BALTIMORE
GAS AND
ELECTRIC

CHARLES CENTER • P.O. BOX 1475 • BALTIMORE, MARYLAND 21203

ACCOUNTING DEPARTMENT

March 31, 1988

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

Gentlemen:

In accordance with the requirements of 10 CFR 50.71(b) and 10 CFR 50.4 enclosed please find Baltimore Gas and Electric Company's annual report for the year 1987.

Very truly yours,

J. E. Ringsdorf, J.

J. E. Ringsdorf, Jr.
Supervisor
Financial Reporting

Enclosure

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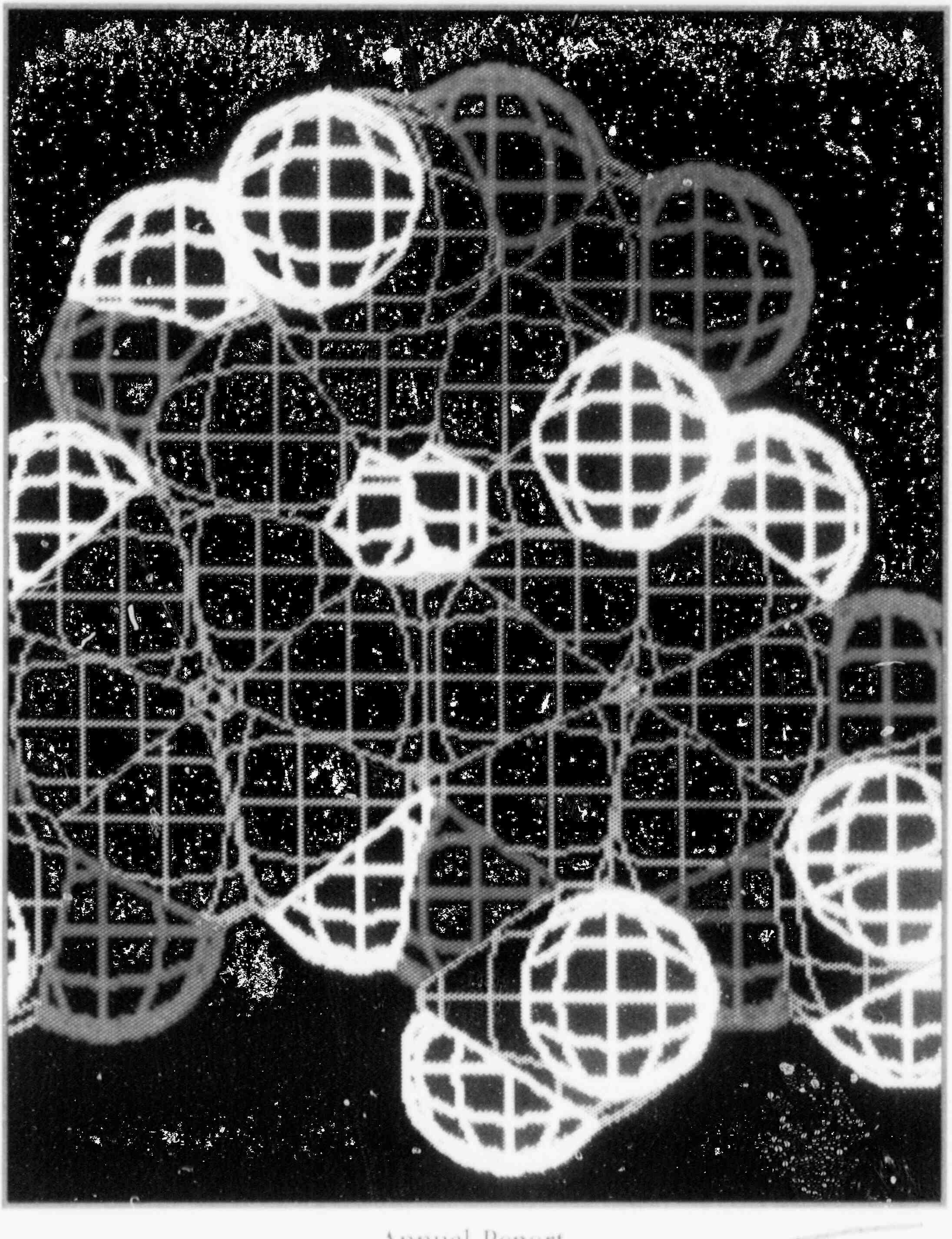
Baltimore Gas and Electric Company



Annual Report
1987

HIGHLIGHTS

		1987	1986	Percent Change
BALTIMORE GAS AND ELECTRIC COMPANY	Earnings Per Share of Common Stock			
	Utility Operations	**$3.30**	$2.83	16.6 %
	Constellation Companies	**.17**	.32	(46.9)%
	Total	**$3.47**	$3.15	10.2 %
	Dividends Declared Per Share of Common Stock	**$1.875**	$1.775	5.6 %
	Average Shares of Common Stock Outstanding	**78,861,000**	78,627,000	0.3 %
	Operating Revenues			
	Electric	**$1,393,735,000**	$1,388,251,000	0.4 %
	Gas	**415,456,000**	445,769,000	(6.8)%
	Total	**$1,809,191,000**	$1,834,020,000	(1.4)%
	Net Income	**$ 300,098,000**	$ 274,619,000	9.3 %
	Earnings Applicable to Common Stock	**$ 273,692,000**	$ 247,743,000	10.5 %
	Electric Sales—megawatt-hours	**22,575,000**	21,236,000	6.3 %
	Gas Sales—dekatherms	**102,941,000**	97,376,000	5.7 %
	Total Assets	**$4,509,992,000**	$4,370,428,000	3.2 %
	Net Utility Plant	**$3,691,691,000**	$3,567,676,000	3.5 %
	Construction Expenditures	**$ 254,530,000**	$ 254,142,000	0.2 %
CONSTELLATION COMPANIES	Revenues	**$ 30,405,000**	$ 24,876,000	22.2 %
	Net Income	**$ 13,669,000**	$ 24,825,000	(44.9)%
	Total Assets	**$ 479,281,000**	$ 409,888,000	16.9 %
	BG&E's Investment	**$ 205,080,000**	$ 192,075,000	6.8 %

Dividends Paid on the Common Stock Continuously Since 1910 — Always Earned — Never Reduced

COVER

Computer-generated graphics of molecules like the one on the cover help scientists at the Nova Pharmaceutical Corporation unravel complex structure-activity relationships. The goal of their research is the discovery of new drugs by using modern molecular technologies. One of the projects under way at Nova now is developing a treatment for the symptoms of the common cold.

With locations in both the Holabird Industrial Park and the Francis Scott Key Medical Center, Nova is typical of the biotech industries that are becoming a significant factor in the Baltimore-Washington corridor and changing the character of our customer base.

CONTENTS

THIS REPORT focuses on a view of BG&E that most people—even shareholders—rarely see. It will tell you how and why we made certain decisions in 1987. It will tell you about some of the things that happened—some planned and some unexpected.

1987 was a momentous year in the life of your Company—a year of transitions, innovations, successes, questions and problems. As a whole, it was a demanding year as well as a rewarding one.

As eventful as it was, the real story of 1987—and of this report—is not the events themselves, but the ways in which they were managed: how we coped with an unexpected loss of transmission capacity during a period of peak demand; how our human resource planning process prepared us to make smooth transitions of leadership at several levels; how strategic planning identified emerging business opportunities; and how corporate planning helped sharpen our commitment to customer service. This is the story of an organization at work and working well. The following pages give you a look at management involved in the day-to-day job of managing in a changing environment.

Our roots are deep in the utility business. They go back over 170 years to the very beginnings of the utility industry in the New World. As our industry matured, so did we; and as it changes, so shall we. But one fact will remain constant: BG&E will manage change as it always has—head-on and hands-on.

Letter to Shareholders

The pace of change accelerated in 1987—in the economy, the industry and the Company. I'm proud to report that we responded well and that we are positioned to grow with the increasing changes to come.

The end of 1987 marked five years of continuous recovery in the U.S. economy, the longest period of peacetime expansion since World War II. Central Maryland and BG&E have certainly benefitted: electric sales growth over the last five years averaged over 5%; gas sales growth averaged less than 1%. In 1987, total electric sales increased by more than 6% while gas sales rose over 5%. Those figures are the result of favorable weather combined with the improvement in heavy manufacturing locally, the continued growth in new homes using heat pumps, and in the case of gas, the continuing popularity of our Delivery Service tariff.

The success of our utility operations last year brought total Company earnings in 1987 to a record high of $3.47 per share, a 10.2% increase over 1986 earnings. The Board of Directors voted to increase quarterly common stock dividends to 47.5 cents a share effective with the dividend payable July 1, 1987. This represents a 10-cents-per-share annual increase to the new yearly rate of $1.90 per share.

Last May the Public Service Commission of Maryland ordered the Company to lower its base rates to produce a $78.3 million (4.4%) decrease in annual revenue. The rate reduction was primarily attributable to the pass-through of the tax savings associated with the Tax Reform Act of 1986 and to the establishment of our rate of return at 9.78%—down from the 10.96% allowed previously.

For over a decade the Calvert Cliffs Nuclear Plant has been the heart of our generating system. In 1987 Calvert Cliffs stepped into the international spotlight by becoming the first plant in the United States to host an Operational Safety Review Team (OSART) of the International Atomic Energy Agency (IAEA). The final IAEA report termed Calvert Cliffs a "well managed and operated plant," particularly impressive in the areas of managerial approach, personnel training programs and emergency planning.

While the five-year period of economic expansion improved our bottom line, its pace was not entirely expected. From 1983-1986, we experienced substantial growth in our peak load, averaging 180 megawatts each year, but in 1987 the peak grew by 572 megawatts. There were several elements at work here: the price of our service has been declining over the past several years; this price trend, together with the consumer's continued confidence in the economy and the pent-up consumer demand accumulated during a more challenging economic period, have led to less constrained energy use. The new peak demand—5,190 megawatts, achieved on July 21st—responded also to a weather pattern which normally occurs only once in ten years. After making adjustments for the unusual weather, the 1987 peak matched our forecast for 1989. Indications are that demand for energy will continue to be strong.

"For a number of years now, both the process of change in the utility industry and the debate over its direction have been intensifying."

Brandon Shores Unit No. 2 is currently scheduled for service in 1992 and will be a key element [illegible]eeting this new demand growth. [illegible] nave also reached an agreement with the Pennsylvania Power & Light Company to purchase a mix of energy and capacity over an eleven-year period beginning in 1990. This agreement, which is discussed further in the "Operations Review," will help maintain adequate reserve margins throughout the next decade. The agreement also increases our flexibility in selecting future generation technologies and scheduling power plant additions for the latter half of the nineties.

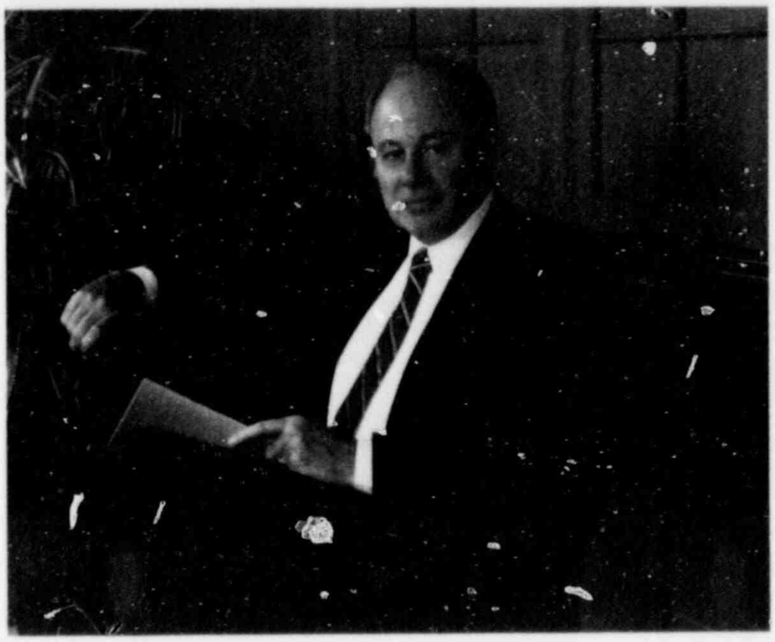
We have been equally aggressive over the past decade on behalf of our natural gas customers, working before federal agencies and in the courts, when necessary, and with suppliers and producers to keep gas a competitive fuel. As part of that strategy, we are building a 38-mile, 20-inch pipeline to connect our territory with the Consolidated Gas Transmission

Corporation. This project is well under way. The fact that both we and Consolidated are determined to forge ahead has already overcome many potential regulatory obstacles.

1987 saw our non-utility subsidiaries clearly establish their identities, focusing on four distinct areas of business: real estate, senior living and health care, energy and environmental projects, and investments and financial services. The Constellation Companies' section in the following pages will explain their activities for you in more detail.

Constellation's earnings in 1987 decreased from 1986 to $14 million, contributing $.17 per share. The decrease stemmed primarily from realized losses from one sector in our securities portfolio during last October's stock market decline. We are also undergoing a planned transition in the mix of our assets. Money has been moved from liquid short-term-yield-oriented investments to fund the development and construction of energy and real estate projects with significant longer-term yield and capital appreciation opportunities. Current income production from these funds has necessarily been interrupted. On the whole, we are satisfied with Constellation's progress and confident about its future.

BG&E's new management team is now entirely in place. Over the last two years, due to normal retirements, we replaced nine of our eleven officers in a smooth and orderly transition. None of our new officers is *new* to BG&E. All are products of our Human Resource Planning System, and have



been carefully groomed for their current and future positions. Very few companies are able to handle a turnover of this magnitude internally. We could because we regularly plan for succession at all levels of the Company. Our management systems are centered around the idea that human resources are BG&E's most valuable asset. The other components in our success—economical facilities, quality service, state-of-the-art technology, strategic planning—all stem from our basic commitment to hiring and developing the right people.

For a number of years now, both the process of change in the utility industry and the debate over its direction have been intensifying. At the heart of the discussion is the issue of deregulation. Last fall, the Federal Energy Regulatory Commission announced a new policy to promote competition in the bulk-power market. At that time, I wrote to Chairman Martha Hesse indicating our support for increased competition in this area, but also urging that the Commission exercise caution in restructuring the industry. As we relax regulations, it is imperative to keep our ultimate goal of economic efficiency in mind and make certain that all new policies contribute to, rather than detract from, its achievement.

Our overall strategy in the face of change is, as always, to preserve as much flexibility as possible for as long as possible. We are doing that by exploring options, developing our workforce and remaining involved in the issues—in short, by planning. With your support and the continued dedication of our people, we are moving eagerly toward a new era in the utility world.

George V. McGowan

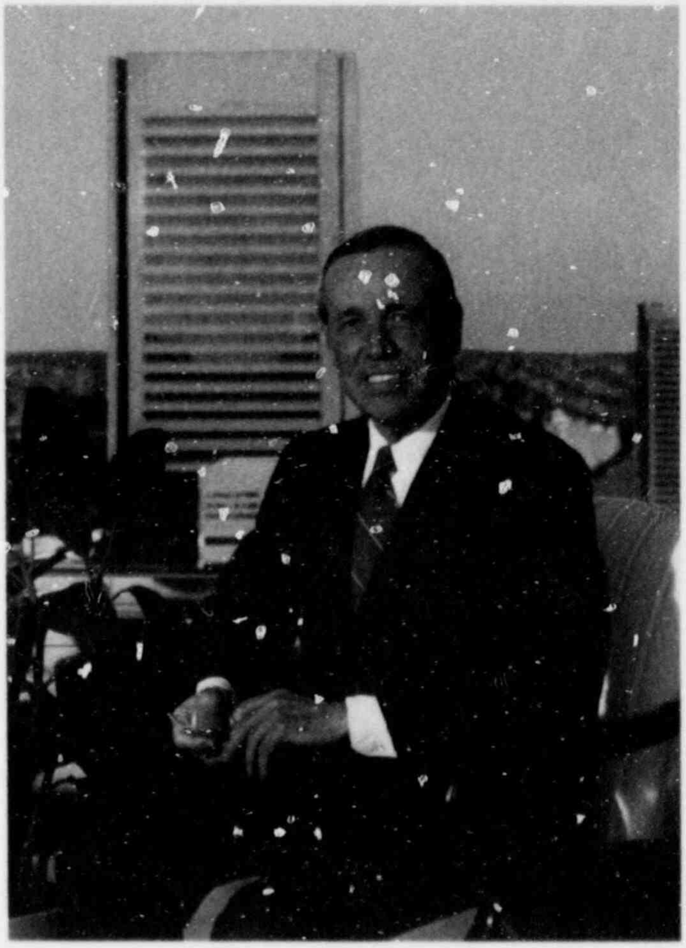
George V. McGowan
Chairman of the Board
February 1, 1988

Christian H. Poindexter
President and Chief Executive Officer-Constellation Holdings, Inc.

Edward A. Crooke
President and Chief Operating Officer-Utility Operations

Christian H. Poindexter has been President and Chief Executive Officer of Constellation Holdings since 1985 and was elected a Director of BG&E's Board effective January 1, 1988. Before joining Constellation, Mr. Poindexter had served as Vice President of Engineering and Construction at BG&E since 1980.

Edward A. Crooke became President and Chief Operating Officer of BG&E's Utility Operations on January 1, 1988, and was also elected a Director of BG&E effective that date. Mr. Crooke had previously served as Vice President of Finance and Accounting and Secretary since 1978.



Bernard C. Trueschler

"One of the finest legacies left to me when I became Chairman was a system of management that is superior to anything I have seen elsewhere. It all culminates in Human Resource Planning. I like to say that when we hire somebody, we are not just giving him or her a job, we are offering that person a career.

"Over the last 20 years, we have practically rebuilt our physical plant, and we've introduced outstanding technical innovations. All of this is vital, but none of it works without good people at all levels. We need results-oriented people with a broad corporate view. The development, training and selection of personnel is the real secret to continued success."

—Employees' Quarterly Communications Meeting, October 28, 1987

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When Bernard Trueschler joined BG&E in 1948, the Company and the utility industry were well-positioned to enjoy the long period of rapid growth and increasing efficiency that lay ahead. By 1980, when he was elected Chairman of the Board and Chief Executive Officer, the economy had fallen into recession and the utility industry had entered a difficult period of transition. Mr. Trueschler's decisive leadership during the eighties strengthened our utility business while guiding BG&E to a new era of diversified growth. On January 1 of this year Mr. Trueschler retired as BG&E's Chairman of the Board. We will miss his daily influence, but since he will continue as a Director and Chairman of the Executive Committee, BG&E and its shareholders will be assured of his valued counsel in the exciting years ahead.

Financial Review

In Brief

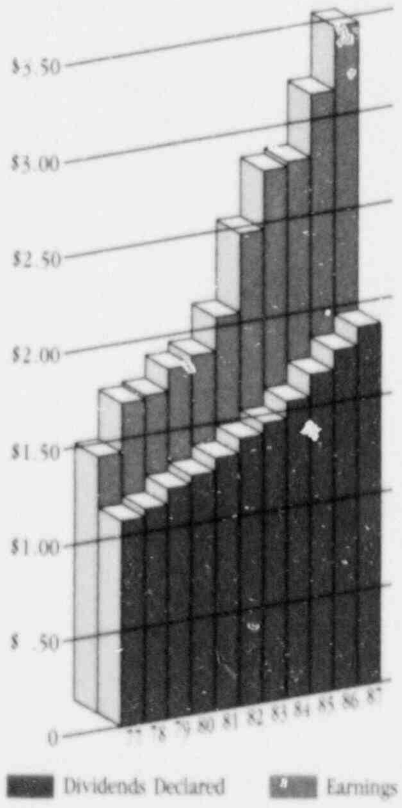
Earnings Per Share of Common Stock—increased 10.2%.

Quarterly Dividend Rate—increased 5.6%.

Construction Expenditures—89% of funds internally generated.

Rate Adjustments—lower base rates effective in May, 1987.

Financings—cost of capital continues to be aggressively controlled.



Earnings and Dividends Declared Per Share of Common Stock

Earnings

Earnings per share of common stock were $3.47 in 1987, a 10.2% increase over the $3.15 earned in 1986. This increase is attributable to the continued growth in utility earnings, partially offset by lower income from Constellation Holdings, Inc., the Company's diversified subsidiary. Per share earnings from utility operations and Constellation were as follows:

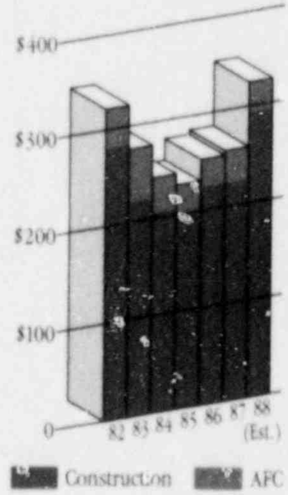
	1987	1986
Utility Operations	**$3.30**	$2.83
Constellation Companies	**.17**	.32
Total	**$3.47**	$3.15

The 1987 increase in utility earnings was due primarily to a 6.3% increase in sales of electricity reflecting the combined effects of favorable weather, particularly the above normal temperatures in the summer months, and the continued growth in all classes of customers.

Earnings from Constellation Holdings, Inc. were down from 1986 due to several factors. During 1987, Constellation's increased activity in project-oriented businesses, principally in the real estate and alternative energy areas, required a shift of capital from short-term investments to potentially higher-yielding assets which develop and mature over a longer period of time. Constellation's 1987 earnings also reflect reduced tax benefits as a result of the Tax Reform Act of 1986 and securities losses incurred in one of its professionally managed securities accounts during the October stock market decline.

