making greater use of purchased power contracts to meet long-term demand, and we're taking steps to get maximum value from

our existing plants. In particular, we're looking into the feasibility of renewing the operating licenses of the Calvert Cliffs Nuclear Power Plant units due to expire in 2014 and 2016.

Exploring New Opportunities for Efficiency

Cost awareness is leading us to explore new systems and technologies that help us remain competitively priced.

An example is our Business Information System, which will incorporate the latest computer technology to support our financial, planning and budgeting, cost control, and procurement processes. When complete in 1996, the Business Information System will provide BGE with timely, more detailed data about the costs and profitability of our products and services. And that will help us make better-informed decisions.



▲ As BGE explored how to operate more competitively, our Printing Services Unit set out to prove it could beat any outside printer's prices. "In a highly competitive bidding process, we won the contract against some of the biggest and best printing firms in the region," says Supervisor Dan Kovalsky, left, shown with Printing Production Coordinator Glen Talmadge, center, and Printing Estimator/Coordinator Kevin Matthews. "Even our competitors acknowledge our shop's quality work and high efficiency," says Kovalsky.

Because We're Bringing Customers
PRODUCTS AND SERVICES
They Need and Want

"We've redefined ourselves to get in front of the competitive market," says Steve Wood, BGE's Vice President of Marketing & Sales. "We're not looking to be one thing to all customers. We're working to be a total energy company."

BGE's Marketing and Sales Division is helping transform BGE from a steady supplier of a few energy forms to a company capable of meeting any energy need with diverse products and services.

Last year, we brought in a marketing consulting firm to help us develop a true customer-driven marketing approach. With the firm's assistance, we reorganized our marketing and sales functions and created a new marketing plan. The result is a streamlined organization that is leading BGE's transition to a total energy company.

Offering Flexible Packages of Products and Services

A key part of our marketing approach is to offer flexible products and services. We've grouped all our products and services into packages or energy options that can be customized to meet the needs of large and small customers.

Our *Energy Supply Options* consist of our core products of full-service electric and gas. This package also expands our energy options with less traditional offerings, such as on-site generation and a new district chilled-water cooling option. Our district chilled-water partnership will offer businesses an energy-efficient cooling system supplied from a central plant operated by BGE.

Our Lifestyle and Process Options

consist of energy choices, such as heat-pump servicing, appliance sales, and fuel-conversion programs.

Project and Maintenance Options include project design and construction for residential and commercial customers, as well as appliance service and sales. And our *Payment and Financing Options* consist of flexible financing alternatives, such as budget billing, energy-project financing, and financing installation of energy-efficient lighting systems for industrial and commercial customers.

Responding With New Products

We're continually evaluating energy needs and strategic opportunities to offer new products and services.

An example is the creation of our gas-brokering services in 1994. This business area offers gas customers the option of competitively purchasing their natural gas through BGE. Under this option, we will arrange for acquisition of natural gas and transportation from BGE's connection points with interstate pipelines to customers' meters.



▲ In a two-year BGE pilot program, McCormick & Company, Incorporated, the largest spice company in the world, is testing real-time pricing, a rate system that lets customers run equipment more cost-efficiently by scheduling power use when electric rates are low.

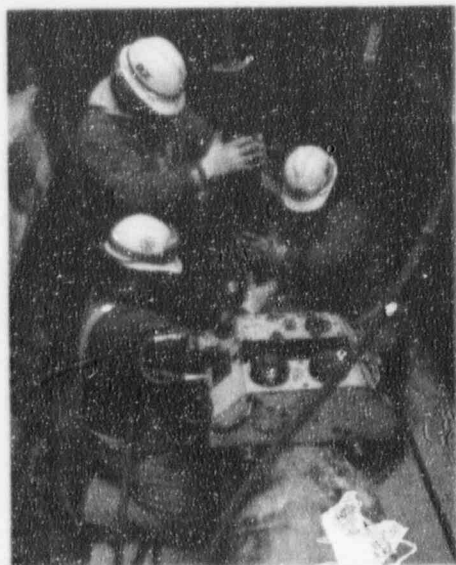
"Real-time pricing could save McCormick as much as \$200,000 a year," says BGE Senior Engineer Anne Eisele, shown with McCormick Industrial Engineer Pete Petrossian. McCormick plans to use real-time pricing when operating equipment in its blending and packaging plants.



▲ As part of BGE's efforts to provide a complete portfolio of energy products and services, we are greatly expanding our gas business. In the fall of 1994, the PSC approved BGE's plans to enter the natural gas-brokering business, a new market resulting from gas industry deregulation.

"For the first time, BGE is buying and selling gas as a commodity for its delivery-service customers, instead of simply acting as the carrier for gas delivery," says Mary Madigan, Natural Gas Marketer, shown in the company's gas control room.

◀ In 1994, BGE responded to customers' requests for gas for both home and business use by installing 161 miles of new gas main and adding more than 9,500 new customers.





▲ Through a strong synergy between BGE and its Constellation Holdings subsidiaries, the company proposed a 10-year, multi-million-dollar contract to Johns Hopkins Hospital and University that includes long-term energy supply, building construction, and energy system management. Constellation Real Estate Group President Rand Griffin, right, discusses the project with BGE's Vice President of Marketing & Sales Steve Wood and Hopkins' Vice President of Facilities Sally MacConnell.

"We're working to develop tighter energy partnerships with our customers and with BGE's subsidiaries to service those customers," Wood says. "Whenever our customers think of energy, we want them to think of BGE."

► In 1994, BGE prepared to expand its home appliance and electronic sales and service businesses by creating a new subsidiary, BGE Home Products & Services.

"When I talk to customers, I can see they feel good about dealing with us because of our reputation. That's trust—something that doesn't come in a toolbox," says Heating Technician Larry Krause, an employee of the new subsidiary. "We've built that trust over time. It's one of the things I like best about wearing this uniform."



Because Our
DIVERSIFIED BUSINESSES
Add Value

Competition is changing the relationship between BGE and its diversified businesses by illuminating a combined strength that benefits both sides. "Competition is a two-way street. While opening doors for others to compete in our territory, it opens doors for BGE and its subsidiaries," says Bruce Ambler, President and CEO of BGE's Constellation Holdings.

BGE's diversified subsidiaries, which are grouped under Constellation Holdings and BGE Home Products & Services capitalize on opportunities in nontraditional areas such as wholesale power projects, real estate, financial investments, health services, and appliance sales and service contracts.

Working Together for Success

Last year our Constellation Companies worked with BGE to develop proposals based on customer requirements and devised plans to meet specific needs. A good example was the proposal to provide energy and real estate services to the Johns Hopkins Hospital and University.

BGE will construct a state-of-the-art ice storage system and provide a new electrical supply arrangement to meet Hopkins' energy savings and reliability needs. Constellation Energy has proposed operating most of Hopkins' energy systems. Constellation Real Estate Group plans to develop high quality research space for the Johns Hopkins University. And BGE will continue to supply gas and electric service to meet Hopkins' expansion plans. The proposed contract has a 10-year term.

Diversified Businesses Are Pursuing Growth

Our diversified businesses are individually pursuing growth opportunities as well. *Constellation Energy* continues successful

ownership and management of wholesale energy projects. *Constellation Real Estate Group* is reducing its holdings, while moving from an asset-based to a service-oriented company that will market its expertise in construction, asset management, and property development. *Constellation Health Services*, a division of the Real Estate Group, is developing over 15 assisted-living projects for seniors at sites throughout the Mid-Atlantic states. *Constellation Investments* continues to provide a financial base of current income and financial credibility to support the Constellation Companies, while also providing cost-effective management of BGE's pension plan and nuclear decommissioning fund.

BGE Creates New Subsidiary

In 1994, we created the *BGE Home Products & Services* subsidiary to oversee our 11 appliance and home electronics centers, plus our gas and electric appliance service business. In December, Home Products & Services increased its capabilities by purchasing Maryland Environmental Systems, Inc. (MESI), a successful local business providing service and installation for heating, air conditioning, energy management, plumbing and electrical systems for residential, commercial, and industrial customers. MESI's owner and president, William H. Munn, was named President and Chief Executive Officer of BGE Home Products & Services effective January 1, 1995.



Bruce M. Ambler

"The combination of BGE's utility experience with the subsidiaries' experience in nonregulated markets gives us a powerful advantage, especially in retaining customers."

Because We're
INVESTING IN THE FUTURE
of Our Communities

We view our community efforts as investments of company resources that will pay dividends in the future. "We will work in areas that represent the greatest community challenges—areas such as economic development, environmental protection, energy conservation, and social issues," says Joe Tiernan, BGE's Vice President of Corporate Affairs. "Our objective is to help improve the quality of life and business in Maryland."

Last year, BGE surveyed 5,000 Maryland leaders, asking their opinions of BGE's community programs. They told us they have high expectations for BGE involvement in efforts to address community problems. And we're listening.

We're Focusing on Economic Development

As a major Maryland business and employer, BGE recognizes that the community's future is linked to its economic health. In 1994, we collaborated with government and private agencies to help make Maryland more attractive for businesses to locate or expand.

We've restructured our own economic development office so that BGE can play a greater role in encouraging businesses to move to or expand in the state. We're also proposing an economic development rate for new and expanding Maryland businesses; the rate would provide a reduction in energy costs for a five-year period. We will submit this proposal in 1995 to the PSC for approval.

Investing Where We Can Have an Impact

In 1994, we launched several projects that illustrate our commitment to investing in the future.

In concert with federal and state agencies, we worked on an important wetlands mitigation project. Required to mitigate for 15 acres of wetlands affected by construction of a transmission line, we created the 22-acre Patuxent Wildlife Viewing Area that will open to the public this year. The U.S. Fish and Wildlife Service has hailed the Patuxent wetlands project as one of the finest examples of created wetlands it has ever seen.

In 1994, we also committed a significant portion of our corporate contributions budget to ongoing support of childhood development programs. Our early childhood development grant program awarded funds totaling \$1.1 million to be paid over three years. Grants were awarded to programs that address the effects that family problems—such as teen pregnancy, drug and alcohol addiction, and a lack of parenting skills—have on young children.

Our employees are also well known for their service to the community. In 1994, nearly 6,000 BGE employees and retirees volunteered at 128 community events, raising \$1.3 million.



▲ *When BGE extended a transmission line through sensitive wetlands, regulations required us to assess the impact and replace disturbed wetlands. BGE went further by designing a new 22-acre wetland and creating a public wildlife viewing area.*

"The Patuxent wetlands are a great example of how productive the partnership between industry and government can be," says BGE Environmental Scientist Joe Barley. "This was the perfect opportunity for the company to demonstrate its commitment to environmental responsibility."



▲ In September, BGE announced a major refocusing of its corporate contributions strategy with the award of \$1.1 million in grants over the next three years to seven early childhood development programs.

"We've shifted our focus toward early childhood development because we can make a greater social impact by reaching children at a younger age and by strengthening their parents' life skills," says Malinda Small, Corporate Contributions Administrator. Small is shown with children at the Farring Family Learning Center, a grant recipient, which helps parents of young children develop parenting, literacy, and job skills.

► BGE's economic development efforts include a highly successful Procurement Opportunity Program, which works to ensure minority- and women-owned firms have equal opportunities to work with BGE. Through the program's efforts, our contracts with minority and women-owned businesses rose to \$50 million last year.

Minority Contracts Dramatically Increase

(Millions of Dollars)



Glossary of Terms

bulk power transaction—an exchange of power between bulk power suppliers and wholesale customers, usually to improve reliability and/or reduce costs.

capacity—the maximum amount of power a generating unit or plant is capable of producing, measured in kilowatts or megawatts.

combined utility—a utility that offers more than one type of service, such as electric and gas.

delivery service customer—a utility customer that buys gas from one source then contracts with the local utility to transport it through the utility's gas distribution system.

district chilled-water system—a central plant with a continuous loop distribution system that supplies chilled water for space cooling to multiple buildings, eliminating the need for bulky individual refrigeration systems.

distribution—in the electric business, the system of substations, transformers, poles, and wires that connects customers' businesses and homes with the utility's transmission system; in the gas business, the system of gas mains and service lines that connects interstate customers with gas pipelines.

Energy Policy Act of 1992—legislation passed by Congress to promote efficiency in the electric energy market by allowing competition for bulk power.

franchise—the exclusive right to sell electricity or distribute natural gas in a specified geographical area subject to government regulations for a fixed or perpetual term.

gas brokering—the process of buying gas from suppliers for resale to individual gas users, a new business created by gas industry deregulation.

gate station—the point in the natural gas transportation system where natural gas enters the local utility's distribution system.

generation—assets required to produce electrical energy, including boilers, turbines, electric generators, and support systems.

load management programs—actions designed to reduce electric demand during peak generating periods.

local distribution company—a company that transports natural gas from the pipeline to gas customers through a gas distribution delivery system.

municipal utility—a utility system owned and operated by a municipality that usually, but not always, provides service only within its boundaries.

off-site meter reading—a system of gas and electric meters equipped with electronic transmitters that enables a utility to collect data through a handheld device without entering customers' homes and businesses.

Order 636—the Federal Energy Regulatory Commission ruling that unbundled gas services, giving users a variety of purchasing, transportation, brokering and storage options.

PJM (Pennsylvania-New Jersey-Maryland Interconnection)—a Mid-Atlantic power pool consisting of eight electric companies.

power pool—two or more interconnected electric systems planned, operated, and maintained to supply power in the most reliable and economical manner for their combined load requirements.

real-time pricing—a rate system that provide customers price information on a real-time basis, which enables these customers to save money by running equipment when electric rates are low.

restructuring—realigning a utility's business components, in order to increase management efficiencies and competitiveness.

retail competition—allowing electric customers to choose their energy suppliers.

rotating outages—deliberately shutting off service to groups of customers during periods of unusually high demand to preserve system integrity.

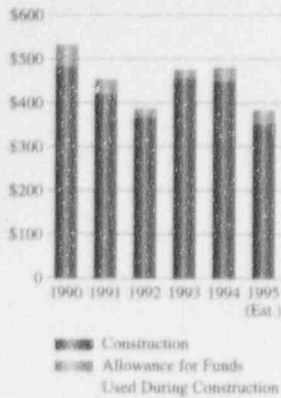
transmission—the system of cables, high tension wires, towers, and transformers that connect generating plants to distribution systems.

unbundling—segregating a comprehensive service into its individual components.

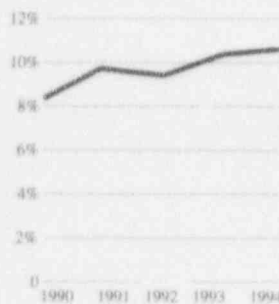
wholesale wheeling—use of another utility's transmission facilities to move large quantities of electricity.

