

CONSTELLATION ENERGY GROUP INC  
Form 10-Q  
August 08, 2007

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

For The Quarterly Period Ended **June 30, 2007**

Commission  
File Number  
**1-12869**  
**1-1910**

Exact name of registrant as specified in its charter

**CONSTELLATION ENERGY GROUP, INC.  
BALTIMORE GAS AND ELECTRIC COMPANY**

IRS Employer  
Identification No.  
**52-1964611**  
**52-0280210**

**MARYLAND**

(State of Incorporation of both registrants)

**750 E. PRATT STREET, BALTIMORE, MARYLAND 21202**

(Address of principal executive offices) (Zip Code)

**410-783-2800**

(Registrants telephone number, including area code)

**NOT APPLICABLE**

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) have been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether Constellation Energy Group, Inc. is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether Baltimore Gas and Electric Company is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether Constellation Energy Group, Inc. is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes  No

Indicate by check mark whether Baltimore Gas and Electric Company is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes  No

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**Common Stock, without par value 180,493,614 shares outstanding of  
Constellation Energy Group, Inc. on July 31, 2007.**

Baltimore Gas and Electric Company meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this form in the reduced disclosure format.

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## TABLE OF CONTENTS

	Page
<b>Part I Financial Information</b>	
<b>Item 1 Financial Statements</b>	
<i>Constellation Energy Group, Inc. and Subsidiaries</i>	
<u>Consolidated Statements of Income</u>	3
<u>Consolidated Statements of Comprehensive Income</u>	3
<u>Consolidated Balance Sheets</u>	4
<u>Consolidated Statements of Cash Flows</u>	6
<i>Baltimore Gas and Electric Company and Subsidiaries</i>	
<u>Consolidated Statements of Income</u>	7
<u>Consolidated Balance Sheets</u>	8
<u>Consolidated Statements of Cash Flows</u>	10
<u>Notes to Consolidated Financial Statements</u>	11
<b>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</b>	
<u>Introduction and Overview</u>	24
<u>Business Environment</u>	24
<u>Events of 2007</u>	25
<u>Results of Operations</u>	27
<u>Financial Condition</u>	41
<u>Capital Resources</u>	43
<b>Item 3 Quantitative and Qualitative Disclosures About Market Risk</b>	48
<b>Item 4 Controls and Procedures</b>	48
<b>Part II Other Information</b>	
<b>Item 1 Legal Proceedings</b>	49
<b>Item 1A Risk Factors</b>	49
<b>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</b>	49
<b>Item 4 Submission of Matters to Vote of Security Holders</b>	49
<b>Item 5 Other Information</b>	50
<b>Item 6 Exhibits</b>	51
<b>Signature</b>	52

## PART 1 FINANCIAL INFORMATION

## Item 1 Financial Statements

## Constellation Energy Group, Inc. and Subsidiaries

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
	(In millions, except per share amounts)			
<b>Revenues</b>				
Nonregulated revenues	\$ 4,116.8	\$ 3,738.3	\$ 8,255.0	\$ 7,675.2
Regulated electric revenues	544.3	498.7	1,059.1	1,002.7
Regulated gas revenues	159.1	141.8	561.6	560.1
Total revenues	4,820.2	4,378.8	9,875.7	9,238.0
<b>Expenses</b>				
Fuel and purchased energy expenses	3,829.1	3,396.2	7,790.2	7,319.3
Operating expenses	580.4	575.7	1,149.1	1,083.4
Impairment losses and other costs	20.2		20.2	
Workforce reduction costs	2.3		2.3	2.2
Merger-related costs		7.1		9.0
Depreciation, depletion, and amortization	142.8	133.3	275.2	263.5
Accretion of asset retirement obligations	18.2	16.7	35.9	33.2
Taxes other than income taxes	72.8	71.5	146.0	145.1
Total expenses	4,665.8	4,200.5	9,418.9	8,855.7
<b>Income from Operations</b>	154.4	178.3	456.8	382.3
<b>Gains on Sale of CEP LLC Equity</b>	12.9		12.9	
<b>Other Income</b>	45.2	14.3	87.6	29.1
<b>Fixed Charges</b>				
Interest expense	71.1	79.3	151.4	156.3
Interest capitalized and allowance for borrowed funds used during construction	(4.5 )	(3.8 )	(8.4 )	(6.5 )
BGE preference stock dividends	3.3	3.3	6.6	6.6
Total fixed charges	69.9	78.8	149.6	156.4
<b>Income from Continuing Operations Before Income Taxes</b>	142.6	113.8	407.7	255.0
<b>Income Tax Expense</b>	26.3	39.8	94.1	79.4
<b>Income from Continuing Operations</b>	116.3	74.0	313.6	175.6
Income (loss) from discontinued operations, net of income taxes of \$9.7, \$0.8, and \$16.7, respectively		19.1	(1.6 )	31.4
<b>Net Income</b>	\$ 116.3	\$ 93.1	\$ 312.0	\$ 207.0
<b>Earnings Applicable to Common Stock</b>	\$ 116.3	\$ 93.1	\$ 312.0	\$ 207.0
<b>Average Shares of Common Stock Outstanding Basic</b>	180.3	179.1	180.5	178.8
<b>Average Shares of Common Stock Outstanding Diluted</b>	182.7	180.7	182.8	180.6
<b>Earnings Per Common Share from Continuing Operations Basic</b>	\$ 0.65	\$ 0.41	\$ 1.74	\$ 0.98
Income (loss) from discontinued operations		0.11	(0.01 )	0.18
<b>Earnings Per Common Share Basic</b>	\$ 0.65	\$ 0.52	\$ 1.73	\$ 1.16
<b>Earnings Per Common Share from Continuing Operations Diluted</b>	\$ 0.64	\$ 0.41	\$ 1.72	\$ 0.97
Income (loss) from discontinued operations		0.11	(0.01 )	0.18
<b>Earnings Per Common Share Diluted</b>	\$ 0.64	\$ 0.52	\$ 1.71	\$ 1.15
<b>Dividends Declared Per Common Share</b>	\$ 0.435	\$ 0.3775	\$ 0.87	\$ 0.755