Quarterly Dividend Rate

BG&E increased its quarterly dividend rate on common stock from 45 cents to 47½ cents per share effective with the July 1, 1987, payment. The increased dividend is equivalent to an annual rate of $1.90 a share, 10 cents higher than the previous annual rate. This marks the twelfth consecutive year that BG&E has raised its common stock dividend.



Construction Expenditures
(Millions of Dollars)

Construction Expenditures

During 1987, the utility's construction expenditures amounted to $255 million, including $31 million in Allowance for Funds Used During Construction (AFC). Electric facilities required expenditures of $230 million, while $25 million was expended for gas facilities. An additional $53 million was spent on nuclear fuel. Current estimates indicate that 1988 construction expenditures will amount to $325 million, including $35 million in AFC. An additional $45 million is expected to be spent for nuclear fuel.

During 1987, approximately 89% of the funds required for construction and nuclear fuel expenditures were provided by the internal generation of cash related to utility operations.

Rate Adjustments

On July 25, 1986, the Public Service Commission of Maryland instituted an investigation into the reasonableness of the Company's base rates. This investigation was undertaken in view of the changes in the cost of capital subsequent to May 1984, when the

1987 Financing Transactions

	Amount (Millions)
NEW ISSUES	
8½ % First Refunding Mortgage Bonds	$100.0
6.95 % Cumulative Preference Stock	50.0
6.75 % Cumulative Preference Stock	50.0
Adjustable Rate Pollution Control Loans	4.6
Common Stock issued under the Dividend Reinvestment and Stock Purchase Plan and the Employee Stock Ownership Plan	8.9
Total	$213.5
REDEMPTIONS/RETIREMENTS/REPURCHASES	
14¾ % First Refunding Mortgage Bonds	$ 39.3
9⅞ % First Refunding Mortgage Bonds	12.1
5⅜ % First Refunding Mortgage Bonds (Installment Series)	1.4
4⅜ % Sinking Fund Debentures	0.7
Adjustable Rate Pollution Control Loans	1.9
12 % Cumulative Preference Stock	6.8
9.35 % Cumulative Preference Stock	35.0
8.375 % Cumulative Preference Stock	30.0
Total	$127.2

Company's base rates were last set, as well as the anticipated savings from the Tax Reform Act of 1986.

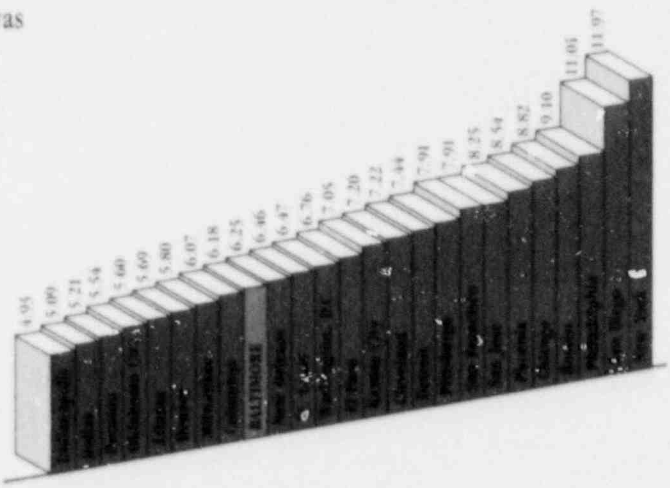
On May 5, 1987, the Maryland Commission issued an order authorizing lower base rates. The new rates were designed to reduce annual electric revenues by approximately $76.3 million and annual gas revenues by $2.0 million and were effective on May 27, 1987. The revenue decrease is attributable primarily to a decrease in the federal income tax rate used in establishing service rates from 46% to 36% and to the reduction in the rate of return to 9.78% from the previously authorized 10.96%.

Financings

Again in 1987, BG&E's financial strength and flexibility allowed the Company to aggressively control the cost of capital. This was done through the retirement of higher-cost securities and the timely issuance of fixed-rate securities under existing shelf registrations. In addition, the Company's financial flexibility was further enhanced by establishing a $100 million Medium-Term Note Program under which unsecured notes, ranging in maturity from one to fifteen years, can be sold as corporate requirements dictate. BG&E's 1987 financing transactions are shown in the accompanying table.

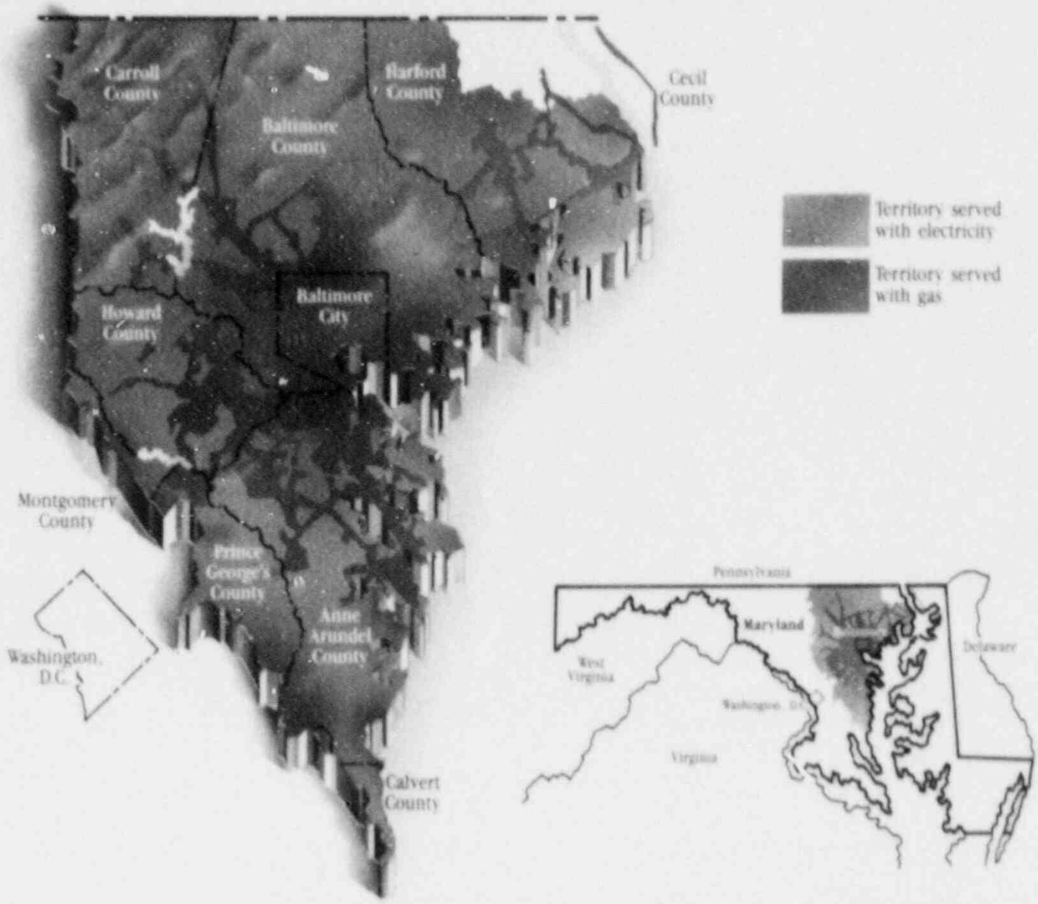
Tax Reform

Provisions of the Tax Reform Act of 1986 (Act) included an overall reduction in corporate income tax rates, the elimination of the investment tax credit, changes in depreciation rates and lives, and various other provisions which affect the Company. Although the Company is paying income taxes at a lower rate, its ability to generate cash internally will be reduced primarily due to the reduction in service rates reflecting tax reform, the loss of the investment tax credit and certain other tax provisions, thereby diminishing the Company's ability to defer the payment of income taxes until later years. The effects of the Act on 1987 financial results are more fully discussed on page 30 under the heading "Taxes."



Average Rate Per Kilowatthour of Electricity
Among the Largest U.S. Cities with Investor-Owned Utilities
All Customer Categories   12 Months Ending November 1987
(Cents per Kilowatthour)

Our Service Territory



Characteristics of the Business

Baltimore Gas and Electric Company is an investor-owned utility engaged primarily in the business of producing and selling electricity and purchasing and selling natural gas. The Company, which was the first gas utility and one of the first electric utilities in the United States, has 8,767 employees serving an area which includes Baltimore City and all or part of nine Central Maryland counties. The area served with electricity approximates 2,300 square miles with 2,420,000 residents, while the area served with gas includes 600 square miles with a population of 1,861,000.

To service this area, the Company operates ten electric generating plants in Central Maryland, including the Calvert Cliffs Nuclear Power Plant which has consistently ranked as one of the top-performing nuclear plants in the country. The Company also maintains shared ownership of generating facilities in Pennsylvania, consisting of two mine-mouth plants and Safe Harbor Water Power Corporation, a producer of hydroelectric power. In addition, the Company is a member of the Pennsylvania-New Jersey-Maryland Interconnection which affords access to pooled capacity on favorable terms. Electric generation by fuel type for 1987 was 42% nuclear, 43% coal, 4% oil, 4% hydro and 7% net interchange.

The Company obtains substantially all of the natural gas it sells through purchases from pipeline suppliers and natural gas producers. To supplement this supply of natural gas, the Company maintains facilities at three plants in Central Maryland for the production and storage of liquefied natural gas, substitute natural gas and propane.

In addition to its regulated utility business, the Company sells electric and gas appliances.

Constellation Holdings, Inc., a wholly owned subsidiary, directs the Company's expanding diversification efforts. This corporation holds the stock of five other companies engaged in such diversified activities as real estate development, senior living and health care, energy and environmental projects, and investments and financial services.

Operations Review

Electric and Gas Sales

Electric

Total electric sales increased in 1987 by 6.3% over 1986 sales. All customer classes increased: residential sales rose by 9.3%, small commercial by 6.1% and large commercial and industrial by 4.1%. The factors primarily responsible for these results were a summer that approached the hottest on record, producing a new peak load of 5,190 megawatts on July 21, 1987, and customer growth, particularly in the number of new heat pump installations.

Gas

Total gas sales rose 5.7% in 1987 over 1986. Although 1987's milder winter weather produced a 1.3% decline in residential sales, this drop was more than offset by a 10.3% increase in commercial and industrial sales. This increase is directly attributable to greater utilization of the Company's Delivery Service tariff for the transporting of customer-owned gas purchased directly at the wellhead.

Power Purchase Agreement with Pennsylvania Power & Light Company

The Company recently entered into a two-part agreement with the Pennsylvania Power & Light Company to purchase a mix of energy and capacity from June 1, 1990, through May 31, 2001. The first part of the agreement entitles the Company, at its sole discretion, to contract for up to 600 megawatts of installed capacity from June 1, 1990, through May 31, 1991, for purposes of satisfying BG&E's installed capacity requirements as a member of the Pennsylvania-New Jersey-Maryland Interconnection. The maximum installed capacity purchase will decrease to 400 megawatts from June 1, 1991, through September 30, 1991, and to 275 megawatts from October 1, 1991, through May 31, 2001. Purchases of installed capacity under the agreement may be adjusted on an annual basis, thereby increasing the Company's flexibility to align future capacity additions with system needs.

The second part of the agreement involves the purchase of the energy output and capacity associated with 125 megawatts of the Susquehanna Steam Electric Station from October 1, 1991, through May 31, 2001. The low fuel costs of this nuclear plant should provide substantial fuel savings for our customers.

This mix of energy and capacity permits us to meet expected future demand in a cost-effective manner and allows the Company to monitor industry experience with emerging technologies for several more years before selecting suppliers for future Company-owned generating facilities.

Construction

Our fossil generating plants achieved their highest level of readiness ever in 1987, setting a record of 86% in November. To help insure continued reliability, we installed state-of-the-art digital control systems at several steam plants in 1987 and are now expanding this controls upgrade program to our C. P. Crane Power Plant in 1988. As part of our policy to keep our present fossil generating capacity flexible and retain our ability to respond to fuel price fluctuations, we converted Riverside Unit No. 4 to allow full-load firing of natural gas in addition to its oil-firing capability.

The installation of a new replacement electrostatic precipitator on H. A. Wagner Unit No. 3 was completed on schedule at a cost of $20 million, allowing it to return to its full-load capacity of 319 megawatts at an emissions level well below the limits required by Maryland regulations. The adjacent Unit No. 2 at Wagner is currently being converted to coal under an innovative design that allows us to reuse some of the existing equipment, including the original Unit No. 3 precipitator, and, consequently, to reduce the cost of the project substantially.

Corporate Goals

Our utility employees met six of eight Corporate Performance Award Goals for 1987, earning each individual an award of 1½% of his or her annual base salary in the form of Company stock. Their very good performance was marked by three special achievements: a complement reduction of 96 employees which surpassed our goal and, in the process, produced significant savings; a favorable customer image as reported by 93% of our customers surveyed; and a 13% decrease—far beyond our goal—in restricted/lost-work accidents. The significance of this latter achievement goes beyond the dollar savings it engendered: it means that more and more of our people are working safely and staying healthy.

The Constellation Companies

The past 18 months have been a period of growth and maturation for the Constellation family of companies. We have concentrated upon pursuing four lines of business: Real Estate, Senior Living and Health Care, Energy and Environmental Projects, and Investments and Financial Services. We have been very successful in recruiting quality people who have the knowledge and experience we need for the future. With our talent assembled and our directions clearly established, the future—both near and long-term—looks bright. Although earnings declined in 1987, Constellation Holdings contributed $14 million or $.17 per share to the corporate total for the year. Our goal continues to be to contribute a growing and significant percentage of BG&E's profits.

Constellation's 1987 results reflect several factors: First, our growth in project-oriented businesses has reallocated capital from short-term investments to assets with potential for higher future yields requiring a longer period to develop and mature. Second, one of our professionally managed securities accounts incurred significant realized losses during last October's stock market plunge—that event alone produced a $.08 per share decline in earnings. Lastly, the Tax Reform Act of 1986 made certain tax-advantaged investments either less attractive or nonexistent.

Real Estate

Constellation Properties has become one of the leaders in Baltimore's regional real estate market. Our local projects and those elsewhere on the East Coast are establishing Constellation's national reputation for quality and integrity as both a joint venture partner and an independent developer. We are currently involved in 27 projects, representing over $275 million in project costs. These projects include land development, industrial and business parks, office buildings, residential communities, festival retail shopping centers and specialty retail centers.

In the fall of 1987, we broke ground for our Brown's Wharf project located in Baltimore's historic Fells Point waterfront district. This multi-use development will feature shops, offices, restaurants and a full-service marina. It retains the character of a Federal-era maritime village, including the restoration of four 19th-century brick warehouses. Slated for a fall 1988 opening, Brown's Wharf is a joint venture between Constellation and Historical Developers of Pennsylvania, Inc.

Senior Living and Health Care

Constellation Properties has focused on the senior citizen market as a source of high-profit, long-term growth. Americans are turning 65 at the rate of nearly 150,000 persons a month, and the over-75-year-old age group is the fastest growing segment of our population. Many of these people seek residences that offer both 24-hour-a-day support service and quality attendant care. BG&E's corporate reputation earned by decades of "always being there" will

▲ Constellation owns 50% of Ormesa II, a 20-megawatt geothermal power plant located in East Mesa, California. At Ormesa, hot water is pumped from wells dug deep into the earth, and the heat is extracted to produce energy. Nearly 4 million pounds of hot water—at a temperature averaging 317° Fahrenheit—are processed per hour. Ormesa II is one of a handful of geothermal energy plants in the country.

enable Constellation to be a trusted and dependable participant in this industry. In addition to the four Maryland nursing homes which we purchased jointly with Meridian Healthcare in late 1986, together we are also developing two retirement centers, one in New Jersey and one in Montgomery County, Maryland.

Energy and Environmental Projects

Over the past year, Constellation Development has significantly increased its activity in the alternative energy and environmental industries. The 16 projects of which we are part-owners or developers include plants fueled by wood, coal, solar, geothermal, hydro and solid waste. Through Constellation Operating Services, a subsidiary formed in 1987, we are also involved in the operation and maintenance of ten alternative energy plants.

The first project undertaken by Constellation Operating Services, in partnership with Bechtel Eastern Power Corporation and Pyropower, Inc., is the operation and maintenance of the 79-megawatt Gilberton Power Station in Pennsylvania. This plant burns culm, anthracite coal waste, using state-of-the-art fluidized bed combustion technology.

Constellation's involvement in alternative energy projects not only provides very attractive investment returns and serves to familiarize us with a variety of alternative energy technologies and plant sizes; in so doing, it offers us a "window" into the future of the electric power generation industry.

Financial Investments

The goals of Constellation Investments are to provide a steady stream of current income and to be a source of the capital necessary to pursue the projects described in the preceding sections as well as opportunities in the financial services industry. In keeping with the latter objective, we have restructured our investment portfolio, diverting $73 million of investments in marketable securities to investments in alternative energy systems, limited partnerships, real estate and a reinsurance company described below.

We are continuing to pursue a strategy of acquiring minority interests in other companies. Constellation Investments recently purchased 21.6% of the stock of Capital Re Corporation for $25 million. This company, which has a AAA rating from Standard & Poor's, will provide reinsurance capacity to primary guarantors of municipal and corporate obligations.

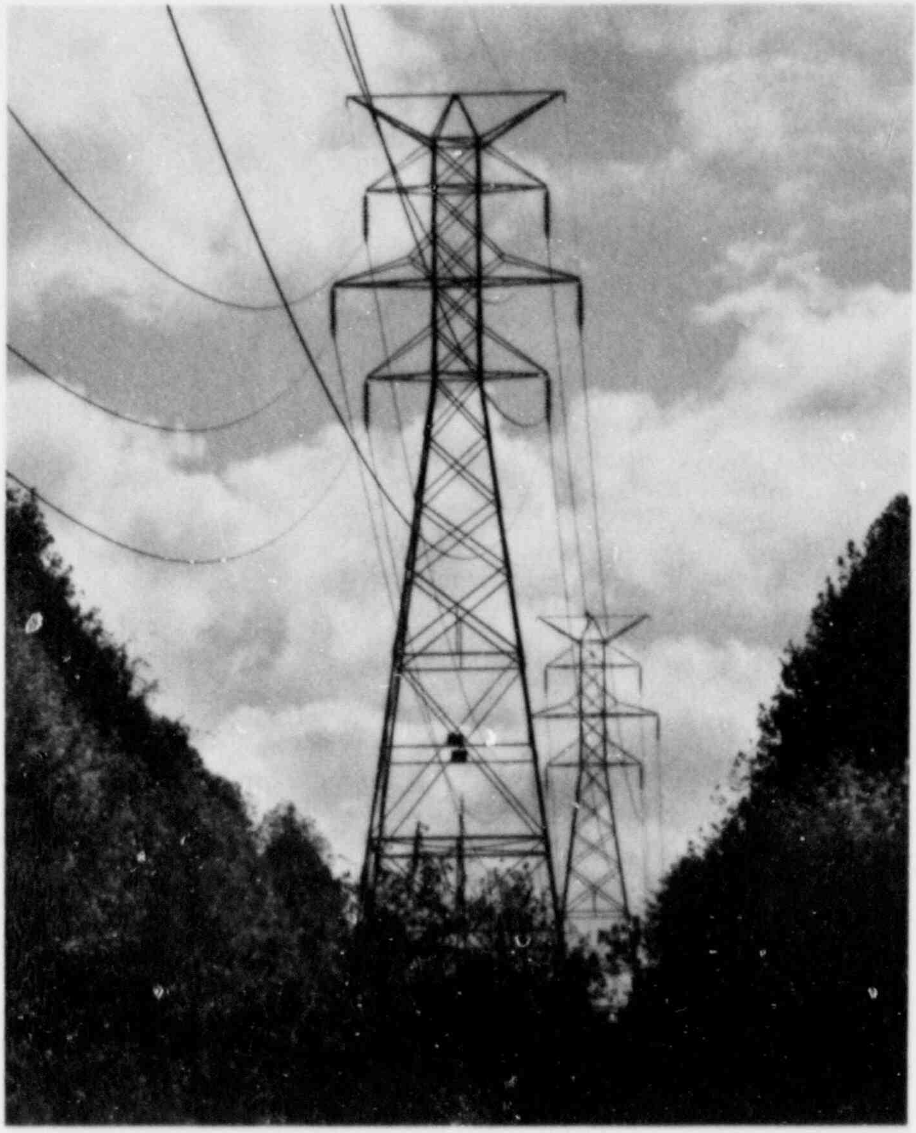
▲ *The side panels above are close-ups of the 19th-century brickwork that will be retained as part of Constellation's Brown's Wharf development project in Baltimore's historic Fells Point. Preserving the area's historical character while opening it to modern business, retail and recreational uses is the project's primary goal. Ultimately, a brick promenade, like the one in the artist's rendering above, will link Brown's Wharf and all of the Fells Point waterfront with the Inner Harbor.*

Managing Change

MONDAY, JULY 20, 1987—A stationary high-pressure system stalls over the upper mid-Atlantic region, enveloping the area in heat and high humidity. For the next six days, temperatures remain in the 90s—occasionally even breaking into the 100s.

TUESDAY, JULY 21, 1987—After repeatedly shattering previous peak usage records, the heavy demand for electricity culminates in a new all-time one-hour peak for BG&E of nearly 5,200 megawatts. Customers continue to soak up every available kilowatt of generation, straining reserves across the entire electrical pool of the Pennsylvania-New Jersey-Maryland Interconnection.

THURSDAY, JULY 23, 1987—Both reactors at the Calvert Cliffs Nuclear Plant—normally the source of more than half of BG&E's electricity—are operating at 100% power. At 3:25 p.m. a ground fault occurs and we lose one of the two 500 kV transmission lines that connect Calvert Cliffs into BG&E's electric system. Circuit breakers open on both lines, isolating the plant from the Company's system. Both reactors immediately shut down.