Financial Contents

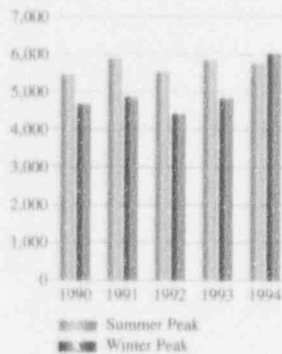
Utility Construction Expenditures
Millions of Dollars



Return on
Average Common Equity

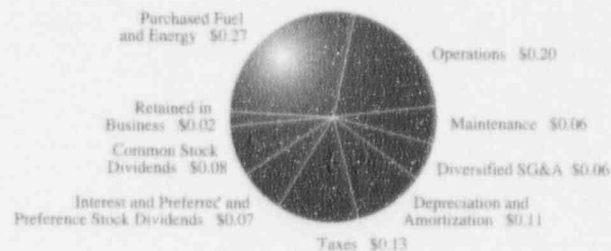


Electric Peak Load
One Hour-Megawatts



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1994 Operating Expenses



Utility Operating Statistics

	1994	1993	1992	1991	1990
Electric Operating Statistics					
Revenues (In Thousands)					
Residential	\$ 931,711	\$ 931,643	\$ 839,954	\$ 882,591	\$ 718,032
Commercial	852,989	869,829	842,694	850,038	758,573
Industrial	205,611	199,042	201,950	212,864	194,951
System Sales	1,990,311	2,000,514	1,884,598	1,945,493	1,671,556
Interchange Sales	118,027	91,543	64,323	23,845	26,629
Other	19,083	20,090	16,611	21,531	13,359
Total	\$2,127,421	\$2,112,147	\$1,965,532	\$1,990,869	\$1,711,544
Sales (In Thousands)—MWH					
Residential	10,670	10,614	9,735	10,097	9,283
Commercial	12,351	12,395	11,909	11,707	11,352
Industrial	4,433	3,763	3,663	3,708	3,743
System Sales	27,454	26,772	25,307	25,512	24,378
Interchange Sales	5,684	4,149	3,180	1,166	1,088
Total	33,138	30,921	28,487	26,678	25,466
Customers					
Residential	978,591	968,212	956,570	939,734	930,880
Commercial	101,957	100,820	99,673	98,254	96,567
Industrial	3,967	3,800	3,761	3,584	3,526
Total	1,084,515	1,072,832	1,060,004	1,041,572	1,030,973
Average Use per Residential Customer—KWH	10,903	10,963	10,177	10,744	9,973
Average Rate per KWH (System Sales)—¢					
Residential	8.73	8.78	8.63	8.74	7.73
Commercial	6.91	7.02	7.08	7.26	6.68
Industrial	4.64	5.29	5.51	5.74	5.21
Peak Load (One-hour)—MW	6,038	5,876	5,558	5,910	5,477
Capability at Summer Peak—MW	6,722	6,701	6,687	6,608	6,159
System Load Factor	54.7%	55.2%	54.8%	52.4%	54.1%
Gas Operating Statistics					
Revenues (In Thousands)					
Residential	\$ 262,736	\$ 265,601	\$ 242,737	\$ 220,653	\$ 218,967
Commercial					
Excluding Delivery Service	121,005	121,832	112,147	96,189	89,573
Delivery Service	2,285	3,287	3,591	3,031	3,304
Industrial					
Excluding Delivery Service	20,140	22,250	21,123	14,855	32,439
Delivery Service	9,635	12,920	14,290	14,288	17,851
Other	5,448	7,273	6,511	6,777	9,197
Total	\$ 421,249	\$ 433,163	\$ 400,399	\$ 355,793	\$ 371,331
Sales (In Thousands)—DTH					
Residential	40,279	40,029	39,042	36,519	35,026
Commercial					
Excluding Delivery Service	23,712	23,830	23,478	20,687	18,164
Delivery Service	6,490	7,428	7,102	6,433	5,872
Industrial					
Excluding Delivery Service	4,410	5,298	5,314	3,605	7,305
Delivery Service	33,837	31,390	33,638	34,240	34,720
Total	108,728	107,975	108,574	101,484	101,087
Customers					
Residential	498,152	491,165	486,863	482,085	482,680
Commercial	37,891	37,518	37,000	36,561	35,953
Industrial	1,354	1,353	1,412	1,385	1,401
Total	537,397	530,036	525,275	520,031	520,034
Average Use per Residential Customer—Therms	809	815	802	758	726
Average Rate per Therm—\$					
Residential	.65	.66	.62	.60	.63
Commercial (Excluding Delivery Service)	.51	.51	.48	.46	.49
Industrial (Excluding Delivery Service)	.46	.42	.40	.41	.44
Peak Day Sendout—DTH	761,900	657,700	609,200	610,200	653,900
Peak Day Capability—DTH	847,000	847,000	847,000	817,000	853,000

Utility operating statistics do not reflect the elimination of intercompany transactions.

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

1989	1988	1987	1986	1985	1984	Compound Growth	
						5-Year	10-Year
\$ 648,883	\$ 620,660	\$ 594,283	\$ 575,774	\$ 528,676	\$ 491,069	7.50%	6.61%
668,819	627,661	610,011	611,500	566,365	525,738	4.98	4.96
191,796	177,366	181,034	192,189	196,656	182,471	1.40	1.20
1,509,498	1,425,687	1,385,328	1,379,463	1,291,697	1,199,278	5.60	5.20
17,802	43,919	32,368	93,365	53,583	100,469	45.98	1.62
19,556	22,528	18,264	11,733	19,055	23,120	(0.49)	(1.90)
\$1,546,856	\$1,492,134	\$1,435,960	\$1,484,561	\$1,364,335	\$1,322,867	6.58	4.87
9,451	9,196	8,521	7,798	7,084	6,897	2.46	4.46
11,079	10,636	10,014	9,383	8,829	8,390	2.20	3.94
4,261	4,148	4,040	4,055	3,786	3,948	0.79	1.17
24,791	23,980	22,575	21,236	19,699	19,235	2.06	3.62
595	2,052	1,266	4,010	1,956	2,794	57.05	7.36
25,386	26,032	23,841	25,246	21,655	22,029	5.47	4.17
913,910	895,881	876,826	853,976	831,423	811,771	1.38	1.89
95,102	92,639	89,121	85,816	82,751	79,846	1.40	2.47
3,132	2,585	2,521	2,522	2,504	2,560	4.84	4.48
1,012,144	991,105	968,468	942,314	916,678	894,177	1.39	1.95
10,341	10,265	9,718	9,131	8,520	8,496	1.06	2.53
6.87	6.75	6.97	7.38	7.46	7.12	4.91	2.06
6.04	5.90	6.09	6.52	6.41	6.27	2.73	0.98
4.50	4.28	4.48	4.74	5.19	4.62	0.61	0.04
5,304	5,381	5,190	4,618	4,458	4,230	2.63	3.62
6,164	5,930	5,888	5,797	5,586	5,498	1.75	2.03
57.4%	54.6%	53.2%	56.3%	55.4%	55.2%	(0.96)	(0.09)
\$ 242,389	\$ 225,035	\$ 242,240	\$ 258,975	\$ 256,499	\$ 293,158	1.63	(1.09)
112,630	105,352	110,384	125,448	128,737	160,877	1.44	(2.81)
4,409	2,748	3,216	2,825	2,234	695	(12.32)	12.64
18,363	23,679	19,869	29,312	43,620	79,596	1.86	(12.84)
22,661	16,616	20,276	15,600	15,861	12,948	(15.72)	(2.91)
11,349	8,106	19,471	13,609	6,358	6,055	(13.65)	(1.05)
\$ 411,801	\$ 381,536	\$ 415,456	\$ 445,769	\$ 453,309	\$ 553,329	0.45	(2.69)
39,806	40,140	38,142	38,630	36,381	39,906	0.24	0.09
21,964	22,738	20,643	21,607	21,636	25,247	1.54	(0.63)
5,778	5,025	5,272	4,643	4,079	1,301	2.35	17.43
3,697	5,824	4,038	5,587	8,272	13,790	3.59	(10.77)
39,452	35,802	34,846	26,909	26,513	21,227	(3.02)	4.77
110,697	109,529	102,941	97,376	96,881	101,471	(0.36)	0.69
482,538	482,011	482,023	482,394	481,188	480,613	0.64	0.36
35,790	35,431	34,820	34,398	33,870	33,483	1.15	1.24
1,398	1,311	1,289	1,295	1,305	1,348	(0.64)	0.04
519,726	518,753	518,132	518,087	516,363	515,444	0.67	0.42
825	833	791	801	756	830	(0.39)	(0.26)
.61	.56	.64	.67	.71	.73	1.28	(1.15)
.51	.46	.54	.58	.60	.64	-	(2.24)
.50	.41	.49	.52	.53	.58	(1.65)	(2.29)
663,200	669,500	636,000	624,700	677,300	607,200	2.81	2.30
761,000	793,000	731,000	748,000	827,000	827,000	2.16	0.24

Selected Financial Data

	1994	1993	1992	1991	1990
	<i>(Dollar amounts in thousands)</i>				
Summary of Operations					
Total Revenues	\$2,782,985	\$2,741,385	\$2,559,536	\$2,514,631	\$2,248,613
Expenses Other Than Interest and Income Taxes	2,147,726	2,124,993	2,024,227	2,026,910	1,922,498
Income From Operations	635,259	616,392	535,309	487,721	326,115
Other Income	32,365	20,310	22,132	28,095	34,488
Income Before Interest and Income Taxes	667,624	636,702	557,441	515,816	360,603
Interest Expense	190,154	188,764	189,747	196,588	165,205
Income Before Income Taxes	477,470	447,938	367,694	319,228	195,398
Income Taxes	153,853	138,072	103,347	85,547	19,952
Income Before Cumulative Effect of Changes in Accounting Methods	323,617	309,866	264,347	233,681	175,446
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	323,617	309,866	264,347	253,426	213,200
Preferred and Preference Stock Dividends	39,922	41,839	42,247	42,746	40,261
Earnings Applicable to Common Stock	\$ 283,695	\$ 268,027	\$ 222,100	\$ 210,680	\$ 172,939
Earnings Per Share of Common Stock					
Before Cumulative Effect of Changes in Accounting Methods	\$1.93	\$1.85	\$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	\$1.93	\$1.85	\$1.63	\$1.67	\$1.40
Dividends Declared Per Share of Common Stock	\$1.51	\$1.47	\$1.43	\$1.40	\$1.40
Ratio of Earnings to Fixed Charges	3.14	3.00	2.65	2.27	1.78
Ratio of Earnings to Fixed Charges and Preferred and Preference Stock Dividends Combined	2.47	2.34	2.08	1.82	1.47
Financial Statistics at Year End					
Total Assets	\$8,143,538	\$7,987,039	\$7,374,357	\$7,137,989	\$6,710,375
Capitalization					
Long-term debt	\$2,584,932	\$2,823,144	\$2,376,950	\$2,390,115	\$2,193,844
Preferred stock	59,185	59,185	59,185	59,185	59,185
Redeemable preference stock	279,500	342,500	395,500	398,500	365,000
Preference stock not subject to mandatory redemption	150,000	150,000	110,000	110,000	110,000
Common shareholders' equity	2,717,866	2,620,511	2,534,639	2,153,306	2,073,158
Total capitalization	\$5,791,483	\$5,995,340	\$5,476,274	\$5,111,106	\$4,801,187
Book Value Per Share of Common Stock	\$18.42	\$17.94	\$17.63	\$17.00	\$16.58
Number of Common Shareholders	81,505	82,287	80,371	71,131	73,049

Ce: ain prior-year amounts have been reclassified to conform to the current year's presentation.

1989	1988	1987	1986	1985	1984	Compound Growth	
<i>except per share amounts)</i>						5-Year	10-Year
\$2,104,403	\$1,989,660	\$1,941,382	\$2,005,344	\$1,879,208	\$1,932,399	5.75%	3.71%
1,624,850	1,487,891	1,413,714	1,494,050	1,383,998	1,464,071	5.74	3.91
479,553	501,769	527,668	511,294	495,210	468,328	5.78	3.10
27,960	18,735	18,600	17,244	14,120	20,595	2.97	4.62
507,513	520,504	546,268	528,538	509,330	488,923	5.64	3.16
149,593	123,996	115,802	112,742	110,202	98,648	4.92	6.78
357,920	396,508	430,466	415,796	399,128	390,275	5.93	2.04
81,629	93,096	130,368	141,177	151,828	146,360	13.51	0.50
276,291	303,412	300,098	274,619	247,300	243,915	3.21	2.87
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
276,291	303,412	300,098	274,619	247,300	243,915	3.21	2.87
32,381	29,375	26,406	26,876	27,370	27,580	4.28	3.77
\$ 243,910	\$ 274,037	\$ 273,692	\$ 247,743	\$ 219,930	\$ 216,335	3.07	2.75
\$2.03	\$2.31	\$2.31	\$2.10	\$1.87	\$1.85	(1.01)	0.42
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
\$2.03	\$2.31	\$2.31	\$2.10	\$1.87	\$1.85	(1.01)	0.42
\$1.38	\$1.32	\$1.25	\$1.18	\$1.11	\$1.03	1.82	3.90
3.02	3.71	4.17	4.19	4.14	4.23	0.78	(2.94)
2.44	2.94	3.26	3.20	3.08	3.10	0.24	(2.25)
\$5,985,679	\$5,126,362	\$4,780,167	\$4,582,670	\$4,273,721	\$4,050,450	6.35	7.23
\$2,076,620	\$1,769,066	\$1,707,407	\$1,596,275	\$1,494,442	\$1,414,285	4.48	6.22
59,185	59,185	59,185	59,185	59,185	59,185	-	-
322,800	229,600	186,400	50,000	80,000	90,000	(2.84)	12.00
110,000	110,000	110,000	110,000	175,000	175,000	6.40	(1.53)
2,001,188	1,885,245	1,755,368	1,629,795	1,521,960	1,433,776	6.31	6.60
\$4,569,793	\$4,053,096	\$3,818,360	\$3,445,255	\$3,330,587	\$3,172,246	4.85	6.20
\$16.60	\$15.85	\$14.83	\$13.81	\$12.91	\$12.16	2.10	4.24
75,762	79,808	82,281	76,972	79,474	81,601	1.47	(0.01)

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

This annual report presents the financial condition and results of operations of Baltimore Gas and Electric Company (BGE) and its subsidiaries (collectively, the Company). Among other information, it provides Consolidated Financial Statements, Notes to Consolidated Financial Statements (Notes), Utility Operating Statistics, and Selected Financial Data. The following discussion explains factors that significantly affect the Company's results of operations, liquidity, and capital resources.

Effective July 1, 1994, BGE formed a wholly owned subsidiary, BGE Home Products & Services, Inc. (HPS), consisting of BGE's existing merchandise and gas and appliance service operations. HPS' revenues and expenses are included in diversified businesses revenues and diversified businesses selling, general, and administrative expenses, respectively. Prior-year amounts have been reclassified to conform with the current year's presentation.

Results of Operations

Earnings per Share of Common Stock

Consolidated earnings per share were \$1.93 for 1994 and \$1.85 for 1993, an increase of \$.08 and \$.22 from prior-year amounts, respectively. The changes in earnings per share reflect a higher level of earnings applicable to common stock, offset partially by the larger number of outstanding common shares. The summary below presents the earnings-per-share amounts.

	1994	1993	1992
Utility business	\$1.81	\$1.77	\$1.52
Diversified businesses	.12	.08	.11
Total	\$1.93	\$1.85	\$1.63

Earnings Applicable to Common Stock

Earnings applicable to common stock increased \$15.7 million in 1994 and \$45.9 million in 1993. The 1994 increase reflects higher utility and diversified businesses earnings. The 1993 increase reflects higher utility earnings, slightly offset by lower earnings from diversified businesses.

Utility earnings increased in 1994 compared to the prior year due to three principal factors: lower operations and maintenance expenses; an increase in the allowance for funds used during construction; and greater sales of electricity. The higher sales of electricity are primarily due to an increased number of customers compared to 1993. The 1994 earnings increase was offset partially by higher depreciation and amortization expense, which includes the write-off of certain Perryman costs (see discussion on page 29). Utility earnings increased in 1993 over 1992 because BGE sold more electricity than in the previous year and because of increased base rates. Three factors produced the increase in sales of electricity: the summer of 1993 was hotter than 1992; commercial customers used more electricity; and the number of residential customers increased. The effect of weather on utility sales is discussed below. The 1993 earnings increases were offset partially by higher operations and maintenance expenses, depreciation and amortization expense, property taxes, and the effect of the Omnibus Budget Reconciliation Act of 1993 (1993 Tax Act), which increased the federal corporate income tax rate to 35% from 34%.

The following factors influence BGE's utility operations earnings: regulation by the Public Service Commission of Maryland (PSC); the effect of weather and economic conditions

on sales; and competition in the generation and sale of electricity. The base rate increases authorized by the PSC in April 1993 favorably affected utility earnings through April 1994. Several electric fuel rate cases now pending before the PSC discussed in Notes 1 and 13 could also affect future years' earnings.

Future competition may also affect earnings in ways that are not possible to predict (see discussion on page 33).

Earnings from diversified businesses, which primarily represent the operations of Constellation Holdings, Inc. (CHI) and its subsidiaries (collectively, the Constellation Companies) and BGE Home Products & Services, Inc. (HPS), increased during 1994 and decreased during 1993. The reasons for these changes are discussed in the "Diversified Businesses Earnings" section on pages 30 and 31.

Effect of Weather on Utility Sales

Weather conditions affect BGE's utility sales. BGE measures weather conditions using degree days. A degree day is the difference between the average daily actual temperature and the baseline temperature of 65 degrees. Hotter weather during the summer, measured by more cooling degree days, results in greater demand for electricity to operate cooling systems. Conversely, cooler weather during the summer, measured by fewer cooling degree days, results in less demand for electricity to operate cooling systems. Colder weather during the winter, as measured by greater heating degree days, results in greater demand for electricity and gas to operate heating systems. Conversely, warmer weather during the winter, measured by fewer heating degree days, results in less demand for electricity and gas to operate heating systems. The degree-days chart below presents information regarding cooling and heating degree days for 1994 and 1993.

	1994	1993	30-Year Average
Cooling degree days	949	865	804
Percentage change compared to prior year	9.7%	22.3%	
Heating degree days	4,670	4,959	4,901
Percentage change compared to prior year	(5.8)%	(0.3)%	

BGE Utility Revenues and Sales

Electric revenues changed during 1994 and 1993 because of the following factors:

	1994	1993
	<i>(In millions)</i>	
System sales volumes	\$ 9.9	\$112.4
Base rates	1.4	58.5
Fuel rates	(21.5)	(55.0)
Revenues from system sales	(10.2)	115.9
Interchange sales	26.5	27.2
Other revenues	(1.9)	3.5
Total electric revenues	<u>\$ 14.4</u>	<u>\$146.6</u>

Electric system sales represent volumes sold to customers within BGE's service territory at rates determined by the PSC. These amounts exclude interchange sales, discussed separately later. Below is a comparison of the changes in electric system sales volumes.