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
	(In millions)			
<b>Net Income</b>	\$ 116.3	\$ 93.1	\$ 312.0	\$ 207.0
Other comprehensive (loss) income (OCI)				
Hedging instruments:				
Reclassification of net loss on hedging instruments from OCI to net income, net of taxes	158.9	133.1	558.3	214.1
Net unrealized loss on hedging instruments, net of taxes	(448.7 )	(294.0 )	(138.4 )	(1,049.0 )
Available-for-sale securities:				
Reclassification of net gain on sales of securities from OCI to net income, net of taxes	(1.9 )		(2.8 )	(0.3 )

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Net unrealized gain (loss) on securities, net of taxes	33.2	(8.5 )	13.7	3.3
<b>Defined benefit obligations:</b>				
Amortization of net actuarial loss, prior service cost, and transition obligation included in net periodic benefit cost, net of taxes	6.2		12.5	
Net unrealized gain on foreign currency, net of taxes	2.8	1.1	3.1	1.1
<b>Comprehensive (Loss) Income</b>	<b>\$ (133.2 )</b>	<b>\$ (75.2 )</b>	<b>\$ 758.4</b>	<b>\$ (623.8 )</b>

*See Notes to Consolidated Financial Statements.*

*Certain prior-period amounts have been reclassified to conform with the current period's presentation.*

3

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## Constellation Energy Group, Inc. and Subsidiaries

June 30,  
2007\*  
  
December 31,  
2006  
*(In millions)*

<b>Assets</b>	June 30, 2007*	December 31, 2006 <i>(In millions)</i>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,968.0	\$ 2,289.1
Accounts receivable (net of allowance for uncollectibles of \$48.3 and \$48.9, respectively)	3,411.5	3,248.3
Fuel stocks	449.2	599.5
Materials and supplies	208.2	200.2
Mark-to-market energy assets	953.5	1,294.8
Risk management assets	189.9	261.7
Unamortized energy contract assets	62.3	35.2
Deferred income taxes	261.8	674.3
Other	483.5	497.0
Total current assets	7,987.9	9,100.1
<b>Investments and Other Assets</b>		
Nuclear decommissioning trust funds	1,330.9	1,240.1
Other investments	389.6	308.6
Regulatory assets (net)	627.0	389.0
Goodwill	157.7	157.6
Mark-to-market energy assets	755.8	623.4
Risk management assets	439.1	325.7
Unamortized energy contract assets	185.5	123.6
Other	317.5	311.4
Total investments and other assets	4,203.1	3,479.4
<b>Property, Plant and Equipment</b>		
Nonregulated property, plant and equipment	7,924.2	7,587.6
Regulated property, plant and equipment	5,893.4	5,752.9
Nuclear fuel (net of amortization)	329.2	339.9
Accumulated depreciation	(4,620.2 )	(4,458.3 )
Net property, plant and equipment	9,526.6	9,222.1
<b>Total Assets</b>	<b>\$ 21,717.6</b>	<b>\$ 21,801.6</b>

\* Unaudited

See Notes to Consolidated Financial Statements.

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Constellation Energy Group, Inc. and Subsidiaries

June 30,  
2007\*  
  
December 31,  
2006  
*(In millions)*

	June 30, 2007*	December 31, 2006 <i>(In millions)</i>
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Current portion of long-term debt	\$ 303.4	\$ 878.8
Accounts payable and accrued liabilities	2,278.1	2,137.2
Customer deposits and collateral	494.7	347.2
Mark-to-market energy liabilities	728.6	1,071.7
Risk management liabilities	815.7	1,340.0
Unamortized energy contract liabilities	456.7	378.3
Accrued expenses and other	629.6	969.5
Total current liabilities	5,706.8	7,122.7
<b>Deferred Credits and Other Liabilities</b>		
Deferred income taxes	1,359.8	1,435.8
Asset retirement obligations	1,007.8	974.8
Mark-to-market energy liabilities	448.2	392.4
Risk management liabilities	711.7	707.3
Unamortized energy contract liabilities	1,408.5	958.0
Defined benefit