Supplied with power by Calvert Cliffs' three emergency diesel generators, operators work quickly to stabilize the reactors, and within hours, the plant is reconnected to the Company's power system, allowing conditions to return to normal.

While operators at Calvert Cliffs work to restore the plant, electric

"This story had many heroes. Quick thinking and coordinated action

▲ *Transmission lines are the arteries of a utility, taking energy from its source to the places where it's needed. This vital system requires constant maintenance and alert operation, since damage to one small part can quickly affect large areas of the system.*

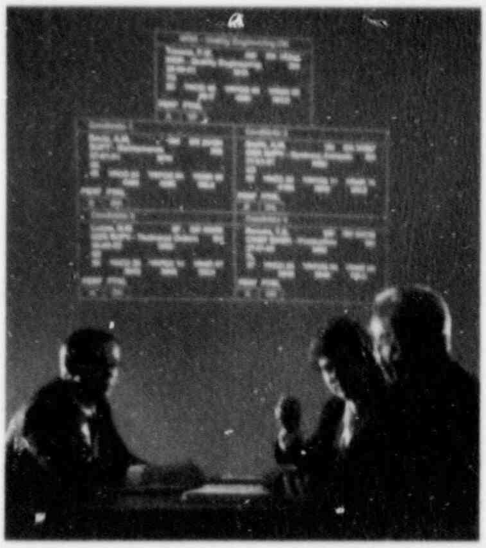
system operators take emergency measures to stabilize the bulk power system—the electrical "backbone" of the Company—to prevent an interruption of service to our customers. Operators at other BG&E generation plants increase electric power output to emergency limits. These extraordinary measures prevent cascading equipment loss throughout the power grid and eliminate the possibility of widespread blackouts.

On one of the hottest days of the summer, when BG&E lost over 1,600 megawatts of its generating capacity, not a single customer lost power.

■ ■ ■

This story had many heroes. Quick thinking and coordinated action across departmental lines prevented damage. We did not expect to lose a major transmission line in the midst of a severe heat wave, but when we did, BG&E was prepared to act. All the training, testing and preparation we give our people and equipment paid off.

The unexpected is a fact of life in business. Our approach is to prepare for it—by recruiting and developing top-notch people, by setting strategic goals, and by keeping ourselves open to new ideas and attuned to the needs of the people we serve. We cannot predict exactly when events like ground faults will occur, but we can control our ability to cope with them if and when they do.



Our people's response to this crisis reaffirmed our confidence in our management values. BG&E is a people-oriented company—inside and out. To the customer and the shareholder, that orientation translates into quality service—more and better service than you might expect. Inside the Company, it becomes a commitment to the development of our employees. Every supervisor and manager at BG&E functions, in part, as a talent scout.

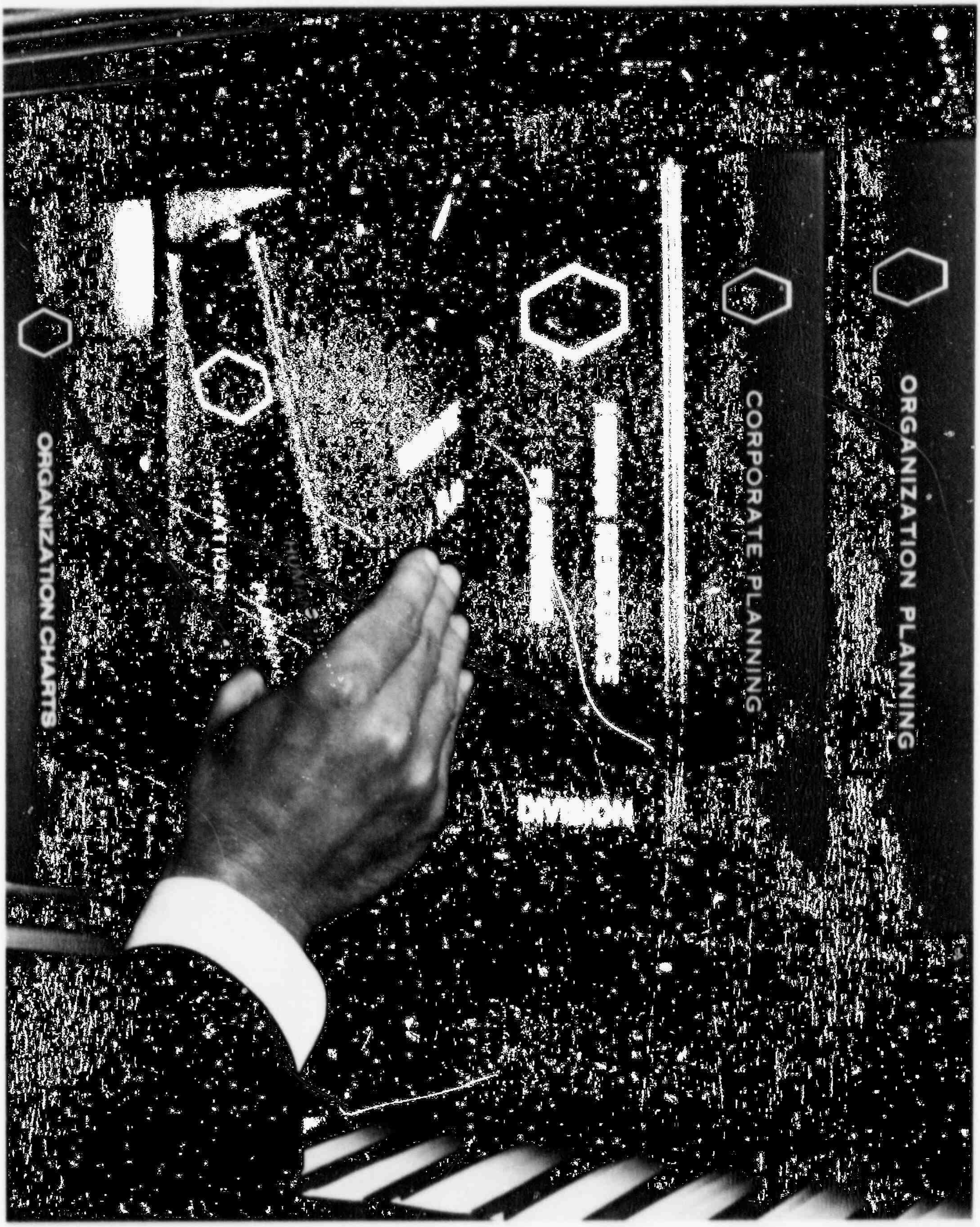
The process is formally known as Human Resource Planning. The heart of the system is a detailed profile rating form designed to evaluate a person's managerial potential.

Each June, all supervisors at BG&E file or update a confidential profile on their managerial and professional employees. These profiles give us the data to nominate candidates for management replacement positions—historically, approximately the top 250 positions in the Company. Starting in the early fall, department managers and their vice presidents identify candidates for the management positions in their departments. Each vice president then meets with the Chairman and the President to finalize the candidates in the division.

Over the past two years, nine of our eleven officers have changed in a series of normal, planned retirements. Among them was Chairman Bernard C. Trueschler who retired in January. These retirements opened a number of positions on our management team. Last year the Board of Directors elected George V. McGowan Chairman of the Board and Chief Executive Officer. Edward A. Crooke was elected to the Board of Directors and elected President and Chief

across departmental lines prevented damage."

▲ *At BG&E, the Human Resource Planning Review is one of top management's most important functions. Vice presidents meet with their managers to discuss replacement candidates for the key jobs in their divisions. Such meetings occur annually in each division prior to the Corporate Review between each V.P., the President and the Chairman of the Board.*


ORGANIZATION PLANNING
CORPORATE PLANNING
DIVISION
ORGANIZATION CHARTS

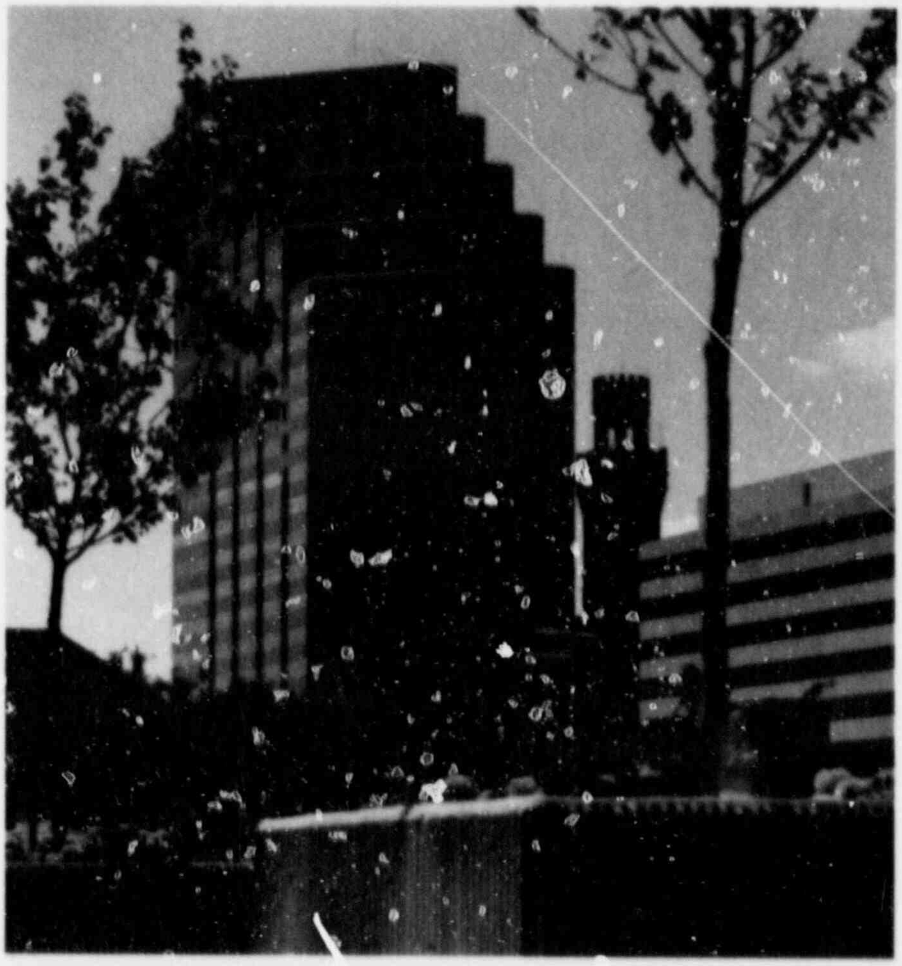
Operating Officer—Utility Operations. In addition, Christian H. Poindexter, President and Chief Executive Officer—Constellation Holdings, Inc., was elected to the Baltimore Gas and Electric Company Board of Directors. The promotion of these and other people created managerial and supervisory openings throughout our organization—openings that our Human Resource Planning process helped us to fill promptly with capable, well-trained people.

■ ■ ■

Corporate strategic planning, like Human Resource Planning, is a dynamic and ongoing formal process. Throughout the year, planning groups from all areas of the Company meet to consider specific problems, issues and needs. The results of their deliberations become prime considerations of our regular management planning conferences where we set the goals and assign the supporting studies that are factored into our Corporate Plan. Each of our eight divisions then develops its own strategies to meet the plan's goals, and each manager is responsible for specific performance objectives. Ultimately, everyone in our organization is held accountable for and contributes to some portion of the plan.

Strategic planning is, in essence, a corporate "fitness" program—keeping us flexible enough to adapt quickly to changing conditions. For example, after monitoring changing family patterns, the economy and our own rising health care costs in the eighties, we recognized that the way we delivered benefits to our employees was no longer as appropriate as it once was. Last fall we introduced a package of flexible benefits designed to allow each of our people to select the particular varieties of coverage the employee and his or her family needed.

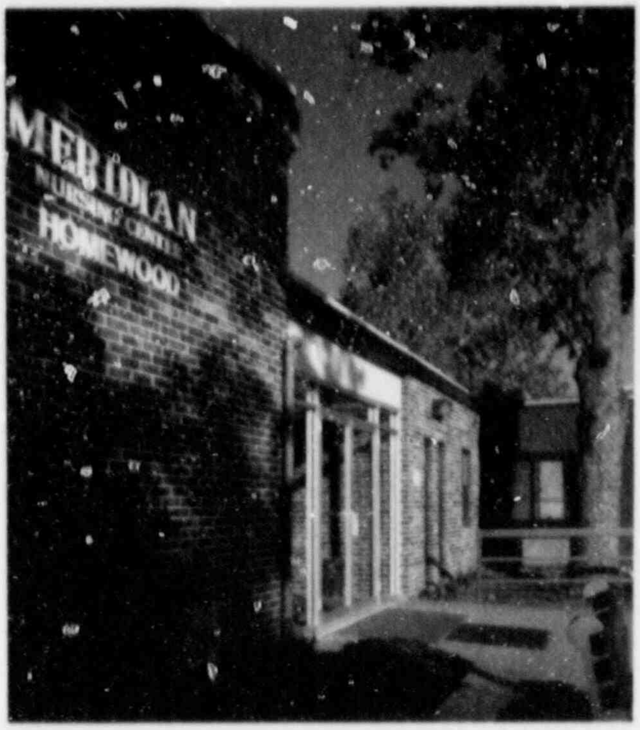
On a larger scale, when we realized at the beginning of this decade



"Strategic planning is, in essence, a corporate 'fitness' program..."

◄ *Our people are our most valuable asset, and we invest considerable time, effort and resources in their training and development. Our commitment to Human Resource Planning forms the foundation for all our management systems.*

▲ *During 1987 the Constellation Companies moved into their new headquarters on the 23rd and 24th floors at 250 West Pratt Street. One of the city's newest office buildings, the gleaming tower near the Inner Harbor provides commanding views of Baltimore's entire waterfront.*



that the utility industry faced limited market growth, we sought to enhance our corporate growth with a strategy of diversification. The Constellation Companies were founded as a part of that strategy. Their charge is to recognize and create financial opportunities for BG&E by responding to changing market or human needs, regulatory conditions or new technologies. For example, Constellation subsidiaries are involved in building shopping centers, redeveloping Baltimore City's historic Fells Point waterfront and owning a geothermal electric power plant in California's Imperial Valley.

Geothermal is just one of several forms of alternative energy in which Constellation is involved. This year Constellation intensified its focus on this area by forming a group of energy and environmental companies. Drawing on BG&E's basic expertise, these companies acquire, build, own and operate, small private power, cogeneration and wastewater treatment plants around the country. For BG&E, these activities provide both a high return on equity and an opportunity to help develop the technology of the future.

Constellation's oldest firm, Constellation Properties, has focused on the senior living industry as a major growth segment of the U.S. economy. With over 29 million Americans already age 65 or older, and that number projected to reach almost 40 million by the start of the next century, the demand for assisted-living care and nursing facilities is rising rapidly. Constellation Properties currently owns, as "joint ventures" with established operators in the field, four nursing homes and two retirement centers and is actively seeking additional investments. The senior market is especially well suited to us, providing both attractive returns and the potential for long-term growth, while allowing us to do what we do best—deliver high-quality facilities and services to people who need them.

■ ■ ■

BG&E has always defined itself internally as a service company. Today, with the energy market becoming increasingly competitive, service has become an essential business tool. Our challenge is to improve on quality. Corporate planning helped to focus our efforts. Management established a formal Customer Service Goal in 1987. Its function is to drive home the importance of customer service—and the responsibility for it—to all our

"BG&E has always defined itself internally as a service company."

▲ *Constellation purchased the 127-bed Meridian Nursing Center in the Homewood Section of Baltimore City along with three other similar facilities in December 1986, as part of a joint venture with Meridian Healthcare, Inc. In addition to nursing homes, Constellation and Meridian are developing a variety of assisted-living arrangements geared to the rapidly growing senior market.*

► *Construction is a visible sign of Constellation's growing presence in the regional real estate development market. Business parks, office buildings and retail centers are some of our many construction projects in the mid-Atlantic area and along the East Coast—projects that have rapidly made Constellation Properties a sought-after developer and joint-venture partner.*

people, from the line mechanic to the generating plant operator.

The first year's results on this goal are impressive. Calls to the Company's "Good Neighbor Line"—one of several measurement indicators—increased ten times over 1986. Employees are encouraged to use this telephone line to report customer problems they hear about in their private lives. When a call comes in, a customer representative responds immediately, and reports back to the employee when the situation has been resolved, often within 24 hours.

Other signs that our people have risen to the service challenge abound in the creativity of new programs to anticipate customer needs and in the enthusiasm our people display in solving customer problems. The Distribution Division has initiated a long-range plan to improve customer service. The first step involves tracking our outage patterns. Whenever Distribution finds a neighborhood that has had repeated outages, for whatever reasons, they work with Customer Relations to contact the residents, informing them that we are aware of their problem and working to correct it. Our appliance stores are responding to changing family and work patterns by scheduling Saturday and evening deliveries and attempting to pinpoint the time of arrival on all deliveries.

The pilot "Gatekeeper Program," implemented in conjunction with the Maryland Office on Aging, has trained over 600 Meter Readers and Collection Field Representatives to look for warning signs indicating that elderly customers need some kind of help. If they find anything amiss, Gatekeeper participants report it directly to the Company's special assistance line.

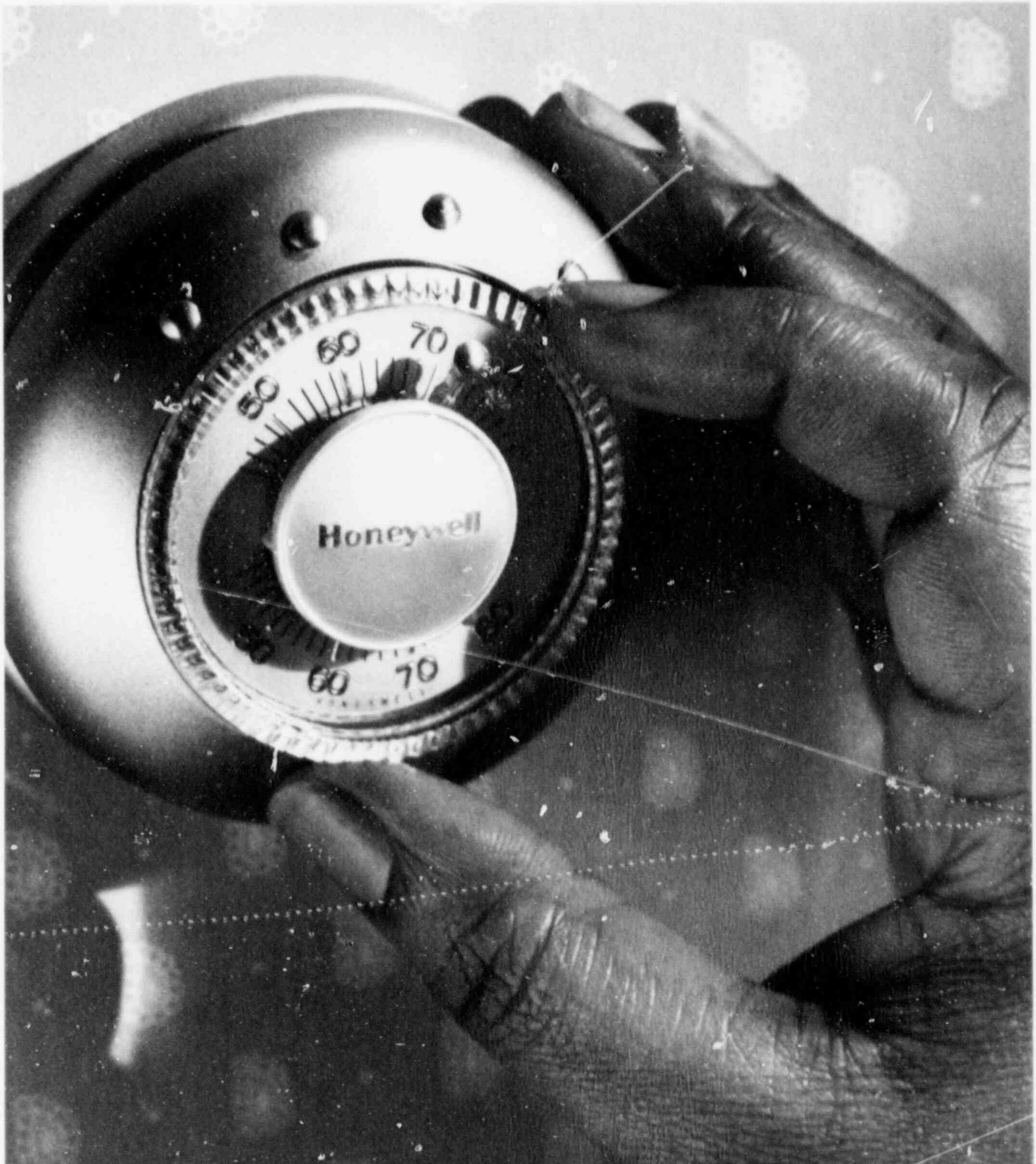
Most important is the everyday willingness of our people to reach out to customers. We know they do it because our customers thank us for having a serviceman, for instance who takes the time to explain a service policy on a new appliance to an elderly customer with poor vision, or a sales representative who goes out of her way to schedule a kitchen inspection for a customer who doesn't know which microwave to buy, or distribution and construction people who work eight hours without stopping for lunch to restore power to a home after a tree knocked down distribution wires. These are, indeed, special people, but they are typical of BG&E employees. The purpose of the Customer Service Goal is to encourage all our people to take the time to meet a customer's needs.

Marketing and Energy Services Department representatives are working closely with commercial and industrial customers to bolster their economic health. For nearly 150 of our customers, our innovative Gas Delivery Service Program has been an important cost-saver. Murrell Smith, Sr., Vice President of Chesapeake Paperboard Company, a locally

"...the everyday willingness of our people to reach out to customers."