	1994	1993
Residential	0.5%	9.0%
Commercial	(0.4)	4.1
Industrial	17.8	2.7
Total	2.5	5.8

Sales to residential and commercial customers were essentially unchanged from the prior year due to three factors: the number of customers increased; higher sales from extreme weather conditions early in the year slightly exceeded lower sales from milder weather in the second half of the year; and usage-per-customer decreased. Sales to industrial customers reflect primarily an increase in the sale of electricity to Bethlehem Steel, which purchased more electricity from BGE due to increased steel production and the fact that Bethlehem Steel is now purchasing its full electricity requirements from BGE. Bethlehem Steel is still producing power with its own generating facility, but is now selling the output from this facility to BGE rather than using the power to reduce its requirements. Hotter summer weather was the main reason for the increase in total sales in 1993. The sales increases to the residential and commercial customers reflect significantly hotter summer weather, and to a lesser extent, increased usage and customer growth. Sales to the industrial class reflect increased sales of electricity to Bethlehem Steel to support its increased steel production during 1993.

Base rates increased slightly during 1994 due to the remaining effect of the PSC's April 1993 rate order, offset partially by the deferral of the portion of energy conservation surcharge billings subject to refund. Base rates increased in 1993 due to the PSC's

April 1993 rate order and an increased recovery of eligible electric conservation program costs through the energy conservation surcharge.

The April 1993 rate order for an annualized electric base rate increase of \$84.9 million provided for a higher level of operating expenses and a return on BGE's higher level of electric rate base. The order also reduced the authorized rate of return to 9.40% from the previous rate of 9.94%.

Under the energy conservation surcharge, if the PSC determines that BGE is earning in excess of its authorized rate of return, BGE will have to refund (by means of lowering future surcharges) a portion of energy conservation surcharge revenues to its customers. The portion subject to the refund is compensation for foregone sales from conservation programs and incentives for achieving conservation goals and will be refunded to customers with interest beginning in the ensuing July when the annual resetting of the conservation surcharge rates occurs. BGE earned in excess of its authorized rate of return on electric operations for the period July 1, 1993 through June 30, 1994. As a result, BGE deferred the portion of electric energy conservation revenues subject to refund for the period December 1993 through November 1994. The deferral of these billings totaled \$20.1 million.

Changes in fuel rate revenues result from the operation of the electric fuel rate formula. The fuel rate formula is designed to recover the actual cost of fuel, net of revenues from interchange sales (see Notes 1 and 13). Changes in fuel rate revenues and interchange sales normally do not affect earnings. However, if the PSC were to disallow recovery of any part of these costs, earnings would be reduced as discussed in Note 13.

Fuel rate revenues decreased during both 1994 and 1993 due to a lower fuel rate, offset partially by increased electric system sales volumes. The rate was lower in both years because of a less-costly twenty-four month generation mix from greater generation at the Calvert Cliffs Nuclear Power Plant compared to the previous year. BGE expects electric fuel rate revenues to remain relatively constant through 1995.

Interchange sales are sales of BGE's energy to the Pennsylvania-New Jersey-Maryland Interconnection (PJM), a regional power pool of eight member companies including BGE. Interchange sales occur after BGE has satisfied the demand for its own system sales of electricity, if BGE's available generation is the least costly available to PJM utilities. Interchange sales increased during 1994 and 1993 because BGE had a less-costly generation mix than other PJM utilities. The less-costly mix reflects greater generation from the Brandon Shores Power Plant and the operation of the Calvert Cliffs Nuclear Power Plant.

Gas revenues decreased during 1994 and increased during 1993 because of the following factors:

	1994	1993
	<i>(In millions)</i>	
Sales volumes	\$ 3.6	\$ 0.6
Base rates	2.4	2.6
Gas cost adjustment revenues	(16.1)	28.8
Other revenues	(1.8)	0.8
Total gas revenues	<u>\$ (11.9)</u>	<u>\$ 32.8</u>

The changes in gas sales volumes compared to the year before were:

	1994	1993
Residential	0.6%	2.5%
Commercial	(3.4)	2.2
Industrial	4.2	(5.8)
Total	0.7	(0.6)

Total gas sales increased during 1994 because of higher sales to residential and industrial customers, offset partially by lower sales to commercial customers. Sales to industrial customers reflect primarily greater usage of natural gas by Bethlehem Steel. Sales to commercial and industrial customers were negatively impacted because delivery service customers either voluntarily switched their fuel source from natural gas to alternate fuels, or were involuntarily interrupted by BGE as a result of extreme winter weather conditions in the first quarter of 1994. Interruptible customers maintain alternate fuel sources and pay reduced rates in exchange for BGE's right to interrupt service during periods of peak demand. Total gas sales decreased during 1993 because of lower sales to industrial customers, offset partially by increased sales to the remainder of the gas-system customers. Sales to industrial customers decreased primarily because of lower use of delivery service gas by Bethlehem Steel and interruptible service customers, who increased their use of alternative fuels. Gas sales to Bethlehem Steel also decreased because of a maintenance outage at their L-Blast furnace. The increases in sales to the residential and commercial classes of customers reflect the colder winter weather during the first quarter of 1993 and an increase in the number of customers.

Base rates increased slightly in 1994 due to an increased recovery of eligible gas conservation program costs through the energy conservation surcharge. Base rates increased in 1993 for two reasons: the PSC's April 1993 rate order and an increased recovery of eligible gas conservation program costs through the energy conservation surcharge. The April 1993 rate order for an annualized gas base rate increase of \$1.6 million provided a return on BGE's higher level of gas rate base.

Changes in gas cost adjustment revenues result primarily from the operation of the purchased gas adjustment clauses which are designed to recover actual gas costs (see Note 1). Changes in gas cost adjustment revenues normally do not affect earnings. Gas cost adjustment revenues decreased during 1994 primarily because of decreased prices of purchased gas and slightly lower sales volumes subject to the clauses. Gas cost adjustment revenues increased during 1993 primarily because of increased prices to recover higher costs of purchased gas and higher sales volumes subject to gas cost adjustment clauses. Delivery service sales volumes are not subject to gas cost adjustment clauses because delivery service customers purchase their gas directly from third parties.

BGE Utility Fuel and Energy Expenses

Electric fuel and purchased energy expenses were as follows:

	1994	1993	1992
	<i>(In millions)</i>		
Actual costs	\$541.2	\$483.9	\$445.2
Net recovery of costs			
under electric fuel rate			
clause (see Note 1)	1.1	50.7	111.0
Total expense	<u>\$542.3</u>	<u>\$534.6</u>	<u>\$556.2</u>

Actual electric fuel and purchased energy costs increased during 1994 as a result of a more costly actual generation mix and an increase in the net output of electricity generated to meet the demand of BGE's system and the PJM system. The cost of the actual generation mix increased due to higher purchased energy costs and scheduled outages at the Calvert Cliffs Nuclear Power Plant in 1994. Actual electric fuel and purchased energy costs during 1993 increased for two reasons: a higher net output of electricity generated to meet the demand of BGE's system and the PJM system and higher purchased-capacity costs under the Pennsylvania Power & Light Company Energy and Capacity Purchase Agreement.

Purchased gas expenses were as follows:

	1994	1993	1992
	<i>(In millions)</i>		
Actual costs	\$222.7	\$246.4	\$213.6
Net (deferral) recovery of costs			
under purchased gas adjustment			
clause (see Note 1)	1.9	(3.7)	0.5
Total expense	<u>\$224.6</u>	<u>\$242.7</u>	<u>\$214.1</u>

Actual purchased gas costs decreased during 1994 for two reasons: lower gas prices and lower output associated with the decreased demand for BGE gas. The lower gas prices reflect market conditions and take-or-pay and other supplier refunds, offset by higher costs related to the implementation of Federal Energy Regulatory Commission (FERC) Order 636 and higher demand charges. Actual purchased gas costs increased in 1993 for three reasons: higher gas prices caused by market conditions; higher reservation charges; and higher output to meet greater demand for BGE gas.

Purchased gas costs exclude gas purchased by delivery service customers, including Bethlehem Steel, who obtain gas directly from third parties. Future purchased gas costs are expected to increase due to transition costs incurred by BGE gas pipeline suppliers in implementing FERC Order No. 636. These transition costs, if approved by FERC, will be passed on to BGE customers through the purchased gas adjustment clause.

Other Operating Expenses

In 1994, in order to more accurately reflect utility operations expense, BGE reclassified the amortization of deferred energy conservation expenditures and deferred nuclear expenditures from operations expense to depreciation and amortization expense. In addition, BGE reclassified diversified businesses' expenses from operations expense to diversified businesses—selling, general, and administrative expense. Prior-year amounts have been reclassified to conform with the current year's presentation.

Operations expense decreased during 1994 primarily due to labor savings achieved as a result of the Company's employee reduction programs discussed in Note 7 and continuing cost control efforts. These savings offset higher expense from the amortization of the cost of the 1993 and 1992 Voluntary Special Early Retirement Programs (VSERP) and a \$10.0 million charge for a bonus paid to employees in lieu of a general wage increase. In addition, operations expense for 1994 decreased because operations expense for 1993 included a \$17.2 million charge for certain employee reduction programs, offset partially by a credit to expense equivalent to the \$9.8 million cost of termination benefits associated with the Company's 1992 VSERP.

Operations expense increased during 1993 due to higher labor costs, employee reduction expenses (see Note 7), postretirement benefit expenses resulting from the implementation of Statement of Financial Accounting Standards No. 106 (see Note 6), and higher nuclear operating costs. These increases were offset

partially by the 1993 reversal of the \$9.8 million charge originally recorded in 1992 for termination benefits associated with the Company's 1992 VSERP to reflect the ratemaking treatment adopted by the PSC in its April 1993 rate order.

Operations expense is expected to be reduced in 1995 due to the realization of a full year of cost savings from the employee reduction programs and continuing cost control efforts. These lower costs are expected to exceed other increases in operations expenses.

Maintenance expense decreased during 1994 due primarily to lower costs at the Calvert Cliffs Nuclear Power Plant. Maintenance expense increased in 1993 because of higher labor costs and higher costs at the Calvert Cliffs Nuclear Power Plant.

Depreciation and amortization expense increased during 1994 because of the write-off of certain Perryman costs discussed below. Additionally, depreciation and amortization expense increased in 1994 and 1993 because of higher depreciable plant in service and higher levels of energy conservation program costs. The increase in depreciable plant in service resulted from the addition of electric transmission and distribution plant and certain capital additions at the Calvert Cliffs Nuclear Power Plant during 1994 and 1993.

Initially, BGE had planned to build two combined cycle generating units at its Perryman site. However, due to significant changes in the environment in which utilities operate, BGE now has no plans to construct the second combined cycle generating unit. Accordingly, during the third quarter of 1994, BGE wrote off \$15.7 million of the costs associated with that second combined cycle unit. This write-off reduced after-tax earnings during 1994 by \$11.0 million or 7 cents per share. Work on the first 140mw combustion turbine at Perryman continues to be on schedule for commercial operation in 1995.

Depreciation and amortization expense in 1995 will be affected by the completion of a facility-specific study of the cost to decommission the Calvert Cliffs Nuclear Power Plant. This study generated a higher decommissioning cost than the prior estimate which will increase depreciation expense \$9 million annually. In addition, the PSC issued an order adjusting BGE's utility plant depreciation rates to reflect the results of a detailed depreciation study. The new depreciation rates are expected to result in an increase in depreciation accruals of approximately \$21 million annually. BGE plans to defer the increased depreciation accruals for recovery in a future base rate proceeding, consistent with previous rate actions of the PSC.

Taxes other than income taxes increased slightly during 1994 due primarily to higher property taxes resulting from a higher level of utility plant in service. Taxes other than income taxes increased during 1993 because of higher property taxes from the addition of Brandon Shores Unit 2 to the taxable base effective July 1, 1992, higher franchise taxes because of the increase in total electric and gas revenues, and increased payroll taxes.

Inflation affects the Company through increased operating expenses and higher replacement costs for utility plant assets. Although timely rate increases can lessen the effects of inflation, the regulatory process imposes a time lag which can delay BGE's recovery of increased costs. There is a regulatory lag primarily because rate increases are based on historical costs rather than projected costs. The PSC has historically allowed recovery of the cost of replacing plant assets, together with the opportunity to earn a fair return on BGE's investment, beginning at the time of replacement.

Other Income and Expenses

The allowance for funds used during construction (AFC) increased during 1994 because of a higher level of construction work in progress which was offset partially by the lower AFC rate established by the PSC in the April 1993 rate order. AFC was essentially unchanged in 1993 because a higher level of construction work in progress was offset by the lower AFC rate discussed above.

Net other income and deductions increased in 1994 primarily due to a lower level of charitable contributions and gains realized on the sale of receivables.

Capitalized interest decreased during 1994 due to lower capitalized interest on the Constellation Companies' power generation systems, offset partially by the accrual by BGE of carrying charges on electric deferred fuel costs excluded from rate base (see Note 5). Capitalized interest increased during 1993 due to the accrual of carrying charges on electric deferred fuel costs excluded from rate base.

Income tax expense increased during both years because of higher pre-tax earnings. The 1993 increase also reflects the effect of the 1993 Tax Act, which increased the federal corporate income tax rate to 35% from 34%, retroactive to January 1, 1993. As a result, income tax expense related to 1993 operations increased by \$4.6 million and the Company's deferred income tax liability increased by \$20.1 million. The Company deferred \$12.8 million of the increase in the deferred income tax liability applicable to utility operations for recovery through future rates and charged the remaining \$7.3 million to income tax expense. Of this \$7.3 million charged to expense, \$5.8 million pertains to the Constellation Companies as discussed on page 31.

Diversified Businesses Earnings

Earnings per share from diversified businesses were:

	1994	1993	1992
Constellation Holdings, Inc.			
Power generation systems	\$.10	\$.07	\$.08
Financial investments	.03	.10	.09
Real estate development and senior living facilities	(.03)	(.04)	(.05)
Effect of 1993 Tax Act	-	(.04)	-
Other	(.01)	(.01)	(.01)
Total Constellation Holdings, Inc.	.09	.08	.11
BGE Home Products & Services, Inc.	.03	-	-
Total diversified businesses	<u>\$.12</u>	<u>\$.08</u>	<u>\$.11</u>

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. Power generation systems earnings increased in 1994 primarily due to payments for the curtailment of output at two wholesale power generating projects as discussed below. Power generation systems earnings during 1993 were essentially unchanged. Earnings for 1993 include \$8.0 million of energy tax credits on the commercial operation of the Puna geothermal plant, offset by costs incurred at the Panther Creek waste-coal project in order to resolve fuel quality and other start-up problems.

The Constellation Companies' investment in wholesale power generating projects includes \$177 million representing ownership interests in 15 projects which sell electricity in California under Interim Standard Offer No. 4 power purchase agreements. Under these agreements, the projects supply electricity to purchasing utilities at a fixed rate for the first ten years of the agreements and at variable rates based on the utilities' avoided cost for the remaining term of the agreements. Avoided cost generally represents a utility's next lowest cost generation to service the demands on its system. These power generation projects are scheduled to convert to supplying electricity at avoided cost rates in various years beginning in late 1996 through the end of 2000. As a result of declines in purchasing utilities' avoided costs subsequent to the inception of these agreements, revenues at these projects based on current avoided cost levels would be substantially lower than revenues presently being realized under the fixed price terms of the agreements. If current avoided cost levels were to continue into 1996 and beyond, the Constellation Companies could experience reduced earnings or incur losses associated with these projects, which could be significant. The Constellation Companies are investigating and pursuing alterna-

tives for certain of these power generation projects including, but not limited to, repowering the projects to reduce operating costs, renegotiating the power purchase agreements, and selling its ownership interests in the projects. Two of these wholesale power generating projects, in which the Constellation Companies' investment totals \$27.4 million, have executed agreements with Pacific Gas & Electric (PG&E) providing for the curtailment of output through the end of the fixed price period in return for payments from PG&E. The payments from PG&E during the curtailment period will be sufficient to fully amortize the existing project finance debt. However, following the curtailment period, the projects remain contractually obligated to commence production of electricity at the avoided cost rates, which could result in reduced earnings or losses for the reasons described above. The Company cannot predict the impact that these matters regarding any of the 16 projects may have on the Constellation Companies or the Company, but the impact could be material.

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. Financial investment earnings decreased during 1994 due to reduced earnings from the investment portfolio. Additionally, 1993 results reflected a \$6.1 million gain from the sale of a portion of an investment in a financial guaranty insurance company. Earnings increased slightly in 1993 as compared to 1992 because this gain was substantially offset by lower investment income resulting from the decline in the size of the investment portfolio due to the sale of selected assets to provide liquidity for ongoing businesses of the Constellation Companies.

The Constellation Companies' real estate development business includes land under development; office buildings; retail centers; commercial projects; an entertainment, dining and retail center in Orlando, Florida; a mixed-use planned-unit-development; and senior living facilities. The majority of these projects are in the Baltimore-Washington corridor. They have been affected adversely by the depressed real estate market and economic conditions, resulting in reduced demand for the purchase or lease of available land, office, and retail space.

Earnings from real estate development increased slightly during 1994 due to gains recognized from the sale of two retail centers, an office building, and interests in two senior living facilities. The increases in diversified businesses' revenues and in selling, general, and administrative expenses reflect the proceeds of these sales and the cost of the facilities sold, respectively. Earnings from real estate development and senior living facilities were essentially unchanged in 1993 because a \$2.1 million gain on the sale of a substantial portion of the investment in senior living facilities was offset by greater operating losses at other real estate projects. The senior living facilities which were sold contributed real estate revenues and operating expenses of approximately \$17 million and \$16 million, respectively, in 1993.

The Constellation Companies' real estate portfolio has experienced continuing carrying costs and depreciation. Additionally, the Constellation Companies have been expensing rather than capitalizing interest on certain undeveloped land where development activities were at minimal levels. These factors have affected earnings negatively and are expected to continue to do so until the levels of undeveloped land are reduced. 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 cash infusions from Constellation Holdings, Inc., which obtained the funds through a combination of cash flow generated by other Constellation Companies and its corporate borrowings. To the extent the real estate market continues to improve, earnings from real estate activities are expected to improve also.

The Constellation Companies continued investment in real estate projects is a function of market demand, interest rates, credit availability, and the strength of the economy in general. The Constellation Companies' Management believes that although the real estate market has improved, until the economy reflects sustained growth and the excess inventory in the market in the Baltimore-Washington corridor goes down, real estate values will not improve significantly. If the Constellation Companies were to sell their real estate projects in the current depressed market, losses would occur in amounts difficult to determine. Depending upon market conditions, future sales could also 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.

The Effect of the 1993 Tax Act represents a \$5.8 million charge to income tax expense to reflect the increase in the Constellation Companies' deferred income tax liability because of the increase in the federal corporate tax rate.

BGE Home Products & Services earnings increased during 1994 primarily due to a gain on the sale of receivables.

Environmental Matters

The Company is subject to increasingly stringent federal, state, and local laws and regulations relating to improving or maintaining the quality of the environment. These laws and regulations require the Company to remove or remedy the effect on the environment of the disposal or release of specified substances at ongoing and former operating sites, including Environmental Protection Agency Superfund sites. Details regarding these matters, including financial information, are presented in Note 13 and in the Company's Annual Report on Form 10-K under Item 1. Business - Environmental Matters.

Liquidity and Capital Resources

Capital Requirements

The Company's capital requirements reflect the capital-intensive nature of the utility business. Actual capital requirements for the

years 1992 through 1994, along with estimated amounts for the years 1995 through 1997, are reflected below.

	1992	1993	1994	1995	1996	1997
	<i>(In millions)</i>					
Utility Business:						
Construction expenditures (excluding AFC)						
Electric	\$ 292	\$ 360	\$339	\$233	\$219	\$206
Gas	36	51	68	61	71	84
Common	39	44	42	56	50	35
Total construction expenditures	367	455	449	350	340	325
AFC	22	23	34	35	18	13
Nuclear fuel (uranium purchases and processing charges)	40	47	42	48	50	52
Deferred energy conservation expenditures	20	33	41	44	43	29
Deferred nuclear expenditures	16	14	8	—	—	—
Retirement of long-term debt and redemption of preference stock	486	907	203	268	98	164
Total utility business	951	1,479	777	745	549	583
Diversified Businesses:						
Retirement of long-term debt	118	222	37	55	65	125
Investment requirements	80	78	51	66	70	40
Total diversified businesses	198	300	88	122	135	165
Total	\$1,149	\$1,779	\$865	\$867	\$684	\$748

BGE Utility Capital Requirements

BGE's construction program is subject to continuous review and modification, and actual expenditures may vary from the estimates above. Electric construction expenditures include the installation of two 5,000 kilowatt diesel generators at Calvert Cliffs Nuclear Power Plant, one of which is scheduled to be placed in service in 1995 and the second in 1996; the construction of a 140-megawatt combustion turbine at Perryman, scheduled to be placed in service in 1995, which the PSC authorized in an order dated March 25, 1993; and improvements in BGE's existing generating plants and its transmission and distribution facilities. Future electric expenditures do not include additional generating units.

During 1994, 1993, and 1992, the internal generation of cash from utility operations provided 72%, 71%, and 81% respec-

tively, of the funds required for BGE's capital requirements exclusive of retirements and redemptions of debt and preference stock. In addition, in 1994, \$70 million of cash was provided by the sale of certain BGE and HPS receivables (see Note 13). During the three-year period 1995 through 1997, the Company expects to provide through utility operations 100% of the funds required for BGE's capital requirements, exclusive of retirements and redemptions.

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, 1994, BGE's issuances of long-term debt, preference stock, and common stock were \$1,557 million, \$130 million, and \$448 million, respectively. During the same period, retirements and redemptions of BGE's long-term debt and preference stock

totaled \$1,425 million and \$149 million, respectively, exclusive of any redemption premiums or discounts. The increase in issuances and retirements of long-term debt during 1993 reflects the refinancing of a significant portion of BGE's debt in order to take advantage of the favorable interest rate market. The amount and timing of future issuances and redemptions will depend upon market conditions and BGE's actual capital requirements.

The Constellation Companies' capital requirements are discussed below in the section titled "Diversified Businesses Capital Requirements - Debt and Liquidity." The Constellation Companies plan to meet their capital requirements with a combination of debt and internal generation of cash from their operations. Additionally, from time to time, BGE may make loans to Constellation Holdings, Inc., or contribute equity to enhance the capital structure of Constellation Holdings, Inc.

Diversified Businesses Capital Requirements

Debt and Liquidity

The Constellation Companies intend to meet capital requirements by refinancing debt as it comes due and through internally generated cash. These internal sources include cash that may be generated from operations, sale of assets, and cash generated by tax benefits earned by the Constellation Companies. In the event the Constellation Companies can obtain reasonable value for real

estate 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 page 31). The ability of the Constellation Companies to sell or liquidate assets described above will depend on market conditions, and no assurances can be given that such sales or liquidations can be made. Also, to provide additional liquidity to meet interim financial needs, CHI has entered into a \$50 million revolving credit agreement.

Investment Requirements

The investment requirements of the Constellation Companies include its portion of equity funding to committed projects under development, as well as net loans made to project partnerships. Investment requirements for the years 1995 through 1997 reflect the Constellation Companies' estimate of funding for ongoing and anticipated projects and are subject to continuous review and modification. Actual investment requirements may vary significantly from the amounts on page 32 because of 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 have met their investment requirements in the past through the internal generation of cash and through borrowings from institutional lenders.

Response to Regulatory Change

Electric utilities presently face competition in the construction of generating units to meet future load growth and in the sale of electricity in the bulk power markets. Electric utilities also face the future prospect of competition for electric sales to retail customers. It is not possible to predict currently the ultimate effect competition will have on BGE's earnings in future years. In response to the competitive forces and regulatory changes, as discussed in Part 1 of BGE's Reports on Form 10-K under the headings Business or Competition, BGE from time to time will consider various strategies designed to enhance its competitive position and to increase its ability to adapt to and anticipate

regulatory changes in its utility business. These strategies may include internal restructurings involving the complete or partial separation of its generation, transmission and distribution businesses, acquisitions of related or unrelated businesses, business combinations, and additions to or dispositions of portions of its franchised service territories. BGE may from time to time be engaged in preliminary discussions, either internally or with third parties, regarding one or more of these potential strategies. No assurances can be given as to whether any potential transaction of the type described above may actually occur, or as to the ultimate effect thereof on the financial condition or competitive position of BGE.

Report of Management

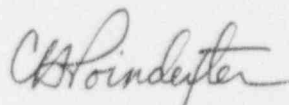
The management of BGE is responsible for the information and representations in the Company's financial statements. The Company prepares the financial statements in accordance with generally accepted accounting principles based upon available facts and circumstances and management's best estimates and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

The Company maintains an accounting system and related system of internal controls 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,

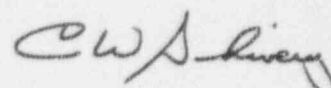
conducts periodic reviews to maintain the effectiveness of internal control procedures.

Coopers & Lybrand L.L.P., independent auditors, audit the financial statements and express their opinion about them. They audit 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 L.L.P. to review the activities of each in discharging their responsibilities. The internal audit staff and Coopers & Lybrand L.L.P. have free access to the Audit Committee.



Christian H. Poindexter
Chairman of the Board



Charles W. Shivery
Chief Financial Officer

Report of Independent Auditors

*To the Shareholders of
Baltimore Gas and Electric Company*

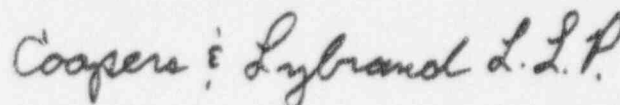
We have audited the accompanying consolidated balance sheets and statements of capitalization of Baltimore Gas and Electric Company and Subsidiaries at December 31, 1994 and 1993, and the related consolidated statements of income, cash flows, common shareholders' equity, and income taxes for each of the three years in the period ended December 31, 1994. 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, 1994 and 1993, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1994 in conformity with generally accepted accounting principles.

As discussed in Note 13 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.



Coopers & Lybrand L.L.P.
Baltimore, Maryland
January 20, 1995

Consolidated Statements of Income

Year Ended December 31,	1994	1993	1992
	<i>(In thousands, except per share amounts)</i>		
Revenues			
Electric	\$2,126,581	\$2,112,147	\$1,965,532
Gas	421,249	433,163	400,399
Diversified businesses	235,155	196,075	193,605
Total revenues	<u>2,782,985</u>	<u>2,741,385</u>	<u>2,559,536</u>
Expenses Other Than Interest and Income Taxes			
Electric fuel and purchased energy	542,314	534,628	556,184
Gas purchased for resale	224,590	242,685	214,103
Operations	545,413	574,073	537,593
Maintenance	164,892	181,208	172,248
Diversified businesses - selling, general, and administrative	174,834	143,654	131,580
Depreciation and amortization	295,950	253,913	229,515
Taxes other than income taxes	199,733	194,832	183,004
Total expenses other than interest and income taxes	<u>2,147,726</u>	<u>2,124,993</u>	<u>2,024,227</u>
Income from Operations	<u>635,259</u>	<u>616,392</u>	<u>535,309</u>
Other Income			
Allowance for equity funds used during construction	21,746	14,492	13,892
Equity in earnings of Safe Harbor Water Power Corporation	4,349	4,243	4,267
Net other income and deductions	6,270	1,575	3,973
Total other income	<u>32,365</u>	<u>20,310</u>	<u>22,132</u>
Income Before Interest and Income Taxes	<u>667,624</u>	<u>636,702</u>	<u>557,441</u>
Interest Expense			
Interest charges	214,347	212,971	211,712
Capitalized interest	(12,427)	(16,167)	(13,800)
Allowance for borrowed funds used during construction	(11,766)	(8,040)	(8,165)
Net interest expense	<u>190,154</u>	<u>188,764</u>	<u>189,747</u>
Income Before Income Taxes	<u>477,470</u>	<u>447,938</u>	<u>367,694</u>
Income Taxes	<u>153,853</u>	<u>138,072</u>	<u>103,347</u>
Net Income	<u>323,617</u>	<u>309,866</u>	<u>264,347</u>
Preferred and Preference Stock Dividends	<u>39,922</u>	<u>41,839</u>	<u>42,247</u>
Earnings Applicable to Common Stock	<u>\$ 283,695</u>	<u>\$ 268,027</u>	<u>\$ 222,100</u>
Average Shares of Common Stock Outstanding	<u>147,100</u>	<u>145,072</u>	<u>136,248</u>
Earnings Per Share of Common Stock	<u>\$1.93</u>	<u>\$1.85</u>	<u>\$1.63</u>

See Notes to Consolidated Financial Statements.

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

Consolidated Balance Sheets

At December 31,	1994	1993
	(In thousands)	
Assets		
Current Assets		
Cash and cash equivalents	\$ 38,590	\$ 84,236
Accounts receivable (net of allowance for uncollectibles)	314,842	401,853
Fuel stocks	70,627	70,233
Materials and supplies	149,614	145,130
Prepaid taxes other than income taxes	57,740	54,237
Other	47,022	38,971
Total current assets	<u>678,435</u>	<u>794,660</u>
Investments and Other Assets		
Real estate projects	471,435	487,397
Power generation systems	311,960	298,514
Financial investments	224,340	213,315
Nuclear decommissioning trust fund	66,891	56,207
Safe Harbor Water Power Corporation	34,168	34,138
Senior living facilities	11,540	2,005
Other	58,824	65,355
Total investments and other assets	<u>1,179,158</u>	<u>1,156,931</u>
Utility Plant		
Plant in service		
Electric	5,929,996	5,713,259
Gas	616,823	557,942
Common	511,016	487,740
Total plant in service	<u>7,057,835</u>	<u>6,758,941</u>
Accumulated depreciation	<u>(2,305,372)</u>	<u>(2,161,984)</u>
Net plant in service	4,752,463	4,596,957
Construction work in progress	506,030	436,440
Nuclear fuel (net of amortization)	134,012	139,424
Plant held for future use	24,320	24,066
Net utility plant	<u>5,416,825</u>	<u>5,196,887</u>
Deferred Charges		
Regulatory assets	773,034	768,125
Other	96,086	70,436
Total deferred charges	<u>869,120</u>	<u>838,561</u>
Total Assets	<u>\$8,143,538</u>	<u>\$7,987,039</u>

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

At December 31,

1994

1993

(In thousands)

Liabilities and Capitalization

Current Liabilities

Short-term borrowings	\$ 63,700	\$ -
Current portions of long-term debt and preference stock	323,675	44,516
Accounts payable	181,931	195,534
Customer deposits	24,891	22,345
Accrued taxes	19,585	20,623
Accrued interest	60,348	58,541
Dividends declared	66,012	63,966
Accrued vacation costs	30,917	35,546
Other	30,857	38,716
Total current liabilities	<u>801,916</u>	<u>479,787</u>

Deferred Credits and Other Liabilities

Deferred income taxes	1,156,429	1,067,611
Deferred investment tax credits	149,394	157,426
Pension and postemployment benefits	138,835	183,043
Decommissioning of federal uranium enrichment facilities	45,836	46,858
Other	59,645	56,974
Total deferred credits and other liabilities	<u>1,550,139</u>	<u>1,511,912</u>

Capitalization

Long-term debt	2,584,932	2,823,144
Preferred stock	59,185	59,185
Redeemable preference stock	279,500	342,500
Preference stock not subject to mandatory redemption	150,000	150,000
Common shareholders' equity	2,717,866	2,620,511
Total capitalization	<u>5,791,483</u>	<u>5,995,340</u>

Commitments, Guarantees, and Contingencies - See Note 13

Total Liabilities and Capitalization

\$8,143,538 \$7,987,039

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For the Year Ended December 31,

	1994	1993	1992
	(In thousands)		
Cash Flows From Operating Activities			
Net income	\$ 323,617	\$ 309,866	\$ 264,347
Adjustments to reconcile to net cash provided by operating activities			
Depreciation and amortization	351,064	314,027	273,549
Deferred income taxes	79,278	53,057	26,914
Investment tax credit adjustments	(8,192)	(8,444)	(8,854)
Deferred fuel costs	11,461	51,445	105,430
Accrued pension and postemployment benefits	(41,113)	(25,276)	-
Allowance for equity funds used during construction	(21,746)	(14,492)	(13,892)
Equity in earnings of affiliates and joint ventures (net)	(20,225)	(4,655)	(11,525)
Changes in current assets other than sale of accounts receivable	(10,536)	(37,252)	(26,206)
Changes in current liabilities, other than short-term borrowings	(24,447)	71,153	(9,614)
Other	7,153	(6,643)	(31,005)
Net cash provided by operating activities	646,314	702,786	569,144
Cash Flows From Financing Activities			
Proceeds from issuance of			
Short-term borrowings (net)	63,700	(11,900)	(139,600)
Long-term debt	207,169	1,206,350	603,400
Preference stock	-	128,776	-
Common stock	33,869	57,379	355,759
Proceeds from sale of receivables	70,000	-	-
Reacquisition of long-term debt	(240,853)	(1,012,514)	(687,052)
Redemption of preference stock	(4,406)	(144,310)	(2,924)
Common stock dividends paid	(220,152)	(211,137)	(189,180)
Preferred and preference stock dividends paid	(39,950)	(42,425)	(42,300)
Other	(437)	(7,094)	(399)
Net cash used in financing activities	(131,060)	(36,875)	(102,296)
Cash Flows From Investing Activities			
Utility construction expenditures (including AFC)	(48,059)	(477,878)	(389,416)
Allowance for equity funds used during construction	21,746	14,492	13,892
Nuclear fuel expenditures	(42,089)	(47,329)	(39,486)
Deferred nuclear expenditures	(8,393)	(13,791)	(15,809)
Deferred energy conservation expenditures	(40,440)	(32,909)	(19,918)
Contributions to nuclear decommissioning trust fund	(9,780)	(9,699)	(8,900)
Purchases of marketable equity securities	(52,099)	(46,820)	(49,003)
Sales of marketable equity securities	40,585	33,754	56,690
Other financial investments	2,469	19,589	44,929
Real estate projects	14,926	(30,330)	(23,385)
Power generation systems	(1,116)	(25,841)	(31,483)
Other	(3,650)	8,965	4,746
Net cash used in investing activities	(560,900)	(608,797)	(457,143)
Net Increase (Decrease) in Cash and Cash Equivalents	(45,646)	57,114	9,705
Cash and Cash Equivalents at Beginning of Year	84,236	27,122	17,417
Cash and Cash Equivalents at End of Year	\$ 38,590	\$ 84,236	\$ 27,122
Other Cash Flow Information			
Cash paid during the year for:			
Interest (net of amounts capitalized)	\$ 184,441	\$ 183,266	\$ 183,209
Income taxes	\$ 112,923	\$ 126,034	\$ 87,693

See Notes to Consolidated Financial Statements.