▲ *The Gatekeeper Program takes advantage of the regular contacts meter readers and other BG&E representatives have with customers to help assure that the needs of the elderly are recognized and met. Participants are taught to look for signs that a person is ill, in need of food or clothing or is a victim of abuse. BG&E has trained nearly 650 employees to be Gatekeeper participants.*

► *Sight-impaired customers have special needs. BG&E's Customer Service Department has developed a program to mark and modify appliance controls, like the thermostat above to which we added Braille characters. Since the program began in November 1982, we have modified over 950 appliances free of charge for sight-impaired customers.*


Honeywell
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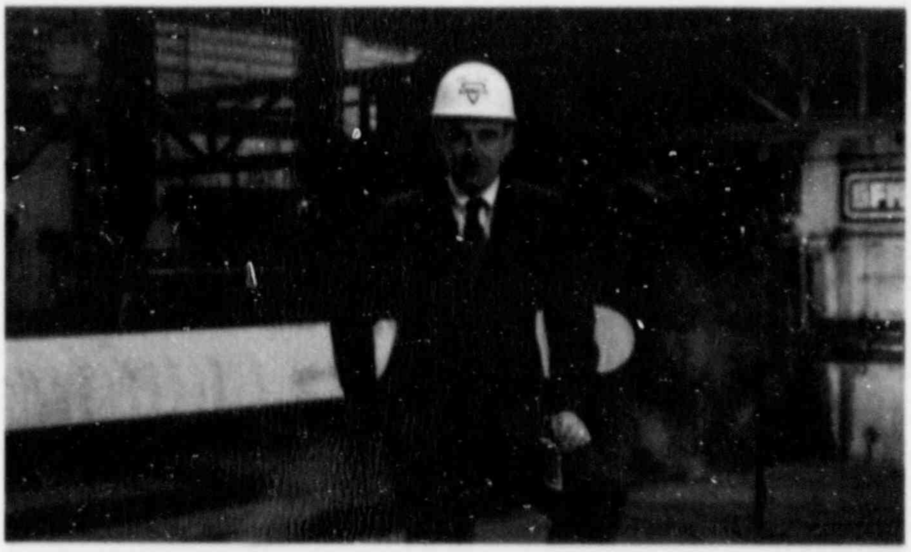
owned and operated manufacturer of paperboard products, cites BG&E's gas transportation program as a major factor in keeping his firm "competitive in the East Coast markets."

Like many manufacturers, Blue Circle Atlantic, Inc., the maker of an innovative concrete additive, and Baltimore Specialty Steels, whose stainless steel plant is located in Baltimore, require enormous amounts of electricity. Blue Circle's General Manager, Ronald Piniecki, acknowledges that "BG&E's lower off-peak rates and curtailable service credits have helped us offer an alternative product to the construction industry at competitive prices." Ray Hein, President of Baltimore Specialty Steels, a subsidiary of Armco Steel Corporation agrees: "When BG&E approached us about time-of-day and curtailable rates, we knew we had a tool to help control costs."

Several years ago, industrial and commercial customers who rely on computers for everything from charting project expenses to producing design drawings began to inquire about frequent, unexplained shutdowns and data errors. In response, we developed Premium Electric Service. Designed to analyze power quality needs and then to provide a customized conditioned power package, this program allows a customer to realize his computer's full potential—in the words of a new customer, Kidde Consultants' Executive Vice President, Bill Franswick: "Thanks to BG&E's Premium Electric Service, we're experiencing 100% up-time on our computer."

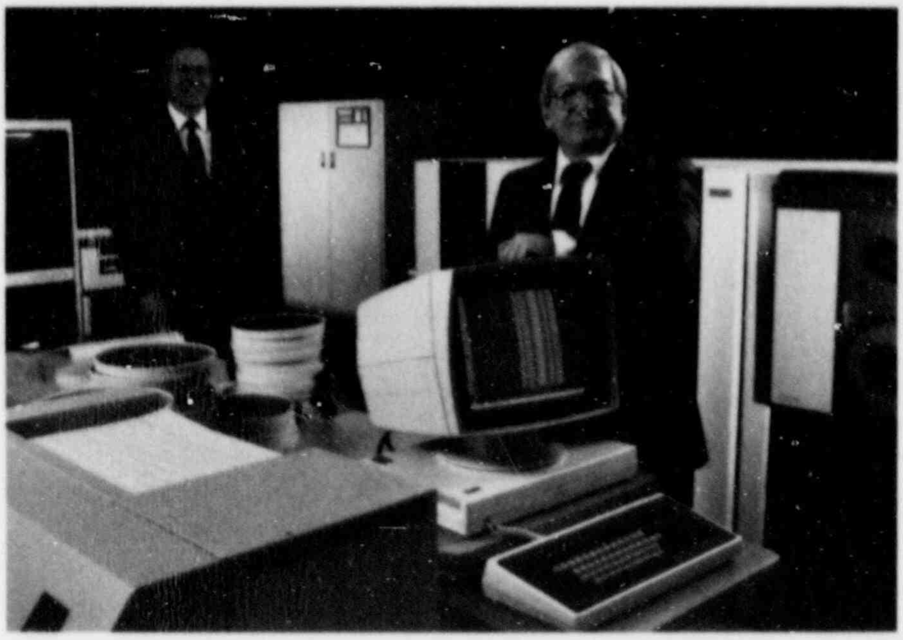
■ ■ ■



"The relationship of technology and service at BG&E...

▲ *General Manager Bradford Houck, Jr., left, and Vice President Murrell Smith, Sr., right, of the Chesapeake Paperboard Company, stand before the larger of the company's two paperboard manufacturing machines. The company, which has been in business since 1910, produces approximately 220 tons of paperboard every 24 hours at its Baltimore City plant. The use of BG&E's gas delivery service is a major factor in keeping the firm competitive.*

▲ *Raymond E. Hein is President of the Baltimore Specialty Steels Corporation, a wholly owned subsidiary of Armco, Inc. Baltimore Specialty Steels makes effective use of time-of-day and curtailable electric rates, along with our gas delivery service, to control their operating costs. The precision rotary forge in the background takes heated steel and shapes it into either a round or square bar which is then processed into finished steel.*



From a management perspective, improving service goes beyond reaching out to customers. It means insuring that BG&E has the technology to serve them better and faster than ever before. In 1987, our Telecommunications Department completed a sophisticated communications network based on a 62-mile fiber optic loop connecting the Company's major facilities. The new fiber optic system will be interconnected with an existing 250-mile microwave system which presently is integrated with a 100-mile telephone cable system. The combined network, called GENET, for **G**as and **E**lectric **NET**work, serves both operational and administrative corporate communications needs. Last year we also replaced a leased telephone system with a new Company-owned digital telephone system which will save considerable money. By routing intra-company calls over GENET rather than the local telephone network, we will save $250,000 a year. A state-of-the-art mobile communications radio system, now being installed, will provide improved communications among dispatchers and field personnel, increase productivity and allow them to respond more quickly to emergencies.

The relationship of technology and service at BG&E is best exemplified by our Customer Information System, the project that won the Company the 1987 Institute of Industrial Engineers' Award for Excellence in Productivity Improvement. Since the system's inception in 1976, our productivity in handling customer contacts has increased by over 55%. In short, it allows us to help more people, more thoroughly, in less time. By controlling costs, our Customer Information System helps to keep our rates among the lowest on the East Coast.

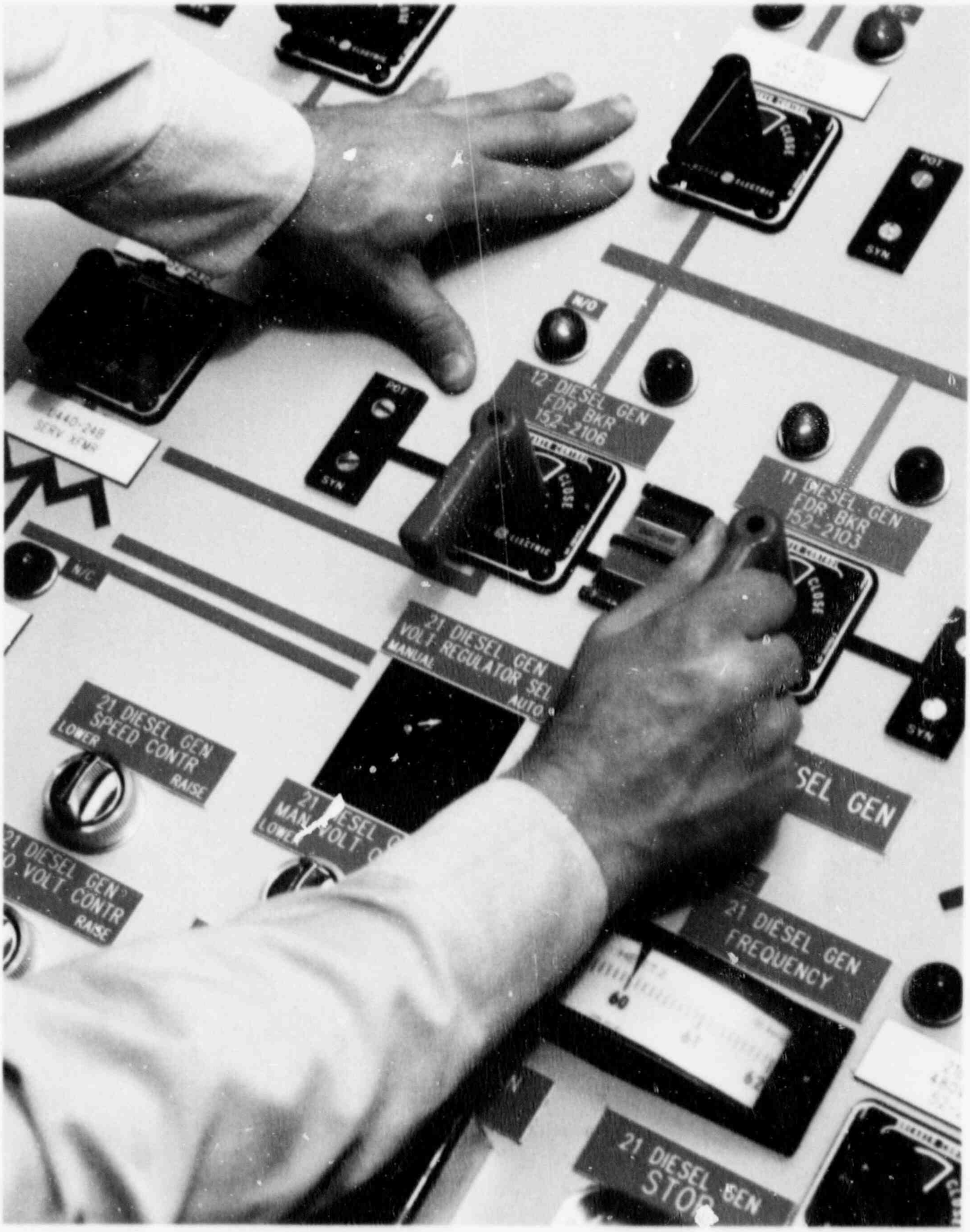
■ ■ ■

As an energy company, and particularly as a nuclear utility, BG&E's concept of "service" must also include political involvement. We are active in the political arena locally, nationally and internationally. Through our Public Affairs Department, and its offices in Baltimore, Annapolis and Washington, D.C., we contribute to the development of policies and legislation that affect BG&E, our shareholders, our industry and our community.

Nuclear safety is an industry goal we have long championed. To further

helps to keep our rates among the lowest on the East Coast."

▲ Senior Vice President Carl Canatella, left, and Executive Vice President William Franswick, right, of Kidde Consultants, a Baltimore County consulting firm, stand in the heart of their firm, the computer room—a room that people rarely enter. The environmentally controlled room is designed virtually to run itself. To the right of Mr. Canatella is a key element in its successful functioning: a power conditioner provided by BG&E's Premium Electric Service program.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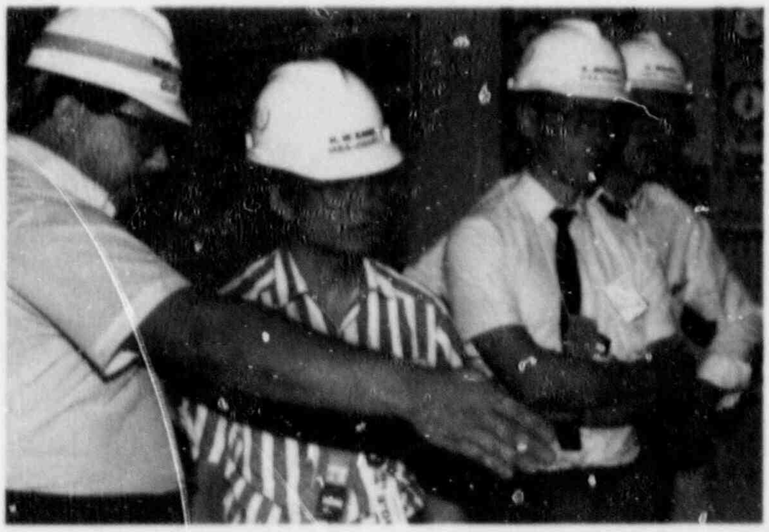
that cause, in 1986 we volunteered to be the first United States utility to host an Operational Safety Review Team of the International Atomic Energy Agency (IAEA). The team arrived in August 1987 for a three-week safety review of our Calvert Cliffs Nuclear Power Plant. The eleven-member team drew representatives from France, Belgium, the Federal Republic of Germany, Switzerland, Finland, Canada, the Philippines, Italy and Sweden, as well as observers from Czechoslovakia, Bulgaria, Hungary and the Republic of South Korea. They studied eight major areas of plant activity, including organization and management, training, operations, maintenance, radiation protection, chemistry, emergency planning and technical support.

For all involved, the experience was thought-provoking and rewarding. Plant personnel and team members valued the opportunity to exchange ideas and learn fresh approaches to shared problems. In his closing remarks, Ferdinand Franzen, Program Coordinator and team leader for this review, termed Calvert Cliffs "quite impressive . . . certainly to be placed in the upper range of good performance." The formal International Atomic Energy Agency report offered several "final touches" to improve plant efficiency in certain areas while citing as particularly impressive the plant's managerial approach, personnel training programs and emergency planning. Overall the IAEA concluded that "Calvert Cliffs is a good example of what is expected from a well managed and operated plant."



Our goal in volunteering for an international review was twofold. Certainly we hoped to benefit from a review by international experts to enhance our own safety program—that objective has clearly been fulfilled. We hoped as well, that other utilities, both here and abroad, would follow our lead. That objective, too, is being achieved—not only are other American companies interested in participating, but the Soviet Union, Czechoslovakia and Hungary will host inspections in the near future.

■ ■ ■

Ultimately, the events of July 23rd, the day we lost over 1,600 megawatts of our generating capacity, have become reassuring. The ground fault was an accident. The outstanding performance of our people was not.

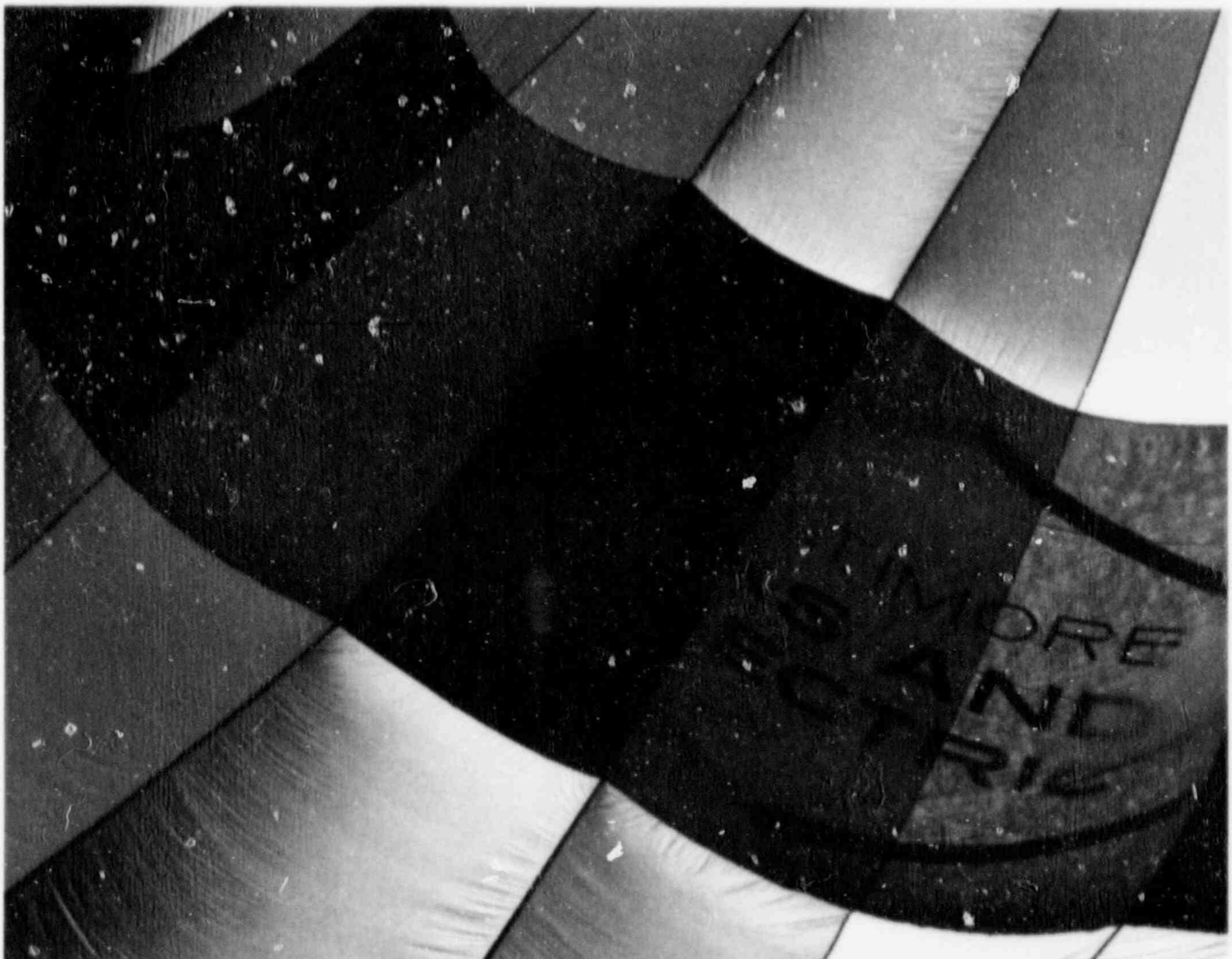
We designed our organization to respond promptly and calmly to challenges, no matter what they are. We know that the people in charge at every level can do their jobs and that our procedures will operate as we intend them to. That's confidence. That's quality. That's BG&E.

"We know that the people in charge at every level can do their jobs..."

◄ A nuclear operator closes the breakers on a diesel generator at the on-site Calvert Cliffs Control Room Simulator. Regular training sessions on the simulator help to keep our operators prepared to act swiftly and calmly in emergencies.

▲ Three members of the International Atomic Energy Agency's Operational Safety and Review Team work with their Calvert Cliffs' counterpart during last August's safety review. The team included fifteen people from eleven foreign countries. Most had never been to Maryland before, and our Corporate Communications staff made sure that they experienced some of the pleasures of life on the Chesapeake Bay along with the intricacies of nuclear safety.

► The BG&E team flew this balloon to near victory in last summer's Hare and Hound Balloon Race, one of the most popular and exciting events of the 1987 Maryland State Fair.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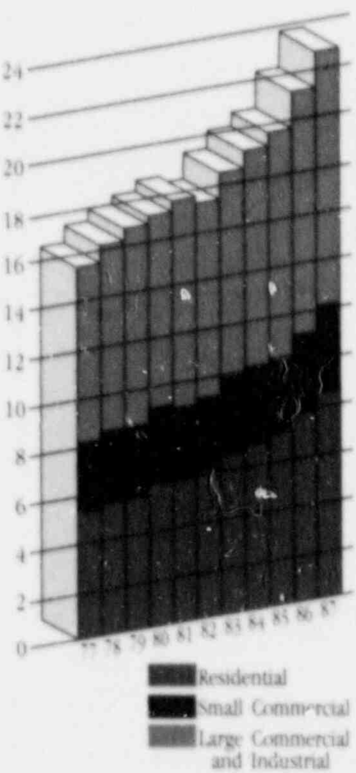
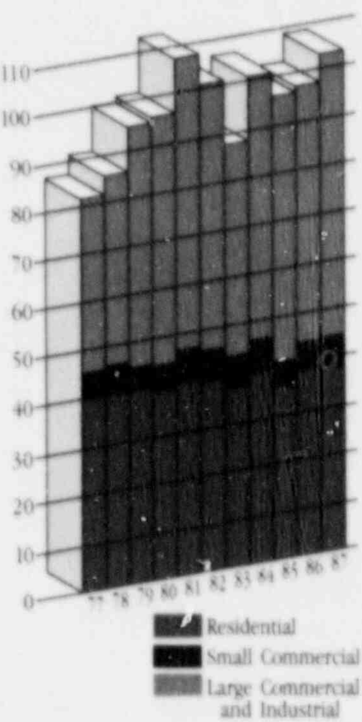
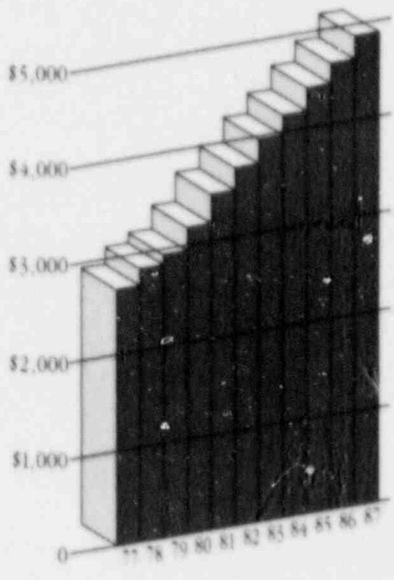


Sales of Electricity
(Billions of Kilowatthours)



Sales of Gas
(Millions of Dekatherms)



Total Utility Plant
(Millions of Dollars)

(Dollar Amounts in Thousands)

ELECTRIC OPERATING STATISTICS

	1987	1986	1985	1984	1983
Revenues					
Residential	**$ 594,283**	$ 575,774	$ 528,676	$ 491,069	$ 452,772
Small Commercial	**275,589**	279,874	265,338	261,815	242,790
Large Commercial and Industrial	**515,456**	523,815	497,683	446,394	390,751
Other	**8,407**	8,788	9,766	8,867	6,997
Total	**$ 1,393,735**	$ 1,388,251	$ 1,301,463	$ 1,208,145	$ 1,093,310
Sales—MWH					
Residential	**8,521,381**	7,797,858	7,083,564	6,897,025	6,644,403
Small Commercial	**3,553,779**	3,349,871	3,157,806	3,263,555	3,166,055
Large Commercial and Industrial	**10,499,805**	10,087,894	9,457,355	9,074,069	8,452,975
Total	**22,574,965**	21,235,623	19,698,725	19,234,649	18,263,433
Customers					
Residential	**876,826**	853,976	831,423	811,771	793,899
Small Commercial	**88,812**	85,623	82,737	80,089	78,921
Large Commercial and Industrial	**2,830**	2,715	2,518	2,317	1,760
Total	**968,468**	942,314	916,678	894,177	874,580
Average use per Residential Customer—KWH	**9,837**	9,255	8,613	8,591	8,440
Average Rate per KWH—¢	**6.14**	6.50	6.56	6.23	5.95
Peak Load (one-hour)—MW	**5,190**	4,618	4,365	4,230	4,079
Capability at Summer Peak—MW	**5,719**	5,656	5,586	5,498	5,019

GAS OPERATING STATISTICS

	1987	1986	1985	1984	1983
Revenues					
Residential	**$ 242,240**	$ 258,975	$ 256,499	$ 293,158	$ 263,693
Small Commercial	**38,538**	39,659	42,147	49,081	44,121
Large Commercial and Industrial	**127,257**	141,781	148,305	205,035	233,010
Other	**7,421**	5,354	6,358	6,055	4,471
Total	**$ 415,456**	$ 445,769	$ 453,309	$ 553,329	$ 545,295
Sales—DTH					
Residential	**38,142,183**	38,629,757	36,381,366	39,906,189	37,258,732
Small Commercial	**6,335,806**	5,960,010	6,255,159	6,837,512	6,258,274
Large Commercial and Industrial	**58,463,326**	52,786,120	54,244,959	54,727,002	44,195,654
Total	**102,941,315**	97,375,887	96,881,484	101,470,703	87,712,660
Customers					
Residential	**482,023**	482,394	481,188	480,613	479,147
Small Commercial	**31,108**	30,820	29,449	29,831	29,846
Large Commercial and Industrial	**5,149**	5,065	5,806	5,052	4,977
Total	**518,280**	518,279	516,443	515,496	513,970
Average use per Residential Customer—DTH	**79.1**	80.2	75.7	83.2	77.8
Average Rate per DTH (excluding delivery service)—$	**5.93**	6.29	6.47	6.76	6.50
Peak Day Sendout—DTH	**636,040**	624,700	677,300	607,200	648,300
Peak Day Capability—DTH	**731,000**	748,000	827,000	827,000	827,000

	1987	1986	1985	1984	1983
	(Dollar Amounts in Thousands, Except Per Share Amounts)				
SUMMARY OF OPERATIONS					
Operating Revenues					
Electric	**$1,393,735**	$1,388,251	$1,301,463	$1,208,145	$1,093,310
Gas	**415,456**	445,769	453,309	553,329	545,295
Total operating revenues	**1,809,191**	1,834,020	1,754,772	1,761,474	1,638,605
Operating Expenses					
Purchased fuel and energy	**530,348**	598,700	576,453	630,269	654,386
Operations and maintenance	**501,388**	487,985	455,150	441,579	390,153
Depreciation	**132,332**	127,274	124,961	113,643	97,090
Income taxes					
Current	**110,194**	147,059	70,597	106,545	28,137
Deferred	**41,346**	5,050	69,322	29,328	66,773
Investment tax credit adjustments	**(8,078)**	1,853	16,653	12,816	21,554
Other taxes	**135,282**	131,536	123,394	116,526	108,309
Total operating expenses	**1,442,812**	1,499,457	1,430,530	1,450,706	1,366,402
Operating Income	**366,379**	334,563	324,242	310,768	272,203
Income From Steam Operations, Net	**—**	—	—	—	933
Other Income					
Allowance for other funds used during construction	**16,870**	16,871	14,597	23,364	32,443
Equity in net income of unconsolidated subsidiaries	**20,002**	30,590	13,917	6,338	1,740
Net other income and deductions	**1,349**	(910)	1,225	77	(1,132)
Total other income	**38,221**	46,551	29,739	29,779	33,051
Income Before Interest Charges	**404,600**	381,114	353,981	340,547	306,187
Net Interest Charges					
Interest charges	**118,571**	120,077	118,431	115,441	115,688
Allowance for borrowed funds used during construction	**(14,069)**	(13,582)	(11,750)	(18,809)	(25,954)
Net interest charges	**104,502**	106,495	106,681	96,632	89,734
Net Income	**300,098**	274,619	247,300	243,915	216,453
Preferred and Preference Stock Dividends	**26,406**	26,876	27,370	27,580	27,580
Earnings Applicable to Common Stock	**273,692**	247,743	219,930	216,335	188,873
Common Stock Dividends	**147,896**	139,567	131,692	121,114	111,423
Earnings Reinvested in the Business	**$ 125,796**	$ 108,176	$ 88,238	$ 95,221	$ 77,450
Average Shares of Common Stock Outstanding (*Thousands*)	**78,861**	78,627	78,622	78,123	76,272
Earnings Per Share of Common Stock	**$3.47**	$3.15	$2.80	$2.77	$2.48
Dividends Declared Per Share of Common Stock	**$1.875**	$1.775	$1.675	$1.55	$1.46
Ratio of Earnings to Fixed Charges	**4.22**	4.19	4.14	4.23	3.81
Ratio of Earnings to Fixed Charges and Preferred and Preference Stock Dividends Combined	**3.29**	3.20	3.08	3.10	2.81
FINANCIAL STATISTICS AT YEAR END					
Total Assets	**$4,509,992**	$4,370,428	$4,183,408	$4,010,431	$3,809,785
Capitalization:					
Common stockholders' equity	**$1,755,368**	$1,629,795	$1,521,960	$1,433,776	$1,316,053
Preferred stock	**59,185**	59,185	59,185	59,185	59,185
Preference stock not subject to mandatory redemption	**110,000**	110,000	175,000	175,000	175,000
Redeemable preference stock	**186,400**	50,000	80,000	90,000	100,000
Long-term debt	**1,519,514**	1,471,905	1,437,611	1,386,506	1,344,714
Total capitalization	**$3,630,467**	$3,320,885	$3,273,756	$3,144,467	$2,994,952
Book Value Per Share of Common Stock	**$22.24**	$20.72	$19.36	$18.24	$17.04
Number of Common Stockholders	**75,682**	76,972	79,474	81,601	85,372

Common stock data have been restated to reflect the two-for-one stock split in August 1985 and certain other prior year amounts have been restated to conform with the current year's presentation.

(All Note references hereunder are references to the Notes to Financial Statements.)

RESULTS OF OPERATIONS

EARNINGS

Earnings per share of common stock increased to $3.47 in 1987 from $3.15 in 1986 and $2.80 in 1985. The increase in 1987 compared to 1986 was attributable to growth in utility earnings resulting from favorable weather and customer growth, partially offset by lower income from the Company's diversified subsidiary operations. The increase in 1986 from 1985 was due to the combined effects of higher utility earnings and greater income from subsidiary operations.

The increases in earnings from utility operations in 1987 and 1986 as compared to the preceding years were primarily due to the combined effects on electric sales of favorable weather in each year and continued growth in all classes of customers. In 1987, the favorable weather, particularly the above normal temperatures in the summer months, contributed 25¢ to 30¢ per share to the Company's earnings, approximately double the effect of weather on 1986 earnings. In May 1987, the Public Service Commission of Maryland (Maryland Commission) ordered a $78.3 million base rate decrease in recognition of the lower federal income tax rate and the decreased overall cost of capital to the Company.

Diversified subsidiary earnings from Constellation Holdings, Inc. and its subsidiaries (Constellation) were 17¢ per share in 1987 compared with 32¢ in 1986 and 14¢ in 1985 (see Consolidated Condensed Financial Statements—Constellation Holdings, Inc. and Subsidiaries on page 40). The 1987 decrease in Constellation's earnings was due to several factors. Earnings declined 8¢ per share as a result of realized securities losses incurred during the market decline on October 19 in one of Constellation's professionally managed securities accounts. Earnings also declined due to Constellation's increasing activity in project-oriented businesses, principally in the real estate and alternative energy areas. Constellation's growth in these businesses has caused a shift of capital from short-term investments to potentially higher yielding assets which develop and mature over a longer period. Developing and managing these new projects also has required a corresponding growth in Constellation's human resources. Constellation's earnings also reflected reduced tax benefits as a result of the Tax Reform Act of 1986.

Earnings were reduced by 3¢ per share in 1986 and increased by 8¢ per share in 1985 as a result of certain changes in accounting estimates and other adjustments as generally described in Notes 1, 9, and 10.

ELECTRIC OPERATING REVENUES AND SALES (MWH)

Electric operating revenues increased by 0.4% in 1987 and 6.7% in 1986. These increases were attributable to the following factors:

	Increase (Decrease) From Prior Year	
	1987	1986
	(In Millions)	
Sales	**$70.4**	$64.7
Base Rate Adjustments	**(44.3)**	—
Fuel Rate Adjustments	**(20.6)**	22.1
Net Increases	**$ 5.5**	$86.8

Electric sales increased by 6.3% in 1987 and 7.8% in 1986. The increases by class of customer from the prior year were as follows:

	1987	1986
Residential	**9.3%**	10.1%
Small Commercial	**6.1**	6.1
Large Commercial and Industrial	**4.1**	6.7

The increases in sales in both 1987 and 1986 were attributable to favorable weather, especially during the summer cooling season, and to growth in the number of customers, particularly those with heat pump installations. Heavy demand during the 1987 summer season surpassed previous peak usage records, culminating in a new all-time peak of 5,190 megawatts. The number of residential heating customers increased 14.3% in 1987 and 15.4% in 1986. Additionally, favorable economic conditions in the Company's service territory enhanced commercial and industrial sales during both periods.

Future electric sales volumes will continue to be affected primarily by the economic situation in the Company's service territory, as well as by weather conditions and the conservation efforts of customers.

GAS OPERATING REVENUES AND SALES (DTH)

Gas operating revenues decreased by 6.8% in 1987 and 1.7% in 1986. The decreases were attributable to the following factors:

	Increase (Decrease) From Prior Year	
	1987	1986
	(In Millions)	
Sales	**$ 13.5**	$ 3.6
Base Rate Adjustments	**(1.0)**	—
Gas Cost Adjustments	**(42.8)**	(11.1)
Net Decreases	**$(30.3)**	$(7.5)

The primary cause of the decline in gas operating revenues was the lower cost of gas. These lower costs resulted from market conditions as well as the Company's continued efforts to reduce the cost of purchased gas sold to customers.

Changes in the sales volume component of operating revenues are affected by the delivery service schedule. Under this schedule, customers, principally industrial gas users with alternate fuel capability, are able to purchase gas directly from gas producers and pipelines and transport it to the Company's distribution system. The Company then transports such gas through its service territory to the customers and receives a delivery service fee equivalent to the margin on gas it sells to similar customers.

Gas sales increased by 5.7% during 1987 and 0.5% in 1986. The changes by class of customer from the prior year were as follows:

	1987	1986
Residential	**(1.3)%**	6.2%
Small Commercial	**6.3**	(4.7)
Large Commercial and Industrial	**10.8**	(2.7)

The decline in sales to residential customers in 1987 was primarily the result of milder winter weather. Sales in the small commercial category reflect the reclassification of certain customers from the large commercial and industrial schedules. The increase in sales to large commercial and industrial customers in 1987 reflects increased utilization of delivery service gas.

Colder weather during the winter heating season increased sales to residential customers during 1986. Sales to small commercial customers reflected realignments to other schedules based on usage analysis. The decline in sales to large commercial and industrial customers in 1986 mainly reflected certain large manufacturers ceasing their operations in the Company's service territory (approximately 1% of total gas sales) and some temporary changeovers to alternate fuels.

Future gas sales will continue to be affected by the price and availability of gas and alternate fuels, weather conditions, conservation efforts by customers, the general economic situation, and the regulatory climate in the natural gas industry. If gas prices were to rise in the future in relation to alternate fuels, conversions from gas by industrial customers would be anticipated. The delivery service schedule, in conjunction with flexible pricing provisions, should enable gas to compete favorably with oil as a primary fuel source and moderate these conversions as long as natural gas prices remain competitive and interstate pipeline transportation is available.

PURCHASED FUEL AND ENERGY EXPENSE

Purchased fuel and energy expense decreased 11.4% in 1987 and increased 5.0% in 1986. These changes were attributable to the following factors:

	Increase (Decrease) From Prior Year	
	1987	1986
	(In Millions)	
Actual Electric Fuel Costs	**$ 69.2**	$(59.8)
Deferred Electric Fuel Costs	**(100.0)**	91.3
Actual Purchased Gas Costs	**(47.7)**	(23.0)
Deferred Purchased Gas Costs	**10.1**	19.7
Net Changes	**$(68.4)**	$ 28.2

The decrease in purchased fuel and energy expense in 1987 was due primarily to the deferral of net under-recovered fuel costs resulting from the Company's electric fuel rate clause and to significant reductions in the cost of gas from our suppliers. These factors more than offset the effects of increased fuel expenses resulting from higher electric output and lower nuclear generation caused by outages at the Calvert Cliffs Nuclear Power Plant. The increase in purchased fuel and energy expense during 1986 was due mainly to the collection of a portion of costs previously deferred through the electric fuel rate clause, the write-off of disallowed deferred electric fuel costs (see Note 10), and an increase in electric output.

Electric output increased 6.2% and 7.5% in 1987 and 1986, respectively. Gas output declined in both years, partially as a result of increased sales under the delivery service schedule. Gas transported under this schedule does not involve the purchase and output of gas by the Company and is not reflected in purchased fuel and energy expense.

Prices for oil and coal consumed for electric generation were lower in both 1987 and 1986 as compared to the prior years. Natural gas prices were also lower during 1987 and 1986, as the Company continued to secure gas directly from several gas producers and suppliers and receive previously negotiated savings with its principal gas supplier.

Nuclear generation is the Company's most economical source of energy and has a significant effect on electric purchased fuel and energy costs. Refueling operations have occurred approximately every eighteen months at each of the Company's two nuclear generating units and result in significant increases in electric fuel costs during the related outages. In 1987, the Company received permission from the Nuclear Regulatory Commission to extend the period between the refueling outages for Unit No. 2 from eighteen to twenty-four months and intends to request a similar extension for Unit No. 1 in 1988. These changes could reduce purchased fuel and energy expense and the related revenue from customers, as refueling outages may be timed such that only one generating unit would be affected in a given year. Only one nuclear unit underwent refueling in both 1987 and 1986. However, the 1987 refueling outage was extended, and the other nuclear unit was also shut down for two months during the year, in order to document compliance with environmental qualification and mechanical fastener requirements of the Nuclear Regulatory Commission.

OPERATIONS AND MAINTENANCE EXPENSES

Operations and maintenance expenses increased 2.7% in 1987 and 7.2% in 1986. Both increases were attributable in part to higher payroll costs tempered by a reduction in the number of employees. Additionally, the 1987 increase reflects more storm related repairs to overhead lines and transformers. Higher insurance and routine maintenance costs also contributed to the 1986 increase.

DEPRECIATION EXPENSE

Depreciation expense increased in both years as a result of higher levels of depreciable plant in service. The increase in 1986 was moderated by the reduction in the depreciation rate applicable to the Calvert Cliffs Nuclear Power Plant, beginning in September 1985 (see Note 1).

TAXES

Income tax expense decreased in both 1987 and 1986. The 1987 decrease was due to the reduction of the maximum corporate tax rate from 46% to 40% under the Tax Reform Act of 1986, partially offset by the effects of a higher level of pre-tax income. The decrease in 1986 was attributable to a lower level of pre-tax income, after adjustment for the already net of tax equity in net income of unconsolidated subsidiaries. Other taxes increased in both years due to higher property, capital stock, and payroll taxes.

The Tax Reform Act of 1986 (the Act) significantly changed the federal income taxation of corporations. Its provisions included an overall reduction in corporate income tax rates, the elimination of the investment tax credit, changes in depreciation rates and lives, and various other provisions affecting the Company. Most provisions of the Act were phased in under various transition rules beginning on January 1, 1987. The major exception to this phase-in was the repeal of the investment tax credit which was generally effective retroactive to January 1, 1986. Under the transition rules of the Act, however, the Company will still receive the investment tax credit on Brandon Shores Unit No. 2 provided it is placed in service before April 1, 1992.

The repeal of the investment tax credit had an immaterial effect on net income in 1987 and 1986 since the Company defers such credits and amortizes them to income over the lives of the related assets. The effect of the repeal of the investment tax credit on future years will be to reduce the level of deferred credits being amortized to income.

The Company's income tax expense is expected to decrease again in 1988 as a result of the Act's further reduction of the maximum corporate tax rate to 34%. In that the Company generally normalizes timing differences between book and tax treatment for accounting purposes, many of the Act's other provisions do not affect total tax expense.

The Company has recorded accumulated deferred income taxes on certain timing differences which originated prior to 1987 based on the 46% tax rate then in effect. As a result of the reductions in corporate tax rates provided by the Act, future taxes will be paid at a lower rate. The Act generally provides that in order to continue the use of accelerated depreciation for tax purposes, a public utility must reverse the excess deferred taxes over the lives of the related assets.

As a result of the Act, the Company's ability to generate cash internally is reduced. This is due primarily to the loss of the investment tax credit and certain other provisions diminishing the Company's ability to defer the payment of income taxes until later years.

See the Internal Generation of Cash section and Note 1 for additional information.

SUBSIDIARIES' EARNINGS

The decrease in Equity in Net Income of Unconsolidated Subsidiaries in 1987 was due primarily to realized securities losses incurred during the market decline on October 19 and shifts in Constellation Holdings, Inc.'s (Constellation) asset mix from short-term investments to potentially higher yielding assets which develop and mature over a longer period. Additionally, certain of Constellation's investments have provided significant tax benefits through the investment and energy tax credits. These benefits have been either eliminated or diminished under the Tax Reform Act of 1986, further contributing to the decline in investment income. The 1986 increase in subsidiaries' earnings reflected the additional financial investments made by Constellation during the year. Capital contributions to Constellation by the Company have been deployed primarily as investments in preferred and common stocks, professionally managed equity portfolios, real estate, leveraged lease transactions, senior living and health care institutions, and alternative energy and environmental systems. (See Consolidated Condensed Financial Statements—Constellation Holdings, Inc. and Subsidiaries.)

OTHER

The Allowance for Funds Used During Construction (AFC) increased in 1987 and 1986 due to continued construction of Unit 2 of the Brandon Shores Power Plant and other electric projects. However, the 1987 increase was diminished by a decrease in the AFC rate, effective June 1, 1987, in conjunction with a rate order of the Public Service Commission of Maryland (see Note 1).

The early retirement of certain high cost debt caused a slight decrease in interest charges for 1987. The increase in 1986 was due to sales of additional securities, moderated by lower interest rates and debt retirements.

The decrease in Preferred and Preference Stock Dividends in 1987 and 1986 reflects the redemption of certain high cost securities and the issuance of lower cost securities.

LIQUIDITY AND CAPITAL RESOURCES

OVERVIEW

The Company's capital requirements are attributable principally to its construction program and its expenditures for nuclear fuel. Other capital requirements involve funds for the maturity or retirement of outstanding debt and the redemption of preference stock.

The Company anticipates that future capital requirements, as shown below, will be met primarily through the internal generation of cash, supplemented by a mixture of debt and equity offerings. The timing and mixture of future debt and equity financings will be dictated by economic and financial market conditions and the needs of the Company.

CAPITAL REQUIREMENTS

Actual capital requirements for 1985 through 1987, along with estimated amounts for 1988 through 1990, are as follows:

	Construction Expenditures	AFC	Nuclear Fuel	Retirements and Redemptions of Debt and Preference Stock	Total
	(In Millions)				
1985	$200	$26	$32	$212	$470
1986	224	30	59	153	466
1987	224	31	53	127	435
1988	290	35	45	19	389
1989	305	41	60	108	514
1990	315	53	60	67	495

The Company's construction program is subject to continuous review and modification. Actual construction and nuclear fuel expenditures may vary from the estimates above because of a number of factors such as inflation, economic conditions, regulation, legislation, load growth, environmental protection standards, and the cost and availability of capital. The only major project in the Company's construction program is Brandon Shores Unit No. 2, which is scheduled to be placed in service prior to April 1, 1992.

Nuclear fuel expenditures include uranium purchases and processing charges. In addition, in June 1985 the Company made a one-time payment of approximately $72 million to the Department of Energy for the disposal of spent nuclear fuel which existed at April 7, 1983.

INVESTMENT IN SUBSIDIARIES

Since 1981 the Company has invested $205 million in Constellation Holdings, Inc., a subsidiary which is the holding company for the Company's diversified activities (see Consolidated Condensed Financial Statements—Constellation Holdings, Inc. and Subsidiaries and Notes 1 and 2).