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

Consolidated Statements of Common Shareholders' Equity

Years Ended December 31, 1994, 1993, and 1992	Common Stock		Retained	Unrealized	Pension	Total
	Shares	Amount	Earnings	Loss on Available For Sale Securities	Liability Adjustment	Amount
	(in thousands)					
Balance at December 31, 1991	126,690	\$ 979,211	\$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	17,098	356,230				356,230
Other	(4)	(439)	43			(396)
Balance at December 31, 1992	143,784	1,335,002	1,199,637	-	-	2,534,639
Net income			309,866			309,866
Dividends declared						
Preferred and preference stock			(41,839)			(41,839)
Common stock (\$1.47 per share)			(213,407)			(213,407)
Common stock issued	2,250	57,379				57,379
Other		(917)	(3,117)			(4,034)
Pension liability adjustment					(33,990)	(33,990)
Deferred taxes on pension liability adjustment					11,897	11,897
Balance at December 31, 1993	146,034	1,391,464	1,251,140	-	(22,093)	2,620,511
Net income			323,617			323,617
Dividends declared						
Preferred and preference stock			(39,922)			(39,922)
Common stock (\$1.51 per share)			(222,180)			(222,180)
Common stock issued	1,493	33,869				33,869
Other		45				45
Net unrealized loss on securities				(5,609)		(5,609)
Deferred taxes on net unrealized loss on securities				1,963		1,963
Pension liability adjustment					8,573	8,573
Deferred taxes on pension liability adjustment					(3,001)	(3,001)
Balance at December 31, 1994	147,527	\$1,425,378	\$1,312,655	\$(3,646)	\$(16,521)	\$2,717,866

See Notes to Consolidated Financial Statements.

Consolidated Statements of Capitalization

At December 31,

1994

1993

(In thousands)

Long-Term Debt

First Refunding Mortgage Bonds of BGE

9½% Series, due October 15, 1995	\$188,014	\$ 200,000
5½% Series, due April 15, 1996	26,454	26,585
6½% Series, due August 1, 1997	24,935	24,957
7% Series, due December 15, 1998	—	28,638
Floating rate series, due April 15, 1999	125,000	—
8.40% Series, due October 15, 1999	96,225	100,000
5½% Series, due July 15, 2000	125,000	125,000
7½% Series, due April 15, 2001	—	59,911
8½% Series, due August 15, 2001	122,430	124,980
7½% Series, due January 1, 2002	49,957	49,999
7½% Series, due July 1, 2002	124,850	25,000
5½% Installment Series, due July 15, 2002	11,650	12,080
6½% Series, due February 15, 2003	124,947	125,000
6½% Series, due July 1, 2003	124,925	125,000
5½% Series, due April 15, 2004	125,000	125,000
6.80% Series, due September 15, 2004	—	20,000
7½% Series, due January 15, 2007	125,000	125,000
6½% Series, due March 15, 2008	125,000	125,000
6.90% Installment Series, due September 15, 2009	—	55,000
7½% Series, due March 1, 2023	124,998	124,998
7½% Series, due April 15, 2023	100,000	100,000

Total First Refunding Mortgage Bonds

1,744,385 1,802,148

Other long-term debt of BGE

Medium-term notes, Series A	10,500	23,500
Medium-term notes, Series B	100,000	100,000
Medium-term notes, Series C	173,050	173,050
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
5.55% Pollution control revenue refunding loan, due July 15, 2014	47,000	47,000
Economic development loan, due December 1, 2018	35,000	35,000
6.00% Pollution control revenue refunding loan, due April 1, 2024	75,000	—

Total other long-term debt of BGE

544,550 482,550

Long-term debt of Constellation Companies

Mortgage and construction loans and other collateralized notes

7.67%, due October 1, 1995	13,000	—
Variable rates, due through 2009	116,613	151,251
7.73%, due March 15, 2009	6,152	6,465

Unsecured notes

440,000 440,000

Total long-term debt of Constellation Companies

575,765 597,716

Unamortized discount and premium:

(17,593) (17,754)

Current portion of long-term debt

(262,175) (41,516)

Total long-term debt

2,584,932 2,823,144

continued on page 41

See Notes to Consolidated Financial Statements

Consolidated Statements of Capitalization

At December 31,

1994

1993

(In thousands)

Preferred Stock

Cumulative, \$100 par value, 1,000,000 shares authorized

Series B, 4%, 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, 455,000 and 470,000 shares outstanding. Callable

at \$105 per share prior to October 1, 1996 and at lesser amounts thereafter

45,500 47,000

6.75%, 1987 Series, 455,000 and 485,000 shares outstanding. Callable at

\$104.50 per share prior to April 1, 1997 and at lesser amounts thereafter

45,500 48,500

6.95%, 1987 Series, 500,000 shares outstanding

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

(61,500) (3,000)

Total redeemable preference stock

279,500 342,500

Preference stock not subject to mandatory redemption

7.78%, 1973 Series, 200,000 shares outstanding, callable at \$101 per share

20,000 20,000

7.125%, 1993 Series, 400,000 shares outstanding, not callable prior to July 1, 2003

40,000 40,000

6.97%, 1993 Series, 500,000 shares outstanding, not callable prior to October 1, 2003

50,000 50,000

6.70%, 1993 Series, 400,000 shares outstanding, not callable prior to January 1, 2004

40,000 40,000

Total preference stock not subject to mandatory redemption

150,000 150,000

Common Shareholders' Equity

Common stock without par value, 175,000,000 shares authorized; 147,527,114 and 146,034,014 shares issued and outstanding at December 31, 1994 and 1993, respectively (At December 31,

1994, 166,893 shares were reserved for the Employee Savings Plan and 3,277,655 shares

were reserved for the Dividend Reinvestment and Stock Purchase Plan.)

1,425,378 1,391,464

Retained earnings

1,312,655 1,251,140

Unrealized loss on available for sale securities

(3,646) -

Pension liability adjustment

(16,521) (22,093)

Total common shareholders' equity

2,717,866 2,620,511

Total Capitalization

\$5,791,483 \$5,995,340

See Notes to Consolidated Financial Statements.

Consolidated Statements of Income Taxes

Year Ended December 31,	1994	1993	1992
	(Dollar amounts in thousands)		
Income Taxes			
Current	\$ 82,767	\$ 93,459	\$ 85,287
Deferred			
Change in tax effect of temporary differences	88,896	63,972	44,975
Change in income taxes recoverable through future rates	(8,580)	(30,086)	(18,061)
Deferred taxes credited (charged) to shareholders' equity	(1,038)	11,897	-
Deferred taxes charged to expense	79,278	45,783	26,914
Effect on deferred taxes of enacted change in federal corporate income tax rate			
Increase in deferred tax liability	-	20,105	-
Income taxes recoverable through future rates	-	(12,831)	-
Deferred taxes charged to expense	-	7,274	-
Investment tax credit adjustments	(8,192)	(8,444)	(8,854)
Income taxes per Consolidated Statements of Income	<u>\$153,853</u>	<u>\$138,072</u>	<u>\$103,347</u>
Reconciliation of Income Taxes Computed at Statutory Federal Rate to Total Income Taxes			
Income before income taxes	\$477,470	\$447,938	\$367,694
Statutory federal income tax rate	35%	35%	34%
Income taxes computed at statutory federal rate	167,115	156,778	125,016
Increases (decreases) in income taxes due to			
Depreciation differences not normalized on regulated activities	9,791	9,253	8,955
Allowance for equity funds used during construction	(7,611)	(5,072)	(4,723)
Amortization of deferred investment tax credits	(8,164)	(8,444)	(8,854)
Tax credits flowed through to income	(1,754)	(9,736)	(804)
Change in federal corporate income tax rate charged to expense	-	7,274	-
Amortization of deferred tax rate differential on regulated activities	(1,885)	(5,789)	(7,365)
Other	(3,639)	(6,192)	(8,878)
Total income taxes	<u>\$153,853</u>	<u>\$138,072</u>	<u>\$103,347</u>
Effective federal income tax rate	32.2%	30.8%	28.1%

At December 31,	1994	1993
	(Dollar amounts in thousands)	
Deferred Income Taxes		
Deferred tax liabilities		
Accelerated depreciation	\$ 840,376	\$ 789,165
Allowance for funds used during construction	208,726	202,490
Income taxes recoverable through future rates	93,952	90,950
Deferred termination and postemployment costs	53,749	55,890
Deferred fuel costs	41,507	45,518
Leveraged leases	31,948	32,613
Percentage repair allowance	36,630	35,431
Other	148,064	125,850
Total deferred tax liabilities	<u>1,454,952</u>	<u>1,377,907</u>
Deferred tax assets		
Alternative minimum tax	71,074	73,203
Accrued pension and postemployment benefit costs	51,163	64,065
Deferred investment tax credits	52,288	55,099
Other	123,998	117,929
Total deferred tax assets	<u>298,523</u>	<u>310,296</u>
Deferred income taxes per Consolidated Balance Sheets	<u>\$1,156,429</u>	<u>\$1,067,611</u>

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Note 1. Significant Accounting Policies

Nature of the Business

Baltimore Gas and Electric Company (BGE) 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 businesses as described further in Note 3.

Principles of Consolidation

The consolidated financial statements include the accounts of BGE and all subsidiaries in which BGE 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), BGE Home Products & Services, Inc. (HPS) 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 20% to 50% voting interest is held are accounted for under the equity method, unless control is evident, in which case the entity is consolidated. Investments in power generation systems and certain financial investments in which less than a 20% voting interest is held are accounted for under the cost method, unless significant influence is exercised over the entity, in which case the investment is accounted for under the equity method.

Regulation of Utility Operations

BGE's utility operations are subject to regulation by the Public Service Commission of Maryland (PSC). 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. See Note 5.

Utility Revenues

BGE recognizes utility revenues as service is rendered to customers.

Fuel and Purchased Energy Costs

Subject to the approval of the PSC, the cost of fuel used in generating electricity, net of revenues from interchange sales, and the cost of gas sold may be recovered through zero-based electric fuel rate (see Note 13) and purchased gas adjustment clauses, respectively. The difference between actual fuel costs and fuel revenues is deferred on the balance sheet to be recovered from or refunded to customers in future periods.

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. The fuel rate does not change unless the calculated rate is more than 5% above or below the rate then in effect.

The purchased gas adjustment is based on recent annual volumes of gas and the related current prices charged by BGE's gas suppliers. 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.

Income Taxes

The deferred tax liability represents the tax effect of temporary differences between the financial statement and tax bases of assets and liabilities. It is measured using presently enacted tax rates. The portion of BGE's deferred tax liability applicable to utility operations which has not been reflected in current service rates represents income taxes recoverable through future rates. It 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, exclusive of amounts charged or credited to common shareholders' equity.

Current tax expense consists solely of regular tax. In certain prior years, tax expense included an alternative minimum tax (AMT) that 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, 1994, this carryforward totaled \$71.1 million.

The investment tax credit (ITC) associated with BGE's regulated utility operations has been deferred and is amortized to income ratably over the lives of the subject property. ITC and other tax credits associated with nonregulated diversified businesses other than leveraged leases are flowed through to income.

BGE'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.

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 amounts expected to be recovered through operations and sales. In these cases, the projects are written down to the amount estimated to be recoverable.

Investments and Other Assets

The Company adopted Statement of Financial Accounting Standards No. 115 (Statement No. 115), "Accounting for Certain Investments in Debt and Equity Securities," effective January 1, 1994. Securities subject to the requirements of Statement No. 115 are reported at fair value as of December 31, 1994. Certain of Constellation Companies' marketable equity securities totaling \$24.3 million are classified as trading securities. These securities are reported as other current assets, and unrealized gains and losses are included in diversified businesses revenues. The investments comprising the nuclear decommissioning trust fund and certain marketable equity securities of CHI are classified as available for sale. Unrealized gains and losses on these securities, as well as CHI's portion of unrealized gains and losses on securities of equity-method investees, are recorded in shareholders' equity. At December 31, 1993 marketable equity securities are stated at the lower of cost or market value.

Utility Plant, Depreciation and Amortization, and Decommissioning

Utility plant is stated at original cost, which includes material, labor, and, where applicable, construction overhead costs and an allowance for funds used during construction. Additions to utility plant and replacements of units of property are capitalized to utility plant accounts. Utility plant retired or otherwise disposed of is charged to accumulated depreciation. Maintenance and repairs of property and replacements of items of property determined to be less than a unit of property are charged to maintenance expense.

Depreciation is generally computed using composite straight-line rates applied to the average investment in classes of depreciable property. Vehicles are depreciated based on their estimated useful lives. Effective in 1995, BGE revised its utility plant depreciation rates to reflect the results of a detailed depreciation study. The new rates are expected to result in an increase in depreciation accruals of approximately \$21 million annually.

Depreciation expense for 1994 includes the write-off of certain costs at BGE's Perryman site. Initially, BGE had planned to build two combined cycle generating units at this site. However, due to significant changes in the environment in which utilities operate, BGE now has no plans to construct the second combined cycle generating unit. Accordingly, during the third quarter of 1994, BGE wrote off \$15.7 million of the costs associated with that second combined cycle unit. This write-off reduced after-tax earnings during 1994 by \$11.0 million or 7 cents per share. Also in 1994, BGE reclassified the amortization of deferred energy conservation expenditures and deferred nuclear expenditures from operations expense to depreciation and amortization expense. Prior-year amounts have been reclassified to conform with the current year's presentation.

BGE 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. BGE's

ownership interest in these plants is 20.99% and 10.56%, respectively, and represents a net investment of \$143 million as of December 31, 1994. Financing and accounting for these properties are the same as for wholly owned utility plant.

Nuclear fuel expenditures are 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 sold. Nuclear fuel expenses are subject to recovery through the electric fuel rate.

Nuclear decommissioning costs are accrued by and recovered through a sinking fund methodology. In its April 1993 rate order, the PSC granted BGE revenue to accumulate a decommissioning reserve of \$336 million in 1992 dollars by the end of Calvert Cliffs' service life in 2016, adjusted to reflect expected inflation, to decommission the radioactive portion of the plant. The total decommissioning reserve of \$109.8 million and \$93.4 million at December 31, 1994 and 1993, respectively, is included in accumulated depreciation in the Consolidated Balance Sheets. In accordance with Nuclear Regulatory Commission (NRC) regulations, BGE has established an external decommissioning trust to which a portion of accrued decommissioning costs have been contributed.

The NRC requires utilities to provide financial assurance that they will accumulate sufficient funds to pay for the cost of nuclear decommissioning based upon either a generic NRC formula or a facility-specific decommissioning cost estimate. The Company completed a facility-specific study in 1995 which generated an estimate of \$521 million in 1993 dollars to decommission the radioactive portion of the plant. The Company plans to use the facility-specific cost estimate as a basis for recording decommissioning expense in 1995, for funding these costs, and providing the requisite financial assurance.

Allowance for Funds Used During Construction and Capitalized Interest

The allowance for funds used during construction (AFC) is an accounting procedure which capitalizes the cost of funds used to finance utility construction projects as part of utility plant on the balance sheet, crediting the cost as a noncash item on the income statement. The cost of borrowed and equity funds is segregated between interest expense and other income, respectively. BGE 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.

Prior to April 23, 1993, the Company accrued AFC at a pre-tax rate of 9.94%, compounded annually. Effective April 24, 1993, a rate order of the PSC reduced the pre-tax AFC rate to 9.40%, compounded annually.

The Constellation Companies capitalize interest on qualifying real estate and power generation development projects. BGE capitalizes interest on carrying charges accrued on certain deferred fuel costs as discussed in Note 5.