INTERNAL GENERATION OF CASH

The internal generation of cash related to utility activities consists essentially of net income adjusted for non-cash items, less dividends and capital contributions to the Company's subsidiaries. From 1985 through 1987, substantially all of the funds required for the Company's construction and nuclear fuel expenditures were provided from the internal generation of cash. The Company anticipates that approximately 70% of the funds required for these purposes during 1988 through 1990 will be provided from internal sources, after reflecting the impact of the Tax Reform Act of 1986.

EXTERNAL FINANCINGS

During the three years ended 1987, the Company incurred $506 million of long-term debt and retired $371 million, resulting in net new long-term debt of $135 million.

The $506 million of long-term debt incurred during the period 1985 through 1987 consisted of the following items:

	(In Millions)
Floating Rate Notes	$200
Pollution Control Loan	36
Port Facilities Loan	48
Adjustable Rate Pollution Control Loan	22
First Refunding Mortgage Bonds	200
	$506

During the three years ended 1987, the Company issued a total of $10 million of common stock through the Dividend Reinvestment and Stock Purchase Plan and the Employee Stock Ownership Plan and a total of $150 million of redeemable preference stock. During the same three years, the Company repurchased a total of $95 million of preference stock and redeemed another $27 million of preference stock through mandatory sinking fund provisions.

In October 1987, the Company established a $100 million Medium-Term Note program. No securities were issued under this program as of December 31, 1987. The Medium-Term Notes, Series A, may range in maturity from one to fifteen years and can be sold on short notice as market conditions warrant or corporate requirements dictate. The net proceeds from the sale of notes will be used to repay short-term indebtedness incurred to provide interim financing for the construction program, for the refunding of long-term securities, and for other capital requirements relating to the Company's utility business.

Commercial paper notes are issued by the Company to satisfy interim financing requirements. The Company maintains credit facilities with various banks in order to provide additional liquidity.

CAPITAL STRUCTURE

The Company's objective is to maintain a capital structure that preserves an appropriate balance between debt and equity. The Company's capital structure as of December 31 is presented below:

	1987	1986	1985
Common Equity	**48.1%**	47.3%	45.7%
Preferred and Preference Stock not Subject to Mandatory Redemption	**4.6**	5.9	7.0
Redeemable Preference Stock	**5.3**	3.8	2.7
Long-Term Debt	**42.0**	43.0	44.6
Total	**100%**	100%	100%

The investment in Constellation Holdings, Inc. is financed exclusively through retained earnings and represented 5.6% in 1987, 5.6% in 1986, and 3.2% in 1985 of the Company's capital structure.

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

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

Coopers & Lybrand, independent certified public accountants, are engaged to examine the financial statements and express their opinion thereon. Their examination is made in accordance with generally accepted auditing standards which include a review of internal controls.

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

AUDITORS' REPORT

To the Stockholders of
Baltimore Gas and Electric Company

We have examined the balance sheets and statements of capitalization of Baltimore Gas and Electric Company at December 31, 1987 and 1986 and the related statements of income, retained earnings, changes in financial position, and taxes for each of the three years in the period ended December 31, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Baltimore Gas and Electric Company at December 31, 1987 and 1986 and the results of its operations and changes in its financial position for each of the three years in the period ended December 31, 1987 in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

Coopers & Lybrand
Baltimore, Maryland
January 21, 1988

STATEMENTS OF INCOME

	Year Ended December 31,		
	1987	1986	1985
	(In Thousands, Except Per Share Amounts)		
OPERATING REVENUES			
Electric	**$1,393,735**	$1,388,251	$1,[illegible],463
Gas	**415,456**	445,769	453,309
Total operating revenues	**1,809,191**	1,834,020	1,754,772
OPERATING EXPENSES			
Purchased fuel and energy	**530,348**	598,700	570,453
Operations	**377,051**	367,979	338,573
Maintenance	**124,337**	120,006	116,577
Depreciation	**132,332**	127,274	124,961
Income taxes	**143,462**	153,962	156,572
Other taxes	**135,282**	131,536	123,394
Total operating expenses	**1,442,812**	1,499,457	1,430,530
OPERATING INCOME	**366,379**	334,563	324,242
OTHER INCOME			
Allowance for other funds used during construction	**16,870**	16,871	14,597
Equity in net income of unconsolidated subsidiaries	**20,002**	30,590	13,917
Net other income and deductions	**1,349**	(910)	1,225
Total other income	**38,221**	46,551	29,739
INCOME BEFORE INTEREST CHARGES	**404,600**	381,114	353,981
NET INTEREST CHARGES			
Interest charges	**118,571**	120,077	118,431
Allowance for borrowed funds used during construction	**(14,069)**	(13,582)	(11,750)
Net interest charges	**104,502**	106,495	106,681
NET INCOME	**300,098**	274,619	247,300
PREFERRED AND PREFERENCE STOCK DIVIDENDS	**26,406**	26,876	27,370
EARNINGS APPLICABLE TO COMMON STOCK	**$ 273,692**	$ 247,743	$ 219,930
AVERAGE SHARES OF COMMON STOCK OUTSTANDING	**78,861**	78,627	78,622
EARNINGS PER SHARE OF COMMON STOCK	**$3.47**	$3.15	$2.80

STATEMENTS OF RETAINED EARNINGS

	Year Ended December 31,		
	1987	1986	1985
	(In Thousands)		
BALANCE AT BEGINNING OF YEAR	**$ 820,156**	$712,280	$624,042
ADD: Net income	**300,098**	274,619	247,300
	1,120,254	986,899	871,342
DEDUCT:			
Dividends declared			
Preferred stock	**2,899**	2,899	2,899
Preference stock	**23,507**	23,977	24,471
Common stock (at annual amounts per share of $1.675, $1.775, and $1.875 in 1985, 1986, and 1987, respectively)	**147,896**	139,567	131,692
	174,302	166,443	159,062
Premiums paid on retirement of preference stock	**1,426**	300	—
BALANCE AT END OF YEAR	**$ 944,526**	$820,156	$712,280

The accompanying notes are an integral part of the financial statements.

		At December 31, 1987	At December 31, 1986
		(In Thousands)	
ASSETS	UTILITY PLANT		
	Plant in service		
	Electric	**$3,722,095**	$3,574,122
	Gas	**421,989**	407,002
	Common	**235,401**	207,320
	Total plant in service	**4,379,485**	4,168,444
	Accumulated provision for depreciation	**(1,397,619)**	(1,197,378)
	Net plant in service	**3,071,866**	2,991,065
	Plant held for future use	**12,822**	13,756
	Construction work in progress	**433,677**	399,202
	Nuclear fuel (net of amortization of $509,950,000 and $467,004,000)	**173,326**	163,652
	Net utility plant	**3,691,691**	3,567,676
	OTHER PROPERTY AND INVESTMENTS		
	Investment in subsidiaries	**252,347**	225,795
	Other	**5,561**	3,374
	Total other property and investments	**257,908**	229,169
	CURRENT ASSETS		
	Cash and cash equivalents	**34,605**	63,619
	Special deposits and working funds	**1,292**	4,332
	Accounts receivable		
	Customers (net of allowance for uncollectibles of $8,689,000 and $8,293,000)	**193,007**	199,193
	Other	**3,117**	3,844
	Fuel stocks	**59,337**	57,760
	Materials and supplies	**96,517**	94,037
	Prepayments	**60,299**	65,031
	Other	**514**	904
	Total current assets	**448,688**	488,7[illegible]0
	DEFERRED CHARGES		
	Deferred fuel costs	**63,893**	37,406
	Other	**47,812**	47,457
	Total deferred charges	**111,705**	84,863
	TOTAL ASSETS	**$4,509,992**	$4,370,428

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

The accompanying notes are an integral part of the financial statements.

CAPITALIZATION AND LIABILITIES

	At December 31, 1987	1986
	(In Thousands)	
CAPITALIZATION		
Common stockholders' equity	**$1,755,368**	$1,629,795
Preferred stock	**59,185**	59,185
Preference stock not subject to mandatory redemption	**110,000**	110,000
Redeemable preference stock	**186,400**	50,000
Long-term debt	**1,519,514**	1,471,905
Total capitalization	**3,630,467**	3,320,885
CURRENT LIABILITIES		
Short-term borrowings	**45,000**	120,000
Current portion of long-term debt and preference stock	**19,274**	126,942
Accounts payable	**98,657**	128,120
Taxes accrued	**43,581**	35,483
Interest accrued	**34,200**	36,573
Dividends declared	**43,247**	42,208
Vacation costs accrued	**22,842**	22,103
Other	**24,323**	25,378
Total current liabilities	**331,124**	536,807
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred investment tax credits	**193,400**	201,696
Deferred income taxes	**341,498**	300,989
Other	**13,503**	10,051
Total deferred credits and other liabilities	**548,401**	512,736
COMMITMENTS AND CONTINGENCIES—see Note 12		
TOTAL CAPITALIZATION AND LIABILITIES	**$4,509,992**	$4,370,428

Certain prior year amounts have been restated to conform with the current year's presentation.
The accompanying notes are an integral part of the financial statements.

	Year Ended December 31, 1987	1986	1985
		(In Thousands)	
OPERATING ACTIVITIES			
Net Income	**$300,098**	$274,619	$247,300
Noncash items included in income:			
Depreciation and amortization	**178,583**	195,050	180,467
Investment tax credit adjustments	**(8,296)**	19	14,208
Deferred income taxes	**40,509**	5,952	72,621
Allowance for other funds used during construction	**(16,870)**	(16,871)	(14,597)
Equity in net income of unconsolidated subsidiaries	**(20,002)**	(30,590)	(13,917)
Amortization of losses from the reacquisition of debt	**1,659**	1,126	668
Other	**6,547**	3,96[illegible]	3,070
Changes in working capital components:			
Materials, supplies and fuel stocks	**(4,057)**	5,9[illegible]	4,141
Accounts receivable	**6,913**	4,5[illegible]	(26,770)
Prepayments	**4,732**	(1,577)	4,823
Other current assets	**390**	12,435	(6,488)
Federal income taxes payable	**7,137**	15,668	671
One time fee for nuclear fuel disposal costs	**—**	—	(71,829)
Other current liabilities	**(30,953)**	14,771	3,408
Deferred fuel costs	**(26,487)**	70,181	(47,681)
Other cash operating sources and (uses)	**(493)**	(4,189)	1,552
Net cash flow from operating activities	**439,410**	550,948	351,647
FINANCING ACTIVITIES			
Common stock dividends	**(147,896)**	(139,567)	(131,692)
Preferred and preference stock dividends	**(26,406)**	(26,876)	(27,370)
Proceeds from issuance of:			
Long-term debt	**102,134**	111,365	285,055
Common stock	**7,959**	31	(419)
Preference stock	**100,000**	50,000	—
Short-term debt, net	**(75,000)**	33,025	5,775
Redemptions and repurchases of preference stock	**(71,800)**	(40,000)	(10,000)
Loss from redemption of preference stock	**(1,400)**	(300)	—
Reacquisition of long-term debt	**(55,228)**	(112,953)	(202,460)
Loss from reacquisition of long-term debt	**(1,630)**	(2,395)	(927)
Net cash used by financing activities	**(169,267)**	(127,670)	(82,038)
INVESTING ACTIVITIES			
Construction expenditures	**(254,530)**	(254,142)	(225,771)
Allowance for other funds used during construction	**16,870**	16,871	14,597
Nuclear fuel expenditures	**(52,620)**	(59,343)	(32,291)
Investment in subsidiaries	**(13,306)**	(68,000)	(24,657)
Other	**1,389**	1,382	1,120
Net cash used by investing activities	**(302,197)**	(363,232)	(267,002)
Net increase (decrease) in cash	**$(32,054)**	$ 60,046	$ 2,607

The accompanying notes are an integral part of the financial statements.

	Year Ended December 31, 1987	1986	1985
	(In Thousands)		
INCOME TAX EXPENSE			
Charged to operating expenses			
Current	**$110,194**	$147,059	$ 70,597
Deferred, consisting of the following tax effects of timing differences			
Accelerated depreciation	**44,394**	44,755	50,684
Deferred fuel costs	**9,938**	(30,584)	22,054
Percentage repair allowance	**1,958**	3,353	2,126
Contributions in aid of construction	**(4,820)**	(4,879)	(1,246)
Capitalized interest and overheads	**(1,682)**	—	—
Unbilled revenue	**(2,542)**	—	—
Nuclear decommissioning costs	**(1,303)**	(1,507)	(1,259)
Other	**(4,597)**	(6,088)	(3,037)
Total deferred taxes	**41,346**	5,050	69,322
Investment tax credits			
Current tax credits			
Eligible property	**2,120**	13,258	26,313
Employee stock ownership plan	**217**	1,834	1,766
Amortization of tax credits	**(10,415)**	(13,239)	(11,426)
Investment tax credit adjustments	**(8,078)**	1,853	16,653
Total charged to operating expenses	**143,462**	153,962	156,572
Charged to other income			
Current	**595**	(663)	(2,091)
Deferred	**(837)**	902	3,259
Investment tax credit adjustments	**(11)**	51	(667)
Total charged to other income	**(253)**	290	541
TOTAL INCOME TAX EXPENSE	**$143,209**	$154,252	$157,113
RECONCILIATION OF TOTAL INCOME TAX EXPENSE AND TAX COMPUTED AT STATUTORY RATE			
Tax computed at statutory federal income tax rate (40% in 1987 and 46% in 1986 and 1985)	**$177,323**	$197,281	$186,030
Increases (decreases) in tax			
Depreciation differences not normalized	**5,352**	5,218	4,673
Allowance for funds used during construction	**(12,376)**	(14,009)	(12,120)
Amortization of deferred investment tax credits	**(10,415)**	(13,239)	(11,996)
Equity in net income of unconsolidated subsidiaries	**(8,001)**	(14,071)	(6,402)
Loss on retirement of property	**(2,754)**	(3,211)	—
Deferred tax rate differential	**(1,772)**	—	—
Other	**(4,148)**	(3,717)	(3,072)
Total income tax expense	**$143,209**	$154,252	$157,113
Effective federal income tax rate	**32.3%**	36.0%	38.8%
OTHER TAXES			
Property	**$ 31,250**	$ 29,755	$ 29,059
Capital stock	**41,788**	39,804	35,589
Maryland gross receipts	**35,915**	36,455	34,878
Maryland electric environmental surcharge	**2,319**	2,562	2,623
Social security	**24,073**	24,056	22,845
Miscellaneous	**4,927**	3,952	3,491
	140,272	136,584	128,485
Amounts included above charged to accounts other than taxes	**(4,990)**	(5,048)	(5,091)
TOTAL OTHER TAX EXPENSE	**$135,282**	$131,536	$123,394

The accompanying notes are an integral part of the financial statements

	At December 31, 1987	1986
	(In Thousands)	
COMMON STOCKHOLDERS' EQUITY		
Common stock—without par value—100,000,000 shares authorized; 78,912,450 and 78,640,475 shares issued and outstanding at December 31, 1987 and 1986, respectively. (At December 31, 1987, 899,694 shares were reserved for the Employee Stock Ownership Plan, and 5,433,708 shares were reserved for the Dividend Reinvestment and Stock Purchase Plan.)	**$ 817,513**	$ 809,554
Premium on preferred stock	**157**	157
Retained earnings	**944,526**	820,156
Valuation allowance—investment securities of subsidiary	**(6,828)**	(72)
Total common stockholders' equity	**1,755,368**	1,629,795
PREFERRED STOCK		
Cumulative, $100 par value, 1,000,000 shares authorized		
Series B, 4½ %, 222,921 shares outstanding, callable at $110 per share	**22,292**	22,292
Series C, 4%, 68,928 shares outstanding, callable at $105 per share	**6,893**	6,893
Series D, 5.40%, 300,000 shares outstanding, callable at $101 per share	**30,000**	30,000
Total preferred stock	**59,185**	59,185
PREFERENCE STOCK		
Cumulative, $100 par value, 6,000,000 shares authorized		
Preference stock not subject to mandatory redemption		
7.88%, 1971 Series, 500,000 shares outstanding, callable at $101 per share	**50,000**	50,000
7.75%, 1972 Series, 400,000 shares outstanding, callable at $101 per share	**40,000**	40,000
7.78%, 1973 Series, 200,000 shares outstanding, callable at $103 per share prior to December 1, 1988 and at $101 per share thereafter	**20,000**	20,000
9.35%, 1974 Series, 350,000 shares outstanding in 1986	**—**	35,000
Less preference stock called for redemption—see Note 3	**—**	(35,000)
Total preference stock not subject to mandatory redemption	**110,000**	110,000
Redeemable preference stock		
8.375%, 1979 Series, 300,000 shares outstanding in 1986	**—**	30,000
12%, 1981 Series A, 272,000 and 340,000 shares, respectively, outstanding	**27,200**	34,000
12%, 1981 Series B, 160,000 shares outstanding	**16,000**	16,000
7.50%, 1986 Series, 500,000 shares outstanding, callable at $107.50 per share prior to October 1, 1991 and at lesser amounts thereafter	**50,000**	50,000
6.75%, 1987 Series, 500,000 shares outstanding in 1987, callable at $106.75 per share prior to April 1, 1992 and at lesser amounts thereafter	**50,000**	—
6.95%, 1987 Series, 500,000 shares outstanding in 1987, redeemable in whole at $100 per share on October 1, 1995	**50,000**	—
Less current portion of redeemable preference stock—see Note 4	**(6,800)**	(80,000)
Total redeemable preference stock	**186,400**	50,000

Certain prior year amounts have been restated to conform with the current year's presentation.
The accompanying notes are an integral part of the financial statements.

	At December 31, 1987	1986
	(In Thousands)	
LONG-TERM DEBT		
First refunding mortgage bonds		
Series Z 3%, due July 15, 1989	**$ 36,754**	$ 36,754
3¼ % Series, due December 1, 1990	**29,682**	29,682
4⅜% Series, due July 15, 1992	**25,000**	25,000
14¾ % Series, due July 15, 1992	**—**	39,268
4% Series, due March 1, 1993	**24,095**	24,095
4½ % Series, due July 15, 1994	**29,989**	29,989
5⅛% Series, due April 15, 1996	**26,680**	26,680
8½ % Series, due June 15, 1997	**100,000**	—
6⅛% Series, due August 1, 1997	**24,967**	24,967
5⅝% Installment Series, due August 15, 1998	**60,775**	62,140
7% Series, due December 15, 1998	**28,705**	28,705
8¼ % Series, due September 15, 1999	**22,198**	22,198
8⅜% Series, due September 15, 2000	**11,429**	11,431
7¼ % Series, due April 15, 2001	**60,000**	60,000
7⅝% Series, due September 1, 2001	**60,000**	60,000
7⅛% Series, due January 1, 2002	**50,000**	50,000
7½ % Series, due July 1, 2002	**50,000**	50,000
5½ % Installment Series, due July 15, 2002	**12,500**	12,500
7½ % Series, due September 15, 2002	**50,000**	50,000
8⅛% Series, due February 1, 2004	**74,986**	74,986
6.80% Series, due September 15, 2004	**20,000**	20,000
9⅞% Series, due August 1, 2005	**3,555**	15,638
8⅜% Series, due September 15, 2006	**75,000**	75,000
8¼ % Series, due September 15, 2007	**75,000**	75,000
9⅜% Series, due July 1, 2008	**62,560**	62,560
6.90% Installment Series, due September 15, 2009	**55,000**	55,000
9⅛% Series, due March 1, 2016	**100,000**	100,000
Total first refunding mortgage bonds	**1,168,875**	1,121,593
Other long-term debt (unsecured)		
4⅝% Sinking fund debentures, due August 1, 1990	**16,145**	16,805
Loans under revolving credit agreements	**50,000**	50,000
Floating rate notes, due July 1, 1995	**100,000**	100,000
Floating rate notes, due October 15, 1995 Series II	**100,000**	100,000
Pollution control loan, due July 1, 2011	**36,000**	36,000
Port facilities loan, due June 1, 2013	**48,000**	48,000
Adjustable rate pollution control loan, due July 1, 2014	**20,150**	17,368
Total other long-term debt	**370,295**	368,173
Unamortized (discount) and premium	**(7,182)**	(5,919)
Less current portion of long-term debt	**(12,474)**	(11,942)
Total long-term debt	**1,519,514**	1,471,905
TOTAL CAPITALIZATION	**$3,630,467**	$3,320,885

Certain prior year amounts have been restated to conform with the current year's presentation.
The accompanying notes are an integral part of the financial statements.