Long-Term Debt

The discount or premium and expense of issuance associated with long-term debt are deferred and amortized over the original 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 invest-

ments purchased with a maturity of three months or less are considered to be cash equivalents.

Accounting Standards Issued

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards Nos. 114 and 118, regarding accounting for impairment of a loan, effective January 1, 1995. Adoption of these statements is not expected to have a material impact on the Company's financial statements.

Note 2. Segment Information

	1994	1993	1992
	(In thousands)		
Electric			
Nonaffiliated revenues	\$2,126,581	\$2,112,147	\$1,965,532
Affiliated revenues	840	-	-
Total revenues	2,127,421	2,112,147	1,965,532
Income from operations	539,739	534,185	438,057
Depreciation and amortization	252,273	219,735	197,853
Construction expenditures (including AFC)	406,928	419,519	346,728
Identifiable assets at December 31	6,123,194	6,012,225	5,494,354
Gas			
Total revenues (nonaffiliated)	\$ 421,249	\$ 433,163	\$ 400,399
Income from operations	35,205	34,738	40,598
Depreciation and amortization	32,478	23,875	21,513
Construction expenditures (including AFC)	76,131	58,359	42,688
Identifiable assets at December 31	733,624	690,783	575,513
Diversified Businesses			
Nonaffiliated revenues	\$ 235,155	\$ 196,075	\$ 193,605
Affiliated revenues	15,649	6,825	6,468
Total revenues	250,804	202,900	200,073
Income from operations	60,315	47,46	56,654
Depreciation and amortization	11,199	10,303	10,149
Identifiable assets at December 31	1,158,162	1,166,997	1,090,667
Total			
Nonaffiliated revenues	\$2,782,985	\$2,741,385	\$2,559,536
Affiliated revenues	16,489	6,825	6,468
Intercompany eliminations	(16,489)	(6,825)	(6,468)
Total revenues	2,782,985	2,741,385	2,559,536
Income from operations	635,259	616,392	535,309
Depreciation and amortization	295,950	253,913	229,515
Construction expenditures (including AFC)	483,059	477,878	389,416
Identifiable assets at December 31	8,014,980	7,870,005	7,160,534
Other assets at December 31	128,558	117,034	213,823
Total assets at December 31	8,143,538	7,987,039	7,374,357

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

Note 3. Subsidiary Information

Diversified businesses consist of the operations of Constellation Holdings, Inc. and its subsidiaries, BGE Home Products & Services, Inc. (HPS), and BNG, Inc. Diversified businesses' operating expenses have been reclassified as diversified businesses-selling, general, and administrative expense in the consolidated statements of income. Prior-year amounts have been reclassified to conform with the current year's presentation.

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, respectively.

Effective July 1, 1994, BGE formed a wholly owned sub-

siary, BGE Home Products & Services, Inc., which engages in the businesses of appliance and consumer electronics sales and service; heating, ventilation, and air conditioning system sales, installation and service; and home improvements and services.

BNG, Inc. is a wholly owned subsidiary which engages in natural gas brokering.

BGE's investment in Safe Harbor Water Power Corporation, a producer of hydroelectric power, 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. The condensed financial information does not reflect the elimination of inter-company balances or transactions which are eliminated in the Company's consolidated financial statement:

	1994	1993	1992
	<i>(In thousands, except per share amounts)</i>		
Income Statements			
Revenues			
Real estate projects	\$ 106,915	\$ 77,598	\$ 76,582
Power generation systems	41,301	24,971	28,084
Financial investments	12,126	21,195	21,485
Total revenues	160,342	123,764	126,151
Expenses other than interest and income taxes	107,267	80,707	77,154
Income from operations	53,075	43,057	48,997
Interest expense	(45,782)	(47,845)	(43,903)
Capitalized interest	10,776	14,702	13,800
Income tax benefit (expense)	(4,305)	1,984	(3,637)
Net income	\$ 13,764	\$ 11,898	\$ 15,257
Contribution to the Company's earnings per share of common stock	\$.09	\$.08	\$.11
Balance Sheets			
Current assets	\$ 53,034	\$ 54,039	\$ 29,899
Noncurrent assets	1,055,056	1,036,507	990,273
Total assets	\$1,108,090	\$1,090,546	\$1,020,172
Current liabilities	\$ 70,670	\$ 24,201	\$ 113,404
Noncurrent liabilities	718,846	759,048	611,370
Shareholder's equity	318,574	307,297	295,398
Total liabilities and shareholder's equity	\$1,108,090	\$1,090,546	\$1,020,172

Note 4. Real Estate Projects and Financial Investments

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

At December 31,	1994	1993
	(In thousands)	
Properties under development	\$267,483	\$249,473
Rental and operating properties (net of accumulated depreciation)	203,000	237,194
Other real estate ventures	952	730
Total	<u>\$471,435</u>	<u>\$487,397</u>

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

At December 31,	1994	1993
	(In thousands)	
Insurance companies	\$ 87,700	\$ 83,275
Marketable equity securities	51,175	42,681
Financial limited partnerships	48,014	44,903
Leveraged leases	37,451	38,669
Other securities	-	3,787
Total	<u>\$224,340</u>	<u>\$213,315</u>

The Constellation Companies' marketable equity securities and the investments comprising the nuclear decommissioning trust fund are classified as available for sale. The fair value and gross unrealized gains and losses for available for sale securities, exclusive of \$3.2 million of unrealized net losses on securities of equity-method investees, are as follows:

At December 31, 1994	Fair Value	Unrealized Gains	Unrealized Loss
	(In thousands)		
Marketable equity securities	\$ 51,175	\$1,276	\$1,859
U.S. government agency	5,102	-	113
State municipal bonds	58,034	929	2,599
Total	<u>\$114,311</u>	<u>\$2,205</u>	<u>\$4,571</u>

Contractual maturities of debt securities:

	(In thousands)	
Less than 1 year		\$ -
1-5 years		13,855
5-10 years		46,010
More than 10 years		4,765
Total		<u>\$64,630</u>

Gross realized gains and losses on available for sale securities totaled \$1.1 million and \$3.1 million, respectively, in 1994. Net realized gains from financial investments totaled \$6.5 million in 1993 and \$9.8 million in 1992.

Note 5. Regulatory Assets

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. The following table sets forth BGE's regulatory assets.

At December 31,	1994	1993
	(In thousands)	
Income taxes recoverable through future rates	\$268,436	\$259,856
Deferred fuel costs	118,591	130,052
Deferred nuclear expenditures	90,937	86,726
Deferred termination benefit costs	79,979	96,793
Deferred postemployment benefit costs	73,591	62,892
Deferred cost of decommissioning federal uranium enrichment facilities	52,748	49,562
Deferred energy conservation expenditures	45,534	38,655
Deferred environmental costs	35,015	32,966
Other	8,203	10,623
Total	<u>\$773,034</u>	<u>\$768,125</u>

Income taxes recoverable through future rates represent principally the tax effect of depreciation differences not normalized and the allowance for equity funds used during construction, offset by unamortized deferred tax rate differentials and deferred taxes on deferred ITC. These amounts are amortized as the related temporary differences reverse. See Note 1 for a further discussion of income taxes.

Deferred fuel costs represent the difference between actual fuel costs and the fuel rate revenues under BGE's fuel clauses (see Note 1). Deferred fuel costs are reduced as they are collected from customers.

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

At December 31,	1994	1993
	(In thousands)	
Electric		
Costs deferred	\$152,815	\$155,901
Reserve for possible disallowance of replacement energy costs (see Note 13)	(35,000)	(35,000)
Net electric	<u>117,815</u>	<u>120,901</u>
Gas	776	9,151
Total	<u>\$118,591</u>	<u>\$130,052</u>

Deferred nuclear expenditures represent the net unamortized balance of certain operations and maintenance costs which are being amortized over the remaining life of the Calvert Cliffs Nuclear Power Plant in accordance with orders of the PSC. These expenditures consist of costs incurred from 1979 through 1982 for inspecting and repairing seismic pipe supports, expenditures incurred from 1989 through 1994 associated with nonrecurring phases of certain nuclear operations projects, and expenditures incurred during 1990 for investigating leaks in the pressurizer heater sleeves.

Deferred termination benefit costs represent the net unamortized balance of the cost of certain termination benefits (see Note 7) applicable to BGE's regulated operations. These costs are being amortized over a five-year period in accordance with rate actions of the PSC.

Deferred postemployment benefit costs represent the excess of such costs recognized in accordance with Statements of Financial Accounting Standards No. 106 and No. 112 over the amounts reflected in utility rates. These costs will be amortized over a 15-year period beginning in 1998 (see Note 6).

Deferred cost of decommissioning federal uranium enrichment facilities represents the unamortized portion of BGE's required contributions to a fund for decommissioning and decontaminating the Department of Energy's (DOE) uranium enrichment facilities. The Energy Policy Act of 1992 requires domestic utilities to make such contributions, which are generally payable

over a 15-year period with escalation for inflation and are based upon the amount of uranium enriched by DOE for each utility. These costs are being amortized over the contribution period as a cost of fuel.

Deferred energy conservation expenditures represent the net unamortized balance of certain operations costs which are being amortized over five years in accordance with orders of the PSC. These expenditures consist of labor, materials, and indirect costs associated with the conservation programs approved by the PSC. Deferred environmental costs represent the estimated costs of investigating contamination and performing certain remediation activities at contaminated Company-owned sites (see Note 13). These costs are generally amortized over the estimated term of the remediation process.

Electric deferred fuel costs in excess of \$72.8 million are excluded from rate base by the PSC for ratemaking purposes. Effective April 24, 1993, BGE has been authorized by the PSC to accrue carrying charges on deferred fuel costs in excess of \$72.8 million, net of related deferred income taxes. These carrying charges are accrued prospectively at the 9.40% authorized rateturn. The income effect of the equity funds portion of the carrying charges is being deferred until such amounts are recovered in utility service rates subsequent to the completion of the fuel rate proceeding examining the 1989-1991 outages at Calvert Cliffs Nuclear Power Plant as discussed in Note 13.

Note 6. Pension and Postemployment Benefits

Pension Benefits

The Company sponsors several noncontributory defined benefit pension plans, the largest of which (the Pension Plan) covers substantially all BGE employees and certain employees of the Constellation Companies and HPS. The other plans, which are not material in amount, provide supplemental benefits to certain non-employee directors and 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 at least the

minimum amount required under Internal Revenue Service regulations using the projected unit credit cost method. Plan assets at December 31, 1994 consisted primarily of marketable fixed income and equity securities, group annuity contracts, and short-term investments.

The tables on page 49 set forth the combined funded status of the plans and the composition of total net pension cost. At December 31, 1994 and 1993, the accumulated pension obligation was greater than the fair value of the Pension Plan's assets. As a result, the Company recorded an additional pension liability, a portion of which was charged to shareholders' equity.

Net pension cost shown below does not include the cost of termination benefits described in Note 7.

At December 31,

	1994	1993
	(In thousands)	
Vested benefit obligation	\$622,445	\$677,069
Nonvested benefit obligation	8,838	11,359
Accumulated benefit obligation	631,283	688,428
Projected benefits related to increase in future compensation levels	82,815	109,161
Projected benefit obligation	714,098	797,589
Plan assets at fair value	(614,284)	(605,629)
Projected benefit obligation less plan assets	99,814	191,960
Unrecognized prior service cost	(23,863)	(21,252)
Unrecognized net loss	(112,546)	(148,450)
Pension liability adjustment	52,177	58,553
Unamortized net asset from adoption of FASB Statement No. 87	1,586	1,812
Accrued pension liability	\$ 17,168	\$ 82,623

Year Ended December 31,

	1994	1993	1992
	(In thousands)		
Components of net pension cost			
Service cost-benefits earned during the period	\$15,015	\$11,645	\$11,771
Interest cost on projected benefit obligation	58,723	51,183	47,355
Actual return on plan assets	7,932	(56,225)	(33,685)
Net amortization and deferral	(60,071)	6,591	(12,257)
Total net pension cost	21,599	13,194	13,184
Amount capitalized as construction cost	(2,578)	(1,800)	(1,839)
Amount charged to expense	\$19,021	\$11,394	\$11,345

The Company also sponsors a defined contribution savings plan covering all eligible BGE employees and certain employees of the Constellation Companies and HPS. Under this plan, the Company makes contributions on behalf of participants. Company contributions to this plan totaled \$8.7 million, \$9.0 million, and \$14.8 million in 1994, 1993, and 1992, respectively.

Postretirement Benefits

The Company sponsors defined benefit postretirement health care and life insurance plans which cover substantially all BGE employees and certain employees of the Constellation Companies and HPS. Benefits under the plans are generally based on age, years of service, and pension benefit levels. The postretirement benefit (PRB) plans are unfunded. Substantially all of the health care plans are contributory, and participant contributions for employees who retire after June 30, 1992 are based on age and years of service. Retiree contributions increase commensurate with the expected increase in medical costs. The postretirement life insurance plan is noncontributory.

Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 106, which requires a

change in the method of accounting for postretirement benefits other than pensions from the pay-as-you-go method used prior to 1993 to the accrual method. The transition obligation existing at the beginning of 1993 is being amortized over a 20-year period.

In April 1993, the PSC issued a rate order authorizing BGE to recognize in operating expense one-half of the annual increase in PRB costs applicable to regulated operations as a result of the adoption of Statement No. 106 and to defer the remainder of the annual increase in these costs for inclusion in BGE's next base rate proceeding. In accordance with the PSC's Order, the increase in annual PRB costs applicable to regulated operations for the period January through April 1993, net of amounts capitalized as construction cost, has been deferred. This amount, which totaled \$5.7 million, as well as all amounts to be deferred prior to completion of BGE's next base rate proceeding, will be amortized over a 15-year period beginning in 1998 in accordance with the PSC's Order. This phase-in approach meets the guidelines established by the Emerging Issues Task Force of the Financial Accounting Standards Board for deferring postretirement benefit costs as a regulatory asset. Accrual-basis PRB costs applicable to nonregulated operations are charged to expense.

The following table sets forth the components of the accumulated postretirement benefit obligation and a reconciliation of these amounts to the accrued postretirement benefit liability.

At December 31,	1994		1993	
	Health Care	Life Insurance	Health Care	Life Insurance
	(In thousands)			
Accumulated postretirement benefit obligation:				
Retirees	\$161,134	\$45,146	\$182,638	\$45,461
Fully eligible active employees	15,777	101	19,177	839
Other active employees	44,371	12,597	58,832	15,377
Total accumulated postretirement benefit obligation	221,282	57,844	260,647	61,677
Unrecognized transition obligation	(158,725)	(46,081)	(179,764)	(48,641)
Unrecognized net gain (loss)	1,238	(2,141)	(36,675)	(9,072)
Accrued postretirement benefit liability	\$ 63,795	\$ 9,622	\$ 44,208	\$ 3,964

The following table sets forth the composition of net postretirement benefit cost. Net postretirement benefit cost shown below does not include the cost of termination benefits described in Note 7.

Year ended December 31,	1994	1993
	(In thousands)	
Net postretirement benefit cost:		
Service cost—benefits earned during the period	\$ 5,035	\$ 4,373
Interest cost on accumulated postretirement benefit obligation	23,037	20,451
Amortization of transition obligation	11,700	12,021
Net amortization and deferral	646	—
Total net postretirement benefit cost	40,418	36,845
Amount capitalized as construction cost	(5,773)	(5,898)
Amount deferred	(10,213)	(11,965)
Amount charged to expense	\$24,432	\$18,982

Postretirement benefit costs recognized under the pay-as-you-go method in 1992 totaled \$11.7 million, of which \$1.9 million was capitalized and the remainder was charged to expense.

Other Postemployment Benefits

The Company provides certain pay continuation payments and health and life insurance benefits to employees of BGE and certain employees of the Constellation Companies and HPS who are determined to be disabled under BGE's Long-Term Disability Plan. The Company adopted Statement of Financial Accounting Standards No. 112, which requires a change in the method of accounting for these benefits from the pay-as-you-go method to

an accrual method, as of December 31, 1993. The liability for these benefits totaled \$48 million and \$52 million as of December 31, 1994 and 1993, respectively. The portion of the December 31, 1993 liability attributable to regulated activities was deferred. The amounts deferred will be amortized over a 15-year period beginning in 1998. The adoption of Statement No. 112 did not have a material impact on net income.

Assumptions

The pension and postemployment benefit liabilities were determined using the following assumptions.

At December 31,	1994	1993
Assumptions:		
Discount rate	8.5%	7.5%
Average increase in future compensation levels	4.0%	4.5%
Expected long-term rate of return on assets	9.0%	9.5%

The health care inflation rates for 1994 are assumed to be 9.0% for Medicare-eligible retirees and 11.5% for retirees not covered by Medicare. Both rates are assumed to decrease by 0.5% annually to an ultimate rate of 5.5% in the years 2001 and 2006, respectively. A one percentage point increase in the health care inflation rate from the assumed rates would increase the accumulated postretirement benefit obligation by approximately \$35 million as of December 31, 1994 and would increase the aggregate of the service cost and interest cost components of postretirement benefit cost by approximately \$4 million annually.

Note 7. Termination Benefits

BGE offered a Voluntary Special Early Retirement Program (the 1992 VSERP) 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 1992 VSERP, which consisted principally of an enhanced pension benefit, was recognized in 1992 and reduced net income by \$6.6 million, or 5 cents per common share. In April 1993, the PSC authorized BGE to amortize this charge over a five-year period for ratemaking purposes. Accordingly, BGE established a regulatory asset and recorded a corresponding credit to operating expense for this amount. The reversal of the 1992 VSERP in April 1993 increased net income by \$6.6 million, or 5 cents per common share.

BGE offered a second Voluntary Special Early Retirement Program (the 1993 VSERP) to eligible employees who retired as of February 1, 1994. The one-time cost of the 1993 VSERP consisted of enhanced pension and postretirement benefits. In addition to the 1993 VSERP, further employee reductions have been accomplished through the elimination of certain positions, and various programs have been offered to employees impacted by the eliminations. In accordance with Statement No. 88, the one-time cost of termination benefits associated with the 1993 VSERP and various programs, which totaled \$105.5 million, was recognized in 1993. The \$88.3 million portion of 1993 VSERP attributable to regulated activities was deferred and is being amortized over a five-year period for ratemaking purposes, beginning in February 1994, consistent with previous rate actions of the PSC. The \$17.2 million remaining cost of termination benefits was charged to expense in 1993.

Note 8. 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. Borrowings under the lines

are at the banks' prime rates, base interest rates, or at various money market rates.

	1994	1993	1992
	(Dollar amounts in thousands)		
BGE's Commercial Paper Notes			
Borrowings outstanding at December 31	\$ 63,700	\$ -	\$ 11,900
Weighted average interest rate of notes outstanding at December 31	6.10%	- %	3.62%
Unused lines of credit supporting commercial paper notes at December 31	\$148,000	\$208,000	\$203,000
Maximum borrowings during the year	187,500	96,900	393,650
Average daily borrowings during the year (a)	74,001	10,322	98,892
Weighted average interest rate for the year (b)	4.83%	3.28%	4.79%
Constellation Companies' Lines of Credit			
Borrowings outstanding at December 31	\$ -	\$ -	\$ -
Weighted average interest rate of borrowings outstanding at December 31	- %	- %	- %
Unused lines of credit at December 31	\$ -	\$ 20,000	\$ -
Maximum borrowings during the year	-	-	60,670
Average daily borrowings during the year (a)	-	-	31,773
Weighted average interest rate for the year (b)	- %	- %	6.01%

(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 9. Long-Term Debt

First Refunding Mortgage Bonds of BGE

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

On August 1 of each year, BGE 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 5½% Installment Series of 2002, the 9½% Series of 1995, the 8.40% Series of 1999, the 5½% Series of 2000, the 8½% Series of 2001, the 7¼% Series of 2002, the 6½% Series of 2003, the 6¼% Series of 2003, the 5½% Series of 2004, the 7¼% Series of 2007, and the 6¼% Series of 2008.

Other Long-Term Debt of BGE

BGE maintains revolving credit agreements that expire at various times during 1996 and 1997. Under the terms of the agreements, BGE 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, 1994, BGE had no borrowings under these revolving credit agreements and had available \$125 million of unused capacity under these agreements.

The Medium-term Notes Series A mature in February 1996. The weighted average interest rate for notes outstanding at December 31, 1994 is 8.22%.

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, 1994 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, 1994 is 7.16%.

The principal amounts of the 5½% Installment Series Mortgage Bonds payable each year are as follows:

Year	(In thousands)
1995 through 1997	\$ 605
1998 and 1999	630
2000 and 2001	865
2002	6,725

Long-Term Debt of Constellation Companies

The mortgage and construction loans and other collateralized notes have varying terms. The \$116.6 million of variable rate notes require periodic payment of principal and interest with various maturities from September 1995 through July 2009. The \$13 million, 7.67% mortgage note requires monthly interest payments and is due October 1, 1995. The \$6.2 million, 7.73% mortgage note requires quarterly principal and interest payments through March 15, 2009.

The unsecured notes outstanding as of December 31, 1994 mature in accordance with the following schedule:

	Amount (In thousands)
8.35%, due August 28, 1995	\$ 20,000
8.71%, due August 28, 1996	23,000
6.19%, due September 9, 1996	10,000
8.93%, due August 28, 1997	52,000
6.65%, due September 9, 1997	15,000
8.23%, due October 15, 1997	30,000
7.05%, due April 22, 1998	25,000
7.06%, due September 9, 1998	20,000
8.48%, due October 15, 1998	75,000
7.30%, due April 22, 1999	90,000
8.73%, due October 15, 1999	15,000
7.55%, due April 22, 2000	35,000
7.43%, due September 9, 2000	30,000
Total	<u>\$440,000</u>

The Constellation Companies entered into an unsecured revolving credit agreement on December 9, 1994 in the amount of \$50 million. This agreement matures December 9, 1997 and will be used to provide liquidity for general corporate purposes. As of December 31, 1994, the Constellation Companies had no borrowings under this agreement.

Weighted Average Interest Rates for Variable Rate Debt

The weighted average interest rates for variable rate debt during 1994 and 1993 were as follows:

	1994	1993
BGE		
Floating rate series mortgage bonds	4.91%	- %
Pollution control loan	2.80	2.39
Port facilities loan	3.02	2.53
Adjustable rate pollution control loan	3.13	3.00
Economic development loan	3.00	2.49
Constellation Companies		
Mortgage and construction loans and other collateralized notes	7.27	6.26
Loans under credit agreements	-	5.94

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	BGE	Constellation Companies
		(In thousands)
1995	\$206,063	\$ 56,112
1996	71,997	65,201
1997	80,653	125,389
1998	55,396	134,973
1999	251,467	116,425

Note 10. 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 BGE'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
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)
1995	\$61,500
1996	26,000
1997	83,000
1998	33,000
1999	33,000

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.

Note 11. 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 utility operations are charged to expense. Lease expense, which is comprised primarily of operating leases, totaled \$12.7 million, \$13.8 million, and \$14.0 million for the years ended 1994, 1993, and 1992, respectively.

The future minimum lease payments at December 31, 1994 for long-term noncancelable operating leases are as follows:

Year	(In thousands)
1995	\$ 4,185
1996	3,881
1997	3,447
1998	2,971
1999	1,409
Thereafter	5,347
Total minimum lease payments	<u>\$21,240</u>

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 22 years, with options to renew. The net book value of property under operating leases was \$148.8 million at December 31, 1994. The future minimum rentals to be received under operating leases in effect at December 31, 1994 are as follows:

Year	(In thousands)
1995	\$ 13,143
1996	12,233
1997	11,062
1998	9,718
1999	9,082
Thereafter	73,693
Total minimum rentals	<u>\$128,931</u>

Note 12. Taxes Other Than Income Taxes

Taxes other than income taxes were as follows:

Year Ended December 31,	1994	1993	1992
		(In thousands)	
Real and personal property	\$112,492	\$107,958	\$100,419
Public service company franchise	48,143	48,693	45,654
Social security	35,269	35,724	34,911
Other	10,307	9,836	9,355
Total taxes other than income taxes	206,211	202,211	190,339
Amounts included above charged to accounts other than taxes	(6,478)	(7,379)	(7,335)
Taxes other than income taxes per Consolidated Statements of Income	<u>\$199,733</u>	<u>\$194,832</u>	<u>\$183,004</u>

Note 13. Commitments, Guarantees, and Contingencies

Commitments

BGE has made substantial commitments in connection with its construction program for 1995 and subsequent years. In addition, BGE 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 \$69.4, \$68.7, and \$60.6 million during 1994, 1993, and 1992, respectively. At December 31, 1994, the estimated future payments for capacity and energy that BGE is obligated to buy under these contracts are as follows:

Year	(In thousands)
1995	\$ 65,249
1996	62,880
1997	60,068
1998	60,699
1999	60,558
Thereafter	272,826
Total payments	<u>\$582,280</u>

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, 1994, the total amount of investment requirements committed to by the Constellation Companies is \$43.6 million.

In December, 1994, BGE and HPS entered into agreements with a financial institution whereby BGE and HPS can sell on an ongoing basis up to an aggregate of \$40 million and \$50 million, respectively, of an undivided interest in a designated pool of customer receivables. Under the terms of the agreements, BGE and HPS have limited recourse on the receivables and have recorded a reserve for credit losses. At December 31, 1994, BGE and HPS

had sold \$30 million and \$40 million of receivables, respectively, under these agreements.

Guarantees

BGE has agreed to guarantee two-thirds of certain indebtedness incurred by Safe Harbor Water Power Corporation. The amount of such indebtedness totals \$35 million, of which \$23.3 million represents BGE's share of the guarantee. BGE assesses that the risk of material loss on the loans guaranteed is minimal.

As of December 31, 1994, the total outstanding loans and letters of credit of certain power generation and real estate projects guaranteed by the Constellation Companies were \$31.2 million. Also, the Constellation Companies have agreed to guarantee certain other borrowings of various power generation and real estate projects. The Company has assessed 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 two titles designed to reduce emissions of sulfur dioxide and nitrogen oxide (NO_x) from electric generating stations. Title IV contains provisions for compliance in two separate phases. Phase I of Title IV became effective January 1, 1995, and Phase II of Title IV must be implemented by 2000. BGE met the requirements of Phase I by installing flue gas desulfurization systems and fuel switching and through unit retirements. BGE is currently examining what actions will be required in order to comply with Phase II of the Act. However, BGE 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 NO_x control requirements under Title I of the Act are less certain because all implementation regulations have not yet been finalized by the government. It is expected that by the year 1999 these regulations will

require additional NO_x controls for ozone attainment at BGE's generating plants and at other BGE 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 ozone nonattainment regulations, BGE currently estimates that the NO_x controls at BGE's generating plants will cost approximately \$70 million. BGE is currently unable to predict the cost of compliance with the additional requirements at other BGE facilities.

BGE has been notified by the Environmental Protection Agency and several state agencies that it is being considered a potentially responsible party (PRP) with respect to the cleanup of certain environmentally contaminated sites owned and operated by third parties. In addition, a subsidiary of Constellation Holdings, Inc. has been named as a defendant in a case concerning an alleged environmentally contaminated site owned and operated by a third party. Cleanup costs for these sites cannot be estimated, except that BGE's 15.79% share of the possible cleanup costs at one of these sites, Metal Bank of America, a metal reclaimer in Philadelphia, could exceed amounts recognized by up to approximately \$14 million based on the highest estimate of costs in the range of reasonably possible alternatives. Although the cleanup costs for certain of the remaining sites could be significant, BGE believes that the resolution of these matters will not have a material effect on its financial position or results of operations.

Also, BGE is coordinating investigation of several former gas manufacturing plant sites, including exploration of corrective action options to remove coal tar. However, no formal legal proceedings have been instituted. BGE has recognized estimated environmental costs at these sites totaling \$37.9 million as of December 31, 1994. These costs, net of accumulated amortization, have been deferred as a regulatory asset (see Note 5). The technology for cleaning up such sites is still developing, and potential remedies for these sites have not been identified. Cleanup costs in excess of the amounts recognized, which could be significant in total, cannot presently be estimated.

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 BGE. 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 BGE's liability to third parties for property damage and bodily injury. BGE maintains various insurance policies for these contingencies. The costs that could result from a major accident or an extended outage at either of the Calvert Cliffs units could exceed the coverage limits.

In addition, in the event of an incident at any commercial nuclear power plant in the country, BGE 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 \$8.92 billion. If third party claims relating to such an incident exceed \$200 million (the amount of primary insurance), BGE's share of the total liability for third party claims could be up to \$159 million per incident, that would be payable at a rate of \$20 million per year.

BGE 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 BGE or others insured by these policies for radiation injuries. If certain claims were made under these policies, BGE and all policyholders could be assessed, with BGE's share being up to \$6.08 million in any one year.

For physical damage to Calvert Cliffs, BGE has \$2.75 billion of property insurance, including \$1.4 billion from an industry mutual insurance company. If accidents at any insured plants cause a short-fall of funds at the industry mutual, BGE and all policyholders could be assessed, with BGE's share being up to \$14.3 million.

If an outage at Calvert Cliffs is caused by an insured physical damage loss and lasts more than 21 weeks, BGE has up to \$473.2 million per unit of insurance, provided by the same industry mutual insurance company for replacement power costs. This amount can be reduced by up to \$94.6 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 any insured plant causes a short-fall of funds at the industry mutual, BGE and all policyholders could be assessed, with BGE's share being up to \$9.4 million.

Recoverability of Electric Fuel Costs

By statute, actual electric fuel costs are recoverable so long as the PSC finds that BGE demonstrates that, among other things, it has maintained the productive capacity of its generating plants at a reasonable level. The PSC and Maryland's highest appellate court have interpreted this as permitting a subjective evaluation of each unplanned outage at BGE's generating plants to determine whether or not BGE had implemented all reasonable and cost effective maintenance and operating control procedures appropriate for preventing the outage. Effective January 1, 1987, the PSC 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 BGE 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 BGE. Parties to fuel rate hearings may still question the prudence of BGE's actions or inactions with respect to any given generating plant outage, which could result in the disallowance of replacement energy costs by the PSC.

Since the two units at BGE's Calvert Cliffs Nuclear Power Plant utilize BGE's lowest cost fuel, replacement energy costs associated with outages at these units can be significant. BGE 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, BGE filed its first fuel rate application for a change in its electric fuel rate under the GUPP program. The resultant case before the PSC covers BGE's operating performance in calendar year 1987, and BGE'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, BGE filed its fuel rate case in which 1988 performance was to be examined. BGE met the system-wide and nuclear plant performance targets in 1988. People's Counsel alleges that BGE imprudently managed several outages at Calvert Cliffs, and BGE 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 PSC issued a proposed Order, which became final on December 17, 1991 and concluded that no disallowance was warranted. The Hearing Examiner found that BGE 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, BGE 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. BGE 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 PSC in a BGE base rate proceeding, the PSC found that certain operations and maintenance expenses incurred at Calvert Cliffs during the test year should not be recovered from ratepayers. The PSC 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 BGE actions which were deficient.

The Commission noted in the order that its review and findings on these issues pertain to the reasonableness of BGE'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 PSC 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 PSC's statement regarding no binding effect, BGE recognizes that the views expressed by the PSC make the full recovery of all of the replacement energy costs associated with the Unit 1 outage doubtful. Therefore, in December 1990, BGE recorded a provision of \$35 million against the possible disallowance of such costs. BGE 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 14. Fair Value of Financial Instruments

The following table presents the carrying value and fair value of financial instruments included in the Consolidated Balance Sheets.

At December 31,

	1994		1993	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Current assets	\$ 382,776	\$ 382,776	\$ 496,919	\$ 496,919
Investments and other assets	138,978	137,782	125,046	129,752
Current liabilities	768,932	768,932	443,968	443,968
Capitalization	2,864,432	2,699,103	3,165,644	3,303,616

Financial instruments included in current assets are cash and cash equivalents, net accounts receivable, trading securities, and miscellaneous loans receivable of the Constellation Companies. Financial instruments included in current liabilities represent total current liabilities from the balance sheet excluding accrued vacation costs. The carrying amount of current assets and current liabilities approximates fair value because of the short maturity of these instruments.

Investments and other assets include investments in common and preferred securities, which are classified as financial investments in the balance sheet, and the nuclear decommissioning trust fund. The fair value of investments and other assets is based on quoted market prices where available. Certain investments with a carrying amount of \$70 million at December 31, 1994 and 1993 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 is estimated using quoted market prices where available or by discounting remaining cash flows at the current market rate. The carrying amount of variable-rate long-term debt approximates fair value.

BGE and the Constellation Companies have loan guarantees totalling \$23.3 million and \$17.0 million, respectively, at December 31, 1994 and \$26.7 and \$36.0 million, respectively, at December 31, 1993 for which it is not practicable to determine fair value. It is not anticipated that these loan guarantees will need to be funded.

Note 15. Quarterly Financial Data (Unaudited)

The following data are unaudited but, in the opinion of Management, include all adjustments necessary for a fair presentation. BGE'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
1994	<i>(In thousands, except per-share amounts)</i>				
Revenues	\$767,686	\$651,152	\$753,878	\$610,269	\$2,782,985
Income from operations	162,559	136,778	232,472	103,450	635,259
Net income	82,145	66,708	126,616	48,148	323,617
Earnings applicable to common stock	72,114	56,687	116,714	38,180	283,695
Earnings per share of common stock	0.49	0.39	0.79	0.26	1.93
1993					
Revenues	\$701,785	\$583,812	\$793,968	\$661,820	\$2,741,385
Income from operations	135,429	106,890	287,519	86,554	616,392
Net income	65,796	55,876	157,058	31,136	309,866
Earnings applicable to common stock	55,276	45,300	146,511	20,940	268,027
Earnings per share of common stock	0.38	0.31	1.01	0.14	1.85

Results for the first quarter of 1994 reflect a \$10.0 million one-time bonus paid to employees in lieu of a general increase.