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

	Year Ended December 31, 1987	1986	1985
	(In Thousands, Except Per Share Amounts)		
Revenues	**$30,405**	$24,876	$13,545
Operating expenses	**17,497**	5,912	2,651
Operating income	**12,908**	18,964	10,894
Interest expense	**11,300**	6,376	3,502
Net income before income taxes	**1,608**	12,588	7,392
Income tax expense (benefit)	**(12,061)**	(12,237)	(3,860)
Net income	**$13,669**	$24,825	$11,252
Contribution to BG&E's earnings per share of common stock	**$ .17**	$ .32	$ .14

CONSOLIDATED CONDENSED BALANCE SHEETS

	At December 31, 1987	1986
	(In Thousands)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 4,944**	$ 10,095
Other current assets	**28,496**	10,654
Total current assets	**33,440**	20,749
NONCURRENT ASSETS		
Investment securities, net	**115,931**	189,282
Investment in alternative energy systems	**32,902**	17,601
Investment in leveraged leases	**39,291**	43,232
Investment in limited partnerships	**72,608**	40,941
Investment in insurance company	**29,261**	27,645
Real estate and property and equipment, net	**63,759**	34,395
Senior living and health care institutions, net	**24,745**	25,368
Deposits in escrow	**32,112**	—
Real estate loans	**28,982**	9,931
Other noncurrent assets	**6,250**	744
Total noncurrent assets	**445,841**	389,139
TOTAL ASSETS	**$479,281**	$409,888

	At December 31, 1987	1986
	(In Thousands)	
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES		
Short-term debt	**$ 25,497**	$ 10,289
Other current liabilities	**6,306**	2,724
Total current liabilities	**31,803**	13,013
NONCURRENT LIABILITIES		
Long-term debt	**187,838**	135,578
Deferred income taxes	**50,097**	40,949
Other noncurrent liabilities	**4,463**	28,273
Total noncurrent liabilities	**242,398**	204,800
STOCKHOLDER'S EQUITY		
Common stock (no par value, 100,000 shares authorized, 10,000 shares issued and outstanding)	**159,703**	152,403
Retained earnings	**52,205**	39,744
Valuation allowance—investment securities	**(6,828)**	(72)
Total stockholder's equity	**205,080**	192,075
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	**$479,281**	$409,888

The above financial information is presented in support of the Company's investment in Constellation Holdings, Inc. and subsidiaries which is accounted for under the equity method. See Note 2 to Financial Statements.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

SYSTEM OF ACCOUNTS

The Company's accounting records are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission and adopted by the Public Service Commission of Maryland (Maryland Commission).

REVENUES

Revenues are generally recognized at the time customers' meters are read on a monthly cycle basis.

FUEL AND PURCHASED GAS COSTS

The Company may recover, subject to the approval of the Maryland Commission, the cost of fuel used in generating electricity and the cost of gas sold through zero-based electric fuel rate and purchased gas adjustment clauses (see Note 12). To the extent revenues from customers under the clauses exceed or are less than actual fuel costs, the Company records deferred fuel expenses which are accumulated and refunded to or recovered from customers in future periods.

As implemented by the Maryland Commission, the electric fuel rate formula is based upon the latest twenty-four month generation mix and the latest three-month average fuel cost for each generating unit. The fuel rate does not change unless the calculated rate is more than 5% above or below the rate then in effect. During 1987, the Maryland Commission authorized the Company to recover $30 million of under-recovered electric fuel costs via an electric fuel rate surcharge over a period of 24 months beginning with April 1987. Through December 31, 1987, $11.7 million of these costs had been recovered through the surcharge.

The purchased gas adjustment is based on recent annual volumes of gas and the related current prices charged by the Company's gas suppliers. Any deferred under- or over-recoveries of purchased gas costs for the twelve months ended November 30 each year are charged or credited to customers over the ensuing calendar year.

The under-recovered costs deferred under the fuel clauses were as follows:

	At December 31, 1987	1986
	(In Thousands)	
Electric	**$74,199**	$31,931
Gas	**(10,306)**	5,475
Total	**$63,893**	$37,406

INCOME TAXES

The Company and its wholly owned subsidiaries file a consolidated federal income tax return. Income taxes are allocated to the individual companies based upon their respective taxable incomes and tax credits.

Certain revenue and expense items are recorded for financial reporting purposes in a year different from the year in which they are recognized for income tax purposes. Deferred income taxes are provided on certain timing differences, primarily those attributable to accelerated depreciation on post-1975 property additions, deferred fuel costs, the percentage repair allowance, contributions in aid of construction, capitalized interest and overheads, unbilled revenues, and nuclear decommissioning costs. Deferred income taxes are not provided on certain other timing differences, primarily those pertaining to accelerated depreciation on pre-1976 property additions. The cumulative net amount of such timing differences for which deferred income taxes have not been provided approximated $253 million and $266 million as of December 31, 1987 and 1986, respectively.

Investment tax credits are deferred and allocated to income ratably over the lives of the subject property.

UTILITY PLANT AND DEPRECIATION

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

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

Depreciation is generally computed using composite straight-line rates, applied to the average investment in classes of depreciable property. Nuclear decommissioning costs are recovered separately through an internal sinking fund designed to accumulate a decommissioning reserve of $333,407,000. The composite depreciation rates by class of depreciable property for the years 1985 through 1987 were as follows:

	Prior to Sept. 1, 1985	Effective Sept. 1, 1985
Electric:		
Nuclear	3.40%	2.80%
Brandon Shores	2.75%	2.75%
Other	3.26%	3.26%
Gas	3.12%	3.12%
Common (a)	4.02%	4.02%

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

The September 1, 1985 revision in the nuclear depreciation rate increased 1985 earnings, net of related tax effects, by $1,425,000, or 2¢ per common share. This revision was the result of the Nuclear Regulatory Commission's action extending the facility operating licenses for the Calvert Cliffs Nuclear Power Plant consistent with the Company's earlier application. The amendments to the operating licenses changed the expiration date for Unit 1's license from July 7, 2009 to July 31, 2014 and for Unit 2's license from July 7, 2009 to August 13, 2016. In the rate proceeding concluded during 1987, the Maryland Commission determined that the Company had a $32,373,000 excess balance in accumulated nuclear depreciation at December 31, 1985 caused by the extension of the Calvert Cliffs operating licenses. Effective June 1, 1987, the Maryland Commission instructed the Company to extinguish this excess by transferring $7,560,000 to the nuclear decommissioning reserve and amortizing the $24,813,000 balance over the remaining life of Calvert Cliffs as a credit to depreciation expense. Based on the current estimate of decommissioning costs and the internal sinking fund approach, no further customer contributions are presently being made to the nuclear decommissioning reserve.

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION

The allowance for funds used during construction (AFC) is an accounting procedure whereby the after-tax cost of borrowed and other funds used to finance construction projects is capitalized as part of utility plant on the balance sheet and is credited as a non-cash item on the income statement. The cost of borrowed and other funds is segregated between net interest charges and other income, respectively. The Company may recover, subject to the approval of the Maryland Commission, the capitalized AFC and a return thereon after the related utility plant is placed in service and included in depreciable assets and rate base. AFC is not taxable income and the depreciation of capitalized AFC is not a tax deductible expense.

As prescribed by a rate order of the Maryland Commission, an after-tax AFC rate of 9.08%, compounded annually, had been applied to all major electric projects from 1984 through May 1987. The May 1987 rate decision reduced the AFC rate to 8.55% beginning in June 1987.

INVESTMENT IN SUBSIDIARIES

The investment in subsidiaries is accounted for and reported under the equity method.

INVENTORY VALUATION

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

DEFERRED NUCLEAR MAINTENANCE EXPENDITURES

The Company has incurred a total of $10,653,000 in maintenance expenditures for inspecting and repairing seismic pipe supports to meet Nuclear Regulatory Commission requirements at the Calvert Cliffs Nuclear Power Plant. As approved by the Maryland Commission, such costs have been deferred and are being amortized over the remaining life of the plant. The balances deferred as of December 31, 1987 and 1986 were $7,304,000 and $7,568,000, respectively. These balances are included in Other Deferred Charges.

LONG-TERM DEBT

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

ACCOUNTING STANDARDS ISSUED

During 1987, the Financial Accounting Standards Board issued three Statements of Financial Accounting Standards (SFAS) which prescribe financial accounting and reporting policies different from those presently used by the Company under existing generally accepted accounting principles. SFAS No. 94, "Consolidation of All Majority-Owned Subsidiaries," requires the consolidation in the Company's financial statements of all majority-owned subsidiaries (see Note 2); SFAS No. 95, "Statement of Cash Flows," mandates the presentation of Statements of Cash Flows in place of the Statements of Changes in Financial Position; and SFAS No. 96, "Accounting for Income Taxes," adopts the liability method of accounting for deferred income taxes. SFAS Nos. 94 and 95 will be adopted in 1988 and are not expected to have a significant impact on the Company's financial position or results of operations other than the presentation of consolidated financial statements. Changes in accumulated deferred income taxes arising from the initial application of SFAS No. 96 in 1989 generally will be deferred and recovered from or refunded to ratepayers in future years in accordance with the normalization requirements of the federal income tax laws and the regulatory practices of the Maryland Commission.

NOTE 2. INVESTMENT IN SUBSIDIARIES

Investments in subsidiary companies were as follows:

	At December 31, 1987	1986
	(In Thousands)	
Constellation Holdings, Inc.	**$205,080**	$192,075
Safe Harbor Water Power Corporation	**40,051**	33,720
BNG, Inc.	**7,216**	—
	$252,347	$225,795

As of December 31, 1987, Constellation Holdings, Inc., a wholly owned subsidiary, holds all of the stock of five other subsidiaries, Constellation Investments, Inc., Constellation Properties, Inc., Constellation Development, Inc., Constellation Operating Services, Inc., and Constellation Water Systems, Inc. These companies are engaged in diversified activities including financial investments, real estate development, ownership and management of senior living and health care institutions, and developing, owning, and operating alternative energy and environmental projects.

The 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 the subsidiary's retained earnings.

BNG, Inc., formerly Constellation Biogas, Inc., is a wholly owned subsidiary which invests in natural gas reserves and obtains gas from non-traditional sources. The stock of this subsidiary was transferred from Constellation Holdings, Inc. to the Company on March 31, 1987.

The capital stocks of Constellation Holdings, Safe Harbor, and BNG are subject to a lien under the mortgage under which the Company's Mortgage Bonds are issued.

The Consolidated Condensed Financial Statements of Constellation Holdings, Inc. and Subsidiaries are presented on page 40. The following is condensed financial information for Safe Harbor Water Power Corporation. Similar information is not presented for BNG, Inc. as its financial position and results of operations are immaterial in relation to the Company's financial statements.

	Safe Harbor Water Power Corporation 1987	1986	1985
	(In Thousands)		
RESULTS OF OPERATIONS			
Operating revenues	**$34,665**	$35,010	$19,178
Operating expenses	**19,312**	19,965	12,834
Income from utility operations	**15,353**	15,045	6,344
Net other income	**63**	185	1,431
Net interest expense	**5,483**	6,582	3,777
Net income	**$ 9,933**	$ 8,648	$ 3,998
BG&E's equity in earnings	**$ 6,622**	$ 5,765	$ 2,665

	At December 31, 1987	1986
	(In Thousands)	
FINANCIAL CONDITION		
Current assets	**$ 3,705**	$ 5,756
Noncurrent assets	**130,851**	133,568
Total Assets	**$134,556**	$139,324
Current liabilities	**$ 2,901**	$ 3,048
Noncurrent liabilities	**71,142**	85,696
Stockholders' equity	**60,513**	50,580
Total Liabilities and Stockholders' Equity	**$134,556**	$139,324

NOTE 3. CHANGES IN COMMON STOCK AND PREFERENCE STOCK NOT SUBJECT TO MANDATORY REDEMPTION

	Common Stock		Cumulative Preference Stock	
	Shares	Amount	Shares	Amount
	(Dollar Amounts in Thousands)			
Balance at December 31, 1984	78,621,798	$809,942	1,750,000	$175,000
Costs associated with stock split	—	(419)	—	—
Balance at December 31, 1985	78,621,798	809,523	1,750,000	175,000
Redemption of 8.75% Cumulative Preference Stock, 1970 Series	—	—	(300,000)	(30,000)
Common Stock issued under Dividend Reinvestment and Stock Purchase Plan	18,677	650	—	—
Costs associated with issuance of 7.50% Redeemable Preference Stock, 1986 Series	—	(619)	—	—
Less 9.35%, 1974 Series Cumulative Preference Stock called for redemption effective April 1, 1987	—	—	(350,000)	(35,000)
Balance at December 31, 1986	78,640,475	809,554	1,100,000	110,000
Common Stock issued under:				
Dividend Reinvestment and Stock Purchase Plan	154,481	4,770	—	—
Employee Stock Ownership Plan	117,494	4,197	—	—
Costs associated with issuance of Redeemable Preference Stock (see Note 4)	—	(1,008)	—	—
Balance at December 31, 1987	78,912,450	$817,513	1,100,000	$110,000

A two-for-one stock split was effected by the distribution of one additional share for each share of stock already issued to stockholders of record on August 22, 1985. All per share amounts and numbers of common shares presented in this report have been restated to give retroactive effect to the stock split.

Effective April 1, 1987, the Company redeemed all outstanding shares of the 9.35% 1974 Series Cumulative Preference Stock at $104 per share plus accrued dividends.

NOTE 4. REDEEMABLE PREFERENCE STOCK

In January 1987, the Company issued 500,000 shares of 6.75% Cumulative Preference Stock, 1987 Series ($100 par value). This series is subject to an annual sinking fund requiring the redemption of 15,000 shares at par value, beginning in 1993. At the Company's option, in any year, commencing in 1993, an additional number of shares, not to exceed 15,000 shares, may be redeemed for the sinking fund at par value.

In August 1987, the Company issued 500,000 shares of 6.95% Cumulative Preference Stock, 1987 Series ($100 par value). The 6.95% Stock will be redeemed in whole at $100 per share on October 1, 1995 and is not otherwise redeemable.

The Company tendered payment to repurchase, effective January 1, 1987, all outstanding shares of the 8.375%, 1979 Series and the 12%, 1981 Series A and B Cumulative Preference Stock issues at par value plus accrued dividends plus the indemnity payment described below. The Purchase Agreements under which the shares were issued permit the Company to repurchase such shares if the Company makes a good faith determination that there is a substantial risk that indemnity payments would have to be made to the owners because of the loss of any part of the dividends received deduction. As a result of the reduction in the dividends received deduction pursuant to the Tax Reform Act of 1986, the Company elected to repurchase all of such shares. The owners of the 12% Series shares disputed the right of the Company to repurchase the shares and contested the repurchase. In July 1987, the United States District Court for the Southern District of New York found in favor of the plaintiffs and ordered that the terms of the Preference Stock Purchase Agreement remain in full force and effect. The Company has reinstated on its books the 12% Cumulative Preference Stock, 1981 Series A and B, although an appeal of the court decision has been filed.

The 12%, 1981 Series A and B issues consist of 272,000 and 160,000 shares ($100 par value), respectively. Series A will be redeemed at par at the rate of 68,000 shares in each of the years 1988 through 1991, while Series B will be redeemed in its entirety at par on July 1, 1991. Pursuant to the requirements of Series A, 68,000 shares were redeemed at par in 1987.

With regard to payment of dividends or assets available in the event of liquidation, Preferred Stock ranks prior to Preference Stock; all issues of Preference Stock, whether subject to mandatory redemption or not, rank equally; and all Preferred and Preference Stock rank prior to Common Stock.

NOTE 5. LONG-TERM DEBT

Mortgage Lien
Substantially all of the principal properties and franchises owned by the Company are subject to a lien under the mortgage under which the Company's First Refunding Mortgage Bonds are issued.

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

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

Years	Principal Amount Each Year
	(In Thousands)
1988 through 1990	$ 2,000
1991 through 1995	3,000
1996 and 1997	4,000
1998	33,000

The Installment Series Mortgage Bonds, due July 15, 2002 are payable as to principal on the fifteenth day of July in the years and the amounts as follows:

Years	Principal Amount Each Year
	(In Thousands)
1993	$ 420
1994	430
1995 through 1997	605
1998 and 1999	690
2000 and 2001	865
2002	6,725

The Installment Series Mortgage Bonds, due September 15, 2009 are payable as to principal on the fifteenth day of September in the years and the amounts as follows:

Years	Principal Amount Each Year
	(In Thousands)
2005 through 2008	$ 3,250
2009	42,000

Other Long-Term Debt
The Company is required to make an annual sinking fund payment (in cash and/or Sinking Fund Debentures) to the Trustee under the 4⅜% Sinking Fund Debenture Indenture. The payment, to be made on or before July 31 of each year through 1989, requires an annual payment of $600,000 in cash, in principal amount of the debentures, or in a combination thereof. In any year, at the Company's election, an additional sinking fund payment of up to $600,000 (noncumulative) may be made under the indenture.

The Company maintains a revolving credit agreement providing for borrowings of up to $50 million. This agreement expires in December 1989. Under the terms of the agreement, the Company, at its option, may obtain loans at various interest rates. The Company pays a commitment fee on the daily average of the unborrowed portion of the commitments. At December 31, 1987, the Company had borrowed all of the $50 million available under the revolving credit agreement.

In December 1984, Anne Arundel County, Maryland issued $22 million of its Adjustable Rate Pollution Control Revenue Bonds (Baltimore Gas and Electric Company Project) 1984 Series due July 1, 2014. The net proceeds of the issue were deposited with a trustee to be loaned to the Company as needed to finance the Company's acquisition and construction of certain air pollution control facilities at the Herbert A. Wagner Power Plant Unit No. 3. On July 1, 1987, $1.85 million remaining in the construction fund was used to reduce the amount of outstanding County bonds. At December 31, 1987, the Company had borrowed the remaining $20.15 million.

In July 1985, the Company issued $100 million of Floating Rate Notes Due 1995. Interest rates on the Notes are determined quarterly based on the 91-day Treasury Bill auction rate (expressed on a bond-equivalent basis) plus 1.1%. The interest rate may vary from 8% to 12% per annum.

In November 1985, the Company issued $100 million of Floating Rate Notes Due 1995 Series II. Interest rates on the Notes are determined quarterly based on the 91-day Treasury Bill auction rate (expressed on a bond-equivalent basis) plus 1.125%. The interest rate may vary from 7.9% to 11.9% per annum.

In December 1985, Baltimore County, Maryland issued $36 million of Pollution Control Revenue Bonds (Baltimore Gas and Electric Company Project) Series 1985 due July 1, 2011. The proceeds of the sale were loaned to the Company and subsequently made available to the Trustee to redeem Baltimore County's Pollution Control Revenue Notes (Baltimore Gas and Electric Company Project) Commercial Paper Series. The proceeds of the Notes financed the Company's pollution control facilities constructed in connection with the conversion to coal of two existing steam electric generator units at the Company's Charles P. Crane Power Plant.

Also in December 1985, Anne Arundel County, Maryland issued $48 million of Port Facilities Revenue Bonds (Baltimore Gas and Electric Company Project) Series 1985 due June 1, 2013. The proceeds of the sale were loaned to the Company and subsequently made available to the Trustee to redeem Anne Arundel County's Port Facilities Revenue Notes (Baltimore Gas and Electric Company Project) Commercial Paper Series. The proceeds of the Notes originally financed the Company's acquisition of certain coal handling port facilities at the Brandon Shores Power Plant.

In October 1987, the Company established a $100 million Medium-Term Note program under which notes having maturities ranging from one to fifteen years may be issued. As of December 31, 1987, no Notes had been sold under this program.

The weighted average interest rates for Other Long-Term Debt during 1987 and 1986 were as follows:

	1987	1986
Loans under Revolving Credit Agreements	**7.01%**	7.26%
Floating Rate Notes, due July 1, 1995	**8.00**	8.09
Floating Rate Notes, due October 15, 1995 Series II	**7.99**	8.10
Pollution Control Loan, due July 1, 2011	**4.56**	4.78
Port Facilities Loan, due June 1, 2013	**4.47**	4.93
Adjustable Rate Pollution Control Loan, due July 1, 2014	**4.63**	4.88

Aggregate Maturities

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

Year	Requirements
	(In Thousands)
1988	$ 12,000
1989	101,000
1990	60,000
1991	16,000
1992	42,000

NOTE 6. LEASES

The Company contracts for certain facilities and equipment under lease agreements with various expiration dates and renewal options. Consistent with the regulatory treatment, lease payments for capital and operating leases are charged to operating expenses in the Statements of Income. Such costs are summarized as follows for the three years ended December 31:

	1987	1986	1985
	(In Thousands)		
Capital Leases	**$ 1,484**	$ 3,092	$ 2,548
Operating Leases	**11,101**	10,146	10,130
Total Lease Expense	**$12,585**	$13,238	$12,678

Capital leases included in the financial statements but not disclosed separately represent assets and obligations of $3,029,000 at December 31, 1987 and $3,996,000 at December 31, 1986.

The future minimum lease payments as of December 31, 1987 for leases reported as capital leases and noncancellable operating leases are as follows:

	Capital Leases	Operating Leases
	(In Thousands)	
1988	$1,466	$ 6,335
1989	654	5,193
1990	486	5,122
1991	386	3,945
1992	285	3,763
Thereafter	860	3,184
Total minimum lease payments	$4,137	$27,542
Less interest portion	1,108	
Present value of net minimum lease payments	$3,029	

NOTE 7. SHORT-TERM BORROWINGS AND LINES OF CREDIT

The Company maintains bank lines of credit to provide backup financing capacity for commercial paper notes issued to satisfy interim financing requirements and to permit short-term borrowing flexibility. In support of such lines, the Company pays commitment fees and maintains compensating balances which have no withdrawal restrictions. Borrowings under the lines are at the banks' prime rate, base interest rates, or at various money market rates. Information concerning short-term borrowings and lines of credit is set forth below:

	1987	1986	1985
	(Dollar Amounts in Thousands)		
At December 31			
Short-term borrowings outstanding			
Commercial paper notes	**$ 45,000**	$120,000	$ 86,975
Weighted average interest rate	**7.74%**	6.61%	7.80%
Unused lines of credit	**$150,200**	$150,200	$150,200
Compensating balances	**$ 790**	$ 790	$ 790
During the Year Ended December 31			
Maximum short-term borrowings	**$184,500**	$167,275	$189,500
Average daily short-term borrowings (a)	**$ 73,006**	$ 51,634	$ 82,708
Weighted average interest rate (b)	**6.67%**	7.13%	8.21%

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

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

NOTE 8. SPENT NUCLEAR FUEL DISPOSAL COSTS

Pursuant to a contract with the Department of Energy (DOE) for the disposal of spent nuclear fuel under the provisions of the Nuclear Waste Policy Act of 1982, the Company, in June 1985, paid the DOE $71,829,000 for the disposal of spent nuclear fuel which existed at April 7, 1983. As of December 31, 1987 and 1986, the Company had collected $71,236,000 and $68,152,000 of that amount, respectively, through base rates. The remaining balances of $593,000, and $3,677,000 are included in other deferred charges and are being amortized as recovered through base rates.