Results for the third quarter of 1994 reflect the \$15.7 million (\$11.0 million after-tax) write-off of certain Perryman costs (see Note 1).

Results for the second quarter of 1993 reflect the reversal of the cost of the termination benefits associated with the 1992 Voluntary Special Early Retirement Program (see Note 7).

Results for the third quarter of 1993 reflect the effects of the Omnibus Budget Reconciliation Act of 1993.

Results for the fourth quarter of 1993 reflect the cost of certain termination benefits (see Note 7).

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 reclassified to conform to the current year's presentation.

BGE Boards of Directors

Board of Directors Baltimore Gas and Electric Company

Christian H. Poindexter, 56, *Chairman of the Board and Chief Executive Officer, Baltimore Gas and Electric Company*



Mr. Poindexter has served as BGE's Chairman, CEO and Chairman of the Board of Constellation Holdings, a BGE subsidiary, since 1993. He was Vice Chairman of the Board from 1989 to 1993. In 1994, he was elected a director of the newly formed subsidiary, BGE Home Products & Services. He has been a BGE director since 1988 and is a member of the executive committee.

H. Furlong Baldwin, 63, *Chairman of the Board and Chief Executive Officer, Mercantile Bankshares Corporation, Baltimore*



At Mercantile Bankshares, a bank holding company, Mr. Baldwin has been Chairman since 1984 and CEO since 1976. He has also served as Chairman and CEO of Mercantile Safe Deposit and Trust Company since 1976. In addition, he is a director of BGE's Constellation Holdings subsidiary. A BGE director since 1988, Mr. Baldwin is a member of the executive committee and chairs the long-range strategy committee.

Beverly B. Byron, 62, *former Congresswoman, United States House of Representatives, Frederick, Maryland*



After serving seven successive terms as a Congresswoman from 1978 to 1992, Mrs. Byron was elected to the BGE board in 1993. A member of the audit committee and the committee on nuclear power, she also chairs the committee on workplace diversity.

J. Owen Cole, 65, *Chairman of the Board, Blue Cross and Blue Shield of Maryland, Inc.; Chairman of the trust committee, First Maryland Bancorp, and First National Bank of Maryland, Baltimore*



Blue Cross and Blue Shield of Maryland is a health insurance provider, and Mr. Cole was elected as Chairman in January 1995. Mr. Cole also serves as chairman of the trust committee of First Maryland Bancorp, a bank holding company, and First National Bank of Maryland since 1994. From 1988 to 1994, he served as chairman of the executive committees of the Board of Directors of both companies. Mr. Cole has been a BGE director since 1977 and serves as chairman of the audit committee and as a member of the committee on management.

Dan A. Colussy, 63, *Chairman of the Board and Chief Executive Officer, UNC Incorporated, Annapolis, Maryland*



Mr. Colussy has served as President of UNC Incorporated, an aviation services company, from 1984 to 1994, was elected CEO in 1984, and became Chairman in 1989. A BGE director since 1992, Mr. Colussy is a member of the committee on management and chairs the committee on nuclear power.

Edward A. Crooke, 56, *President and Chief Operating Officer, Baltimore Gas and Electric Company*



Mr. Crooke has been President of BGE since 1988 and COO since 1992. In addition, he was elected Chairman of the Board of BGE Home Products & Services, a new subsidiary created in 1994. He also is a director of Constellation Holdings. Mr.

Crooke has been a BGE director since 1988 and is a member of the executive committee.

James R. Curtiss, Esq., 41, *Partner, Winston & Strawn, Washington, D.C.*



Mr. Curtiss has been a partner at the law firm of Winston & Strawn since 1993. A commissioner of the Nuclear Regulatory Commission from 1988 to 1993, he has been a BGE director since 1994 and serves on the committees on nuclear power and workplace diversity.

Jerome W. Geckle, 65, *retired Chairman of the Board, PHH Corporation Baltimore*



Mr. Geckle was Chairman of PHH Corporation, a vehicle, relocation, and management services company, from 1979 to 1989. He also served as that company's CEO from 1979 to 1988. Now retired, he is also a director of BGE's Constellation Holdings subsidiary. Mr. Geckle has been a director of BGE since 1980, chairs the committee on management, and serves on the long-range strategy committee.

Martin L. Grass, 41, *President and Chief Operating Officer, Rite Aid Corporation, Camp Hill, Pennsylvania*



Mr. Grass joined Rite Aid Corporation, the largest retail drug chain in the U.S., in 1978 and was elected to its Board of Directors in 1982. He has served as that company's President and COO since 1989. In addition, he is Vice Chairman, Treasurer, and Director of Super Market Foods, Inc., a Harrisburg, Pennsylvania-based food wholesaler and retailer. Mr. Grass was elected to BGE's board effective January 1, 1995, and is a member of the audit and long-range strategy committees.

Freeman A. Hrabowski III, 44,
President, University of Maryland, Baltimore County



President of the University of Maryland, Baltimore County, since 1993, Dr. Hrabowski served as Interim President from 1992 to 1993, Executive Vice President from 1990 to 1992, and Vice Provost from 1987 to 1990. A director of BGE since 1994, he is a member of the audit, executive, and workplace diversity committees.

Nancy Lampton, 52,
Chairman and Chief Executive Officer, American Life and Accident Insurance Company of Kentucky, Louisville, Kentucky



Ms. Lampton has been Chairman and CEO of American Life and Accident Insurance since 1972. She has served as a BGE director since 1994 and is on the long-range strategy committee and the committee on workplace diversity.

George V. McGowan, 67,
former Chairman of the Board and Chief Executive Officer, Baltimore Gas and Electric Company



In addition to his position as BGE Chairman and CEO, from 1988 to 1992, Mr. McGowan also served as Chairman of the Board of BGE's Constellation Holdings subsidiary. A director at BGE since 1980, he chairs the executive committee and is a member of the committee on nuclear power.

George L. Russell, Jr., Esq., 65,
Partner, Piper & Marbury, Baltimore



Mr. Russell has been a partner at the Baltimore law firm of Piper & Marbury since 1986. A director of BGE since 1988, he is a member of the audit and executive committees.

Michael D. Sullivan, 55,
Chairman of the Board, Waye Laboratories, Inc., and Lombardi Research Group, Joppa, Maryland



Mr. Sullivan became the Chairman of Lombardi Research Group and Waye Laboratories, hair products companies, in 1995. Formerly, he was CEO and President of Merry-Go-Round Enterprises, Inc., a specialty retailing company, from 1982 to 1994. Mr. Sullivan has been a BGE director since 1992 and is a member of the committees on management and long-range strategy.

Changes in Directors

Effective January 1, 1995, Martin L. Grass was elected to the Board of Directors, replacing Paul G. Miller, who retired from the Board of Directors effective December 31, 1994.

Committees of the Board

Executive Committee

The executive committee exercises most of the powers of the board in managing company business between meetings of the full board. This committee may not, however, declare dividends, authorize stock issues, recommend to shareholders any action requiring shareholders' approval, amend bylaws, or approve mergers.

Audit Committee

Comprised of outside directors, this committee recommends an auditing firm, discusses the scope of the examination with that firm, and reviews annual financial statements. Additionally, this committee meets with the manager of BGE's auditing department to ensure adequate internal auditing. It invites comments and recommendations from the auditing firm concerning the system of internal controls and accounting procedures.

Committee on Nuclear Power

This committee monitors the performance and safety of the Calvert Cliffs Nuclear Power Plant. The committee confers with BGE management, senior plant management, and other nuclear oversight personnel and reports its observations and findings to the full board with recommendations.

Committee on Management

The duties of this committee include recommending nominees for directors and officers. In addition, it makes recommendations on remuneration arrangements for directors and officers. Comprised of directors from outside the company, this committee also considers shareholder recommendations for board nominees.

Committee on Workplace Diversity

This committee provides input to management in setting and achieving employee diversity goals. It provides oversight of implementation of diversity strategies and evaluates results.

Long-Range Strategy Committee

This committee oversees development of the company's long-range strategic goals. It reviews the appropriateness of these goals and approves presentations to the board regarding the implementation of significant strategic initiatives. This committee also reviews major regulatory, environmental, and public policy issues as well as technological advances that may affect company operations.

BGE Boards of Directors and Officers

Corporate Officers

Baltimore Gas and Electric Company

Christian H. Poindexter

Chairman of the Board and Chief Executive Officer

Age: 56 Years of service: 27

Edward A. Crooke

President and Chief Operating Officer

Age: 56 Years of service: 26

George C. Creel

Senior Vice President, Generation

Age: 60 Years of service: 39

Thomas F. Brady

Vice President, Customer Service & Distribution

Age: 45 Years of service: 25

Herbert D. Coss, Jr.

Vice President, Gas

Age: 60 Years of service: 38

Robert E. Denton

Vice President, Nuclear Energy

Age: 51 Years of service: 24

Carserlo Drayle

Vice President, Electric Interconnection & Transmission

Age: 50 Years of service: 23

Jon M. Files

Vice President, Management Services

Age: 59 Years of service: 37

Ronald W. Lowman

Vice President, Fossil Energy

Age: 50 Years of service: 26

G. Dowell Schwartz, Jr.

Vice President, General Services

Age: 58 Years of service: 36

Charles W. Shivery

Vice President, Finance & Accounting
Chief Financial Officer and Secretary

Age: 49 Years of service: 22

Joseph A. Tiernan

Vice President, Corporate Affairs

Age: 56 Years of service: 26

Stephen F. Wood

Vice President, Marketing & Sales

Age: 42 Years of service: 18

Richard M. Bange, Jr.

Controller and Assistant Secretary

Age: 50 Years of service: 23

Lynne H. Church

Treasurer and Assistant Secretary

Age: 51 Years of service: 10

Thomas E. Ruszin, Jr.

Assistant Treasurer

Age: 40 Years of service: 18

Changes in Officers

Stephen F. Wood, former manager of Special Customer Projects, was elected to the position of Vice President, Marketing & Sales, effective October 1, 1994.

Board of Directors

Constellation Holdings, Inc.

Christian H. Poindexter

Chairman of the Board, Constellation Holdings; Chairman of the Board and Chief Executive Officer, Baltimore Gas and Electric Company; member since 1985

Bruce M. Ambler

President and Chief Executive Officer, Constellation Holdings; member since 1989

H. Furlong Baldwin

Chairman of the Board and Chief Executive Officer, Mercantile Bankshares Corporation (bank holding company), Baltimore; member since 1987; serves on audit committee

Edward A. Crooke

President and Chief Operating Officer, Baltimore Gas and Electric Company; member since 1993

Roger W. Gale

President, Washington International Energy Group (energy consulting), Washington D.C.; new member as of 1995; serves on audit committee

Jerome W. Geckle

Retired Chairman of the Board, PHH Corporation (vehicle, relocation, and management services), Baltimore; member since 1985; chairman of committee on management

BGE Boards of Directors and Officers

Edward W. Kay

Retired Co-Chairman and Chief Operating Officer, Ernst & Young (certified public accountants), Washington, D.C.; member since 1988; chairman of audit committee

George V. McGowan

Former Chairman of the Board and Chief Executive Officer, Baltimore Gas and Electric Company; member since 1983

Mayo A. Shattuck III

President and Chief Operating Officer, Alex. Brown, Inc. (investment banking and securities brokerage), Baltimore; member since 1994; serves on committee on management

Bernard C. Trueschler

Former Chairman of the Board and Chief Executive Officer, Baltimore Gas and Electric Company; member since 1983

Changes in Directors

Effective January 1, 1995, Roger W. Gale was elected to the Board of Directors of Constellation Holdings. Dr. Gale is the founder and President of the Washington International Energy Group, which provides advice, analysis, and tracking to executives on utility issues.

Paul G. Miller retired from the Board of Directors, effective December 31, 1994.

Officers

Constellation Holdings, Inc.

Christian H. Poindexter

Chairman of the Board,
Constellation Holdings, Inc.

Bruce M. Ambler

President and Chief Executive Officer,
Constellation Holdings, Inc.
Acting President, Constellation
Energy, Inc.

Steven D. Kesler

President, Constellation
Investments, Inc.

Randal M. Griffin

President, Constellation Real Estate
Group, Inc.

James W. Jeffcoat

President, Constellation Health
Services, Inc.

Robert E. Windham

President, Church Street Station, Inc.

Edward A. Crooke

Chairman of the Board, BGE Home
Products & Services; President and Chief
Operating Officer, Baltimore
Gas and Electric Company

Christian H. Poindexter

Chairman of the Board and Chief
Executive Officer, Baltimore Gas and
Electric Company

William H. Munn

President and Chief Executive Officer,
BGE Home Products & Services

Changes in Directors

Effective January 1, 1995, William H. Munn was elected President and Chief Executive Officer of BGE Home Products & Services. Mr. Munn was the president and owner of Maryland Environmental Systems, Inc., a Maryland-based company specializing in the installation and service of commercial and residential heating, air conditioning, plumbing, and electrical systems. BGE purchased MESI in December 1994.

Officers

BGE Home Products & Services, Inc.

Edward A. Crooke

Chairman of the Board

William H. Munn

President and Chief Executive Officer

E. Frank Bender

Vice President, Merchandise

Board of Directors

BGE Home Products & Services, Inc.

BGE Home Products & Services was created as a wholly owned subsidiary of Baltimore Gas and Electric Company on July 1, 1994. The new subsidiary combined the related activities of merchandise sales with gas and appliance operations and will allow BGE greater freedom to operate in a competitive marketplace.

Five-Year Statistical Summary

	1994	1993	1992	1991	1990
Common Stock Data					
Quarterly Earnings Per Share					
First Quarter	\$.49	\$.38	\$.37	\$.40	\$.54
Second Quarter	.39	.31	.20	.38	.23
Third Quarter	.79	1.01	.84	.84	.72
Fourth Quarter	.26	.14	.22	.05	(.09)
Total	\$1.93	\$1.85	\$1.63	\$1.67	\$1.40
Dividends					
Dividends Declared Per Share	\$1.51	\$1.47	\$1.43	\$1.40	\$1.40
Dividends Paid Per Share	1.50	1.46	1.42	1.40	1.40
Dividend Payout Ratio	78.2%	79.5%	87.7%	83.8%	100.0%
Market Prices					
High	\$25½	\$27½	\$24¾	\$22¾	\$23¾
Low	20½	22¾	19¾	17¾	16¾
Close	22¾	25¾	23¾	22¾	18¾
Capital Structure					
Consolidated					
Long-Term Debt	46.1%	47.4%	46.1%	47.8%	47.9%
Short-Term Debt	1.0	—	0.2	3.8	4.1
Preferred and Preference Stock	8.9	9.2	9.8	10.1	10.2
Common Shareholders' Equity	44.0	43.4	43.9	38.3	37.8
Utility Only					
Long-Term Debt	43.6%	44.5%	42.9%	45.6%	45.0%
Short-Term Debt	1.2	—	0.3	3.4	3.6
Preferred and Preference Stock	10.5	10.9	11.6	12.1	12.3
Common Shareholders' Equity	44.7	44.6	45.2	38.9	39.1

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.

Shareholder Information

Common Stock Dividends and Price Ranges

	1994			1993		
	Dividend Declared	Price		Dividend Declared	Price	
		High	Low		High	Low
First Quarter	\$.37	\$ 25½	\$ 22¾	\$.36	\$ 26¾	\$ 22¾
Second Quarter	.38	24¾	20½	.37	26¾	23¾
Third Quarter	.38	23¾	20¾	.37	27½	25½
Fourth Quarter	.38	23¾	21¼	.37	26¾	23½
Total	<u>\$ 1.51</u>			<u>\$ 1.47</u>		

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. They are also entitled 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 1994 and 1993 in the amounts shown 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, Chicago, and Pacific stock exchanges, and has unlisted trading privileges on the Boston, Cincinnati, and Philadelphia exchanges. As of December 31, 1994, there were 81,505 common shareholders of record.

Transfer Agent and Registrar

Harris Trust and Savings Bank
Chicago, Illinois

Annual Meeting

The annual meeting of shareholders will be held at 2:00 p.m. on Tuesday, April 18, 1995, at the Omni Inner Harbor Hotel, 101 West Fayette Street, Baltimore, 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 1995. Requests should be addressed to Charles W. Shivery, Chief Financial Officer and Secretary, Vice President—Finance & Accounting, P. O. Box 1475, Baltimore, Maryland 21203-1475.

Auditors

Coopers & Lybrand L.L.P.

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	(410) 783-5920
Within Maryland	1-800-492-2861
Outside of Maryland	1-800-258-0499
TTY/TDD Hearing Impaired	1-800-492-5539

Letters should be addressed to

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



P. O. box 1475

Baltimore, Maryland 21203-1475