The contract with the DOE also provides for the disposal of spent nuclear fuel generated after April 7, 1983 at a fee of one mill per kilowatthour of nuclear generation. This fee, which is payable quarterly, is a component of fuel cost subject to recovery through the electric fuel rate.

NOTE 9. PENSION AND OTHER POSTRETIREMENT BENEFITS

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

During 1987, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 87, "Employers' Accounting for Pensions," for all of its pension plans. The effect of adopting SFAS No. 87 was not material to the Company's results of operations. Total net pension cost for the Company and its wholly owned subsidiaries for 1987, 1986, and 1985 was $6,301,000, $6,212,000, and $7,101,000, respectively, of which $5,249,000, $5,188,000, and $5,848,000, respectively, was charged to expense. The remainders were capitalized as construction costs. During 1985, changes were made in certain actuarial assumptions which resulted in lower pension expense and increased 1985 earnings by $3,803,000, equivalent to 5¢ per common share.

The Company's policy is to fund annually the cost of the Pension Plan as determined under the aggregate cost method. This policy is not affected by SFAS No. 87. Plan assets at December 31, 1987 consisted primarily of marketable securities, group annuity contracts, and short-term investments.

The following tables set forth the combined financial status of the plans and the composition of total net pension cost for 1987:

	At December 31, 1987	At January 1, 1987
	(Dollar Amounts in Thousands)	
Accumulated benefit obligation:		
Vested	$293,476	$309,629
Nonvested	18,272	19,225
Total	$311,748	$328,854
Plan assets at fair value	$417,538	$407,647
Less: Projected benefit obligation	385,762	404,249
Plan assets in excess of projected benefit obligation	31,776	3,398
Less: Unrecognized net gain	30,659	—
Unamortized net asset from adoption of SFAS No. 87	3,171	3,398
Accrued pension cost	$ (2,054)	$ —
Assumptions:		
Discount rate	9.25%	8.5%
Average increase in future compensation levels	4.5%	4.5%
Expected long-term rate of return on assets	9.5%	9.5%

	Year Ended December 31, 1987
	(In Thousands)
Total net pension cost:	
Service cost	$11,106
Interest cost	33,398
Actual return on assets	(29,227)
Net amortization and deferral	(8,976)
Total	$ 6,301

In addition to providing pension benefits, the Company provides certain health care and life insurance benefits for retired employees. The cost of these benefits and similar benefits for active employees is generally recognized as the benefits are paid. The total cost of the benefits and the number of active and retired employees covered by these benefit plans were as follows:

	1987	1986
	(Dollar Amounts in Thousands)	
Cost	**$25,839**	$24,090
Active employees	**8,767**	8,833
Retired employees	**2,889**	2,773

NOTE 10. DISALLOWED DEFERRED FUEL COSTS

In December 1986, the Public Service Commission of Maryland issued a decision denying recovery of certain replacement energy costs because an employee error caused the extension of a 1985 planned outage at the Calvert Cliffs Nuclear Power Plant (see Note 12). The Company charged $3.9 million of previously deferred fuel costs to Purchased Fuel and Energy Expense in 1986. The after-tax effect of this write-off was a reduction in earnings of 3¢ per common share. The Commission's decision was affirmed by the Circuit Court of Calvert County, and the Company has appealed the Circuit Court's decision to the Maryland Court of Special Appeals.

NOTE 11. JOINTLY OWNED ELECTRIC UTILITY PLANT

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

The following data represent the Company's share of the jointly owned properties as of December 31, 1987:

	Keystone	Conemaugh	Transmission Line
	(Dollar Amounts in Thousands)		
Ownership Interest	20.99%	10.56%	7.00%
Utility Plant in Service	$64,500	$37,926	$1,486
Accumulated Provision for Depreciation	19,433	12,390	555
Construction Work in Progress	4,551	912	—

NOTE 12. COMMITMENTS AND CONTINGENCIES

Commitments and Guarantees

The Company has made substantial commitments in connection with its construction program for 1988 and subsequent years.

The Company has agreed to guarantee 20.99% of borrowings of up to $24.2 million by Keystone Coal Mining Corporation, the major coal supplier for the Keystone Plant (see Note 11). As of December 31, 1987, the total outstanding loans were $14.2 million, of which $3.0 million was guaranteed by the Company. Additionally, the Company has agreed to guarantee two-thirds of up to $125 million of indebtedness incurred by Safe Harbor Water Power Corporation (see Note 2) in connection with the expansion of its hydroelectric generating facilities. As of December 31, 1987, the outstanding debt totaled $50 million, of which $33 million represents the Company's two-thirds share. The Company assesses minimal risk of default on the loans it has guaranteed.

Nuclear Contingencies

The two units at the Company's Calvert Cliffs Nuclear Power Plant are its principal generating facilities and produce the lowest cost power available to the Company. An incident at this plant could have a substantial adverse effect upon the Company. The primary contingencies resulting from an incident at the Calvert Cliffs Plant would involve the Company's liability to third parties for property damage and bodily injury, the physical damage to the plant, and the cost of replacement power.

The Price-Anderson Act (Act) currently limits the liability to the public of an owner of a nuclear power plant for property damage of and bodily injury to third parties to $720 million for a single nuclear incident, as defined in the Act. The Company is protected against this potential liability by a combination of commercial insurance (currently $160 million through the nuclear insurance pools) and Secondary Financial Protection currently amounting to a maximum of $560 million. Under regulations issued pursuant to the Act, the $560 million of Secondary Financial Protection for public liability resulting from a nuclear incident would be provided through an after-loss assessment of each nuclear-powered utility in the country at a rate of up to $5 million per reactor, with a $10 million per reactor limit in any one calendar year for multiple incidents. The Company's contingent liability in the event of a nuclear incident at any licensed nuclear power plant in the country is an amount up to $10 million per nuclear incident ($5 million for each reactor at Calvert Cliffs), with a maximum contingent liability of $20 million per year in the event of more than one nuclear incident in a particular year.

Effective January 1, 1988 the policies of nuclear liability insurance at Calvert Cliffs have been amended to exclude radiation injury claims presented by certain nuclear workers. New policies provided through the nuclear insurance pools have been issued to cover such claims, up to a limit of $160 million per incident. Claims are funded by an after-loss assessment of each member insured equal to 95% of the claims less accumulated reserves and earnings. The contingent liability to the Company in any one year would be $5 million. It is the opinion of the Company that Secondary Financial Protection, as described in the preceding paragraph, could be effective after two full limits in losses have been paid.

The Company's insurance for physical damage to its nuclear power plant is structured to provide a level of Primary Insurance and a level of Excess Insurance. The Primary Insurance, provided through nuclear insurance pools, covers up to $500 million of physical damage, including contamination, to the plant. The Excess Insurance currently provides coverage for an additional $1.025 billion (or a total of $1.525 billion) of physical damage to the plant, including contamination. Any damage to the plant in excess of $1.525 billion would be the financial responsibility of the Company. The Excess Insurance protection is provided through a combination of nuclear insurance pools and an industry-owned mutual insurance company. The major portion of any claim paid through the Excess Insurance coverage for damage to any nuclear power plant operated by a member of the industry-owned mutual insurance company would be funded through insurance company reserves and an after-loss assessment of each member. The contingent liability to the Company for such after-loss assessments currently is $8.4 million in any one policy year.

In the event of an outage at Calvert Cliffs, the Company would obtain replacement power from other sources. Due to the relatively low cost of the power generated at the Company's nuclear plant, replacement power would be more expensive. In the event of an outage caused by physical damage to the nuclear plant which is insured as discussed above, other insurance provided through an industry-owned mutual insurance company would provide coverage for a portion of the replacement power costs if the outage lasts more than 26 weeks. Currently this insurance provides for a maximum weekly indemnity per unit of the lesser of $3.5 million, or 90% of the Company's calculated replacement power cost for that unit. This maximum weekly indemnity will be available for up to a 52-week period, after which the maximum weekly indemnity is reduced by 50% for the ensuing 52-week period. For one insured occurrence causing both Calvert Cliffs units to be shut down beyond 26 weeks, the weekly indemnity payments would then begin for each unit at a rate of 80% of the foregoing. This replacement power insurance would fund a claim paid to any member of the industry-owned mutual insurance company through insurance company reserves and an after-loss assessment of each member. The contingent liability to the Company for these after-loss assessments currently is $9.7 million in any one policy year.

The Company does not consider the amounts of insurance discussed above to be adequate to cover the costs that could result from a major incident or an extended outage at either of the Calvert Cliffs units; however, the insurance described above is the only insurance currently available to cover such public liability, property damage, and replacement energy costs. As additional amounts of insurance become available, the Company will consider increasing its insurance limit after evaluating the economic justification for such increase. The Company would seek to have any unrecovered costs included in its service rates, but the Company cannot assure that the Public Service Commission of Maryland (Maryland Commission) would allow such recovery.

Recoverability of Electric Fuel Costs

By statute, actual electric fuel costs are recoverable so long as the Maryland Commission finds that the Company demonstrates that, among other things, it has maintained the productive capacity of its generating plants at a reasonable level. The Maryland Commission and Maryland's highest appellate court have interpreted this as permitting a subjective evaluation of each unplanned outage at the Company's generating plants to determine whether or not the Company had implemented all reasonable and cost effective maintenance and operating control procedures appropriate for preventing the outage. The Company is periodically involved in fuel rate proceedings and issues concerning individual plant outages are usually raised in those proceedings. The Company cannot estimate the amount of replacement energy costs that could be denied in those proceedings, but such amounts could be material.

NOTE 13. SEGMENT INFORMATION

	1987	1986	1985
		(In Thousands)	
ELECTRIC			
Operating Revenues	**$1,393,735**	$1,388,251	$1,301,463
Operating Income before Income Taxes	**453,739**	445,698	432,540
Operating Income	**326,658**	305,011	291,849
Depreciation	**118,081**	113,365	111,365
Construction Expenditures	**230,067**	230,513	204,180
Identifiable Assets at December 31	**3,498,032**	3,371,785	3,264,559
GAS			
Operating Revenues	**$ 415,456**	$ 445,769	$ 453,309
Operating Income before Income Taxes	**56,102**	42,827	48,274
Operating Income	**39,721**	29,552	32,393
Depreciation	**14,251**	13,909	13,596
Construction Expenditures	**24,463**	23,629	21,590
Identifiable Assets at December 31	**346,681**	345,145	343,556
TOTAL			
Operating Revenues	**$1,809,191**	$1,834,020	$1,754,772
Operating Income before Income Taxes	**509,841**	488,525	480,814
Operating Income	**366,379**	334,563	324,242
Depreciation	**132,332**	127,274	124,961
Construction Expenditures	**254,530**	254,142	225,771*
Identifiable Assets at December 31	**3,844,713**	3,716,930	3,608,115
Other Assets	**665,279**	653,498	575,293
Total Assets	**4,509,992**	4,370,428	4,183,408

*Includes steam

NOTE 14. QUARTERLY FINANCIAL DATA (UNAUDITED)

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

The business of the Company 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	Operating Revenues	Operating Income Plus AFC*	Net Income	Earnings Applicable to Common Stock	Earnings Per Share of Common Stock
	(In Thousands, Except Per Share Amounts)				
March 31, 1987	**$ 522,544**	**$ 98,171**	**$ 73,580**	**$ 68,304**	**$ .87**
June 30, 1987	**391,599**	**76,032**	**51,657**	**47,002**	**.60**
September 30, 1987	**506,579**	**150,047**	**126,157**	**116,502**	**1.48**
December 31, 1987	**388,469**	**73,068**	**48,704**	**41,884**	**.53**
	$1,809,191	**$397,318**	**$300,098**	**$273,692**	**$3.47**
March 31, 1986	$ 532,968	$ 98,092	$ 71,973	$ 65,287	$ .83
June 30, 1986	395,001	77,245	52,102	45,416	.58
September 30, 1986	488,018	125,605	102,551	95,866	1.22
December 31, 1986	418,033	64,074	47,993	41,174	.52
	$ 1,834,020	$ 365,016	$ 274,619	$ 247,743	$ 3.15

*The Allowance for Funds Used During Construction (for Borrowed Funds and Other Funds) is added to Operating Income in determining operating income for ratemaking purposes.

Constellation Holdings, Inc.
Christian H. Poindexter, *President and Chief Executive Officer*
301-783-2803

Constellation Properties, Inc.
G. Wendel Heineman, *President*
301-783-2827

Constellation Development, Inc.
Constellation Operating Services, Inc.
Constellation Water Systems, Inc.
Bruce M. Ambler, *President*
301-783-2805

Constellation Investments, Inc.
Steven D. Kesler, *President*
301-783-2831

250 West Pratt Street
Baltimore, Maryland 21201-2423

left to right, front row: Christian H. Poindexter, President and Chief Executive Officer—Constellation Holdings; F. Becki Kurdle, Vice President, Constellation Properties.
back row: Henry A. Jurand, Vice President and Chief Financial Officer, Constellation Holdings; Steven D. Kesler, President, Constellation Investments; Paul H. Steinbach (deceased), President, Constellation Operating Services; G. Wendel Heineman, President, Constellation Properties; Bruce M. Ambler, President, Constellation Development.

Mr. Paul H. Steinbach passed away suddenly on December 18, 1987. He joined Constellation Operating Services in April 1987 after 39 years with Baltimore Gas and Electric Company. His contribution will be missed.

Constellation Holdings, the parent company of Constellation Properties, Constellation Development, Constellation Operating Services, Constellation Water Systems and Constellation Investments, is a wholly owned subsidiary of Baltimore Gas and Electric Company.

Constellation Holdings

This company provides direction to all of the operating subsidiaries and furnishes them with planning, legal, financing and accounting services. In addition, the search and screening for new investment and acquisition opportunities is controlled from Constellation Holdings.

Constellation Properties

This member of the group is the focus of Constellation's activity in the real estate marketplace. Current projects include industrial parks, office buildings, retail and residential development. In addition, the company has a significant investment in the senior living industry. Joint ventures with other regional and national developers are the dominant business structure.

Constellation Development

This is the senior member of our Energy and Environmental Group. Under the auspices of Constellation Development, we participate in a number of qualified alternative energy and cogeneration projects producing electricity for sale to other utilities. *Constellation Operating Services* is the group member which handles our plant operating and maintenance activities. Rounding out the group is *Constellation Water Systems* from which we manage our activities in water and wastewater projects.

Constellation Investments

The largest single company at this time, Constellation Investments is the funding source for the other activities as well as a permanent provider of current income from its assets in various securities, investment partnerships and operating financial service companies.

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

Edward A. Crooke
President and Chief Operating Officer-Utility Operations

Thomas F. Brady
Vice President, Accounting and Economics

Michael J. Chesser
Vice President, Consumer Services

Herbert D. Coss, Jr.
Vice President, General Services

George D. England
Vice President, Distribution

Jon M. Files
Vice President, Management and Staff Services

John W. Gore, Jr.
Vice President, Electric Interconnection and Operations

Arthur E. Lundvall, Jr.
Vice President, Fossil Energy

Joseph A. Tiernan
Vice President, Nuclear Energy

Charles W. Shivery
Treasurer and Secretary

Jeffrey L. Davis
Assistant Secretary

Thomas E. Ruszin, Jr.
Assistant Treasurer

left to right: Mr. England, Mr. Gore, Mr. Files, Mr. Brady, Mr. McGowan

left to right: Mr. Coss, Mr. Chesser, Mr. Tiernan, Mr. Crooke, Mr. Lundvall

CHANGES IN DIRECTORS AND OFFICERS

Effective April 1, 1987, Michael J. Chesser, formerly Manager, Southern Distribution, became Vice President-Consumer Services succeeding Raymond C. Bryant who retired on that date.

Effective July 1, 1987, George D. England, formerly Manager, Northern Distribution, became Vice President-Distribution succeeding Henry H. Miller who retired on that date.

Effective January 1, 1988, George V. McGowan, formerly President and Chief Operating Officer, became Chairman of the Board and Chief Executive Officer succeeding Bernard C. Trueschler who retired on that date. Mr. Trueschler will continue as Chairman of the Executive Committee of the Board of Directors of the Company.

Effective January 1, 1988, Edward A. Crooke, formerly Vice President-Finance and Accounting and Secretary, became President and Chief Operating Officer-Utility Operations succeeding Mr. McGowan.

In addition, Mr. Crooke and Christian H. Poindexter, President and Chief Executive Officer-Constellation Holdings, Inc., were elected to the Baltimore Gas and Electric Company Board of Directors.

Effective January 1, 1988, Thomas F. Brady, formerly Manager, Accounting, became Vice President of the restructured Accounting and Economics Division.

Effective January 1, 1988, Charles W. Shivery became Secretary in addition to retaining his duties as Treasurer and Manager, Finance.

Also effective January 1, 1988, Jeffrey L. Davis became Assistant Secretary and Thomas E. Ruszin, Jr., became Assistant Treasurer.

The Board also elected George C. Creel, Vice President-Fossil Energy effective March 1, 1988, replacing Arthur E. Lundvall, Jr., who will retire on that date. Mr. Creel was formerly Manager, Fossil Operations.

During the year, Charles S. Sanford, Jr., resigned as a Director of the Company in order to meet his increased responsibilities at the Bankers Trust New York Corporation.

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

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

Edward A. Crooke
President and Chief Operating Officer-Utility Operations of the Company, Baltimore

Leslie B. Disharoon
Chairman of the Board and President, Monumental Corporation, Baltimore (Insurance)

Sister Kathleen Feeley, S.S.N.D.
President, College of Notre Dame of Maryland, Baltimore (Education)

Jerome W. Geckle
Chairman of the Board and Chief Executive Officer, PHH Group, Inc., Baltimore (Relocation, Vehicle, Aviation, and Office Resource Services)

Willard Hackerman
President and Chief Executive Officer, The Whiting-Turner Contracting Company, Baltimore (Construction and Construction Management)

Paul G. Miller
Chairman of the Board, Supercomputer Systems, Inc., Laurel, Maryland (Computer Systems and Software Packages)

Christian H. Poindexter
President and Chief Executive Officer-Constellation Holdings, Inc., Baltimore (BG&E Subsidiary)

George G. Radcliffe
Chairman of the Board and Chief Executive Officer, The Baltimore Life Insurance Company, Baltimore (Insurance)

Dr. John B. Slaughter
Chancellor, University of Maryland at College Park, College Park, Maryland (Education)

Bernard C. Trueschler
Chairman of the Executive Committee of the Company, Baltimore

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

COMMITTEES OF THE BOARD

Audit Committee
Mr. Radcliffe, Chairman
Mr. Cole
Mr. Miller

Committee on Management
Mr. Geckle, Chairman
Mr. Cole
Mr. Disharoon
Mr. Trueschler

Executive Committee
Mr. Trueschler, Chairman
Mr. Crooke
Mr. Disharoon
Sister Feeley
Mr. McGowan
Mr. Radcliffe
Mr. Wells

Committee on Nuclear Power
Mr. Wells, Chairman
Sister Feeley
Mr. Hackerman
Mr. Poindexter
Dr. Slaughter

COMMON STOCK DIVIDENDS AND PRICE RANGES

	1987			1986		
	Dividend Declared	Price High	Price Low	Dividend Declared	Price High	Price Low
First Quarter	$ .45	$37⅞	$30⅜	$ .425	$28¼	$23
Second Quarter	.475	32⅝	26¾	.45	33⅛	25¾
Third Quarter	.475	33⅞	30	.45	39⅞	29⅞
Fourth Quarter	.475	34	19	.45	36½	32¾
Total	$1.875			$1.775		

DIVIDEND POLICY

The Common Stock is entitled to dividends when and as declared by the Board of Directors. There are no limitations in any indenture or other agreements on payment of dividends; however, holders of Preferred Stock (first) and holders of Preference Stock (next) are entitled to receive, when and as declared, from the surplus or net profits, cumulative yearly dividends at the fixed preferential rate specified for each series and no more, payable quarterly, and to receive when due the applicable preference stock redemption payments, before any dividend on the Common Stock shall be paid or set apart.

Dividends have been paid on the Common Stock continuously since 1910. Future dividends depend upon future earnings, the financial condition of the Company, and other factors. Quarterly dividends were declared on the Common Stock during 1987 and 1986 in the amounts set forth above.

COMMON STOCK DIVIDEND DATES

Record dates are normally on or about 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 not exceeding $6,000 per quarter.

STOCK TRADING

The Company's Common Stock, which is traded under the ticker symbol BGE, is listed on the New York, Midwest, and Pacific stock exchanges, and has unlisted trading privileges on the Boston, Cincinnati, and Philadelphia exchanges.

As of December 31, 1987, there were 75,682 Common Stockholders of record.

TRANSFER AGENT AND REGISTRAR

Maryland National Bank, Baltimore

ANNUAL MEETING

The annual meeting of shareholders will be held at 10:00 a.m. on April 20, 1988, in the Hunt Valley Ballroom of Marriott's Hunt Valley Inn, 245 Shawan Road (I-83 at Shawan Road), Hunt Valley, Maryland.

FORM 10-K

Upon written request, the Company will furnish, without charge, a copy of its Form 10-K annual report, including financial statements, after it is filed with the Securities and Exchange Commission in March 1988. Requests should be addressed to Charles W. Shivery, Treasurer and Secretary, P.O. Box 1475, Baltimore, Maryland 21203.

AUDITORS

Coopers & Lybrand

EXECUTIVE OFFICES

Gas and Electric Building
Charles Center
Baltimore, Maryland 21201

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

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 Investor Services Representatives on our toll-free telephone numbers.

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

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

Written communication should be addressed to:
Baltimore Gas and Electric Company
Investor Services
P.O. Box 1475
Baltimore, Maryland 21203

BALTIMORE
GAS AND
ELECTRIC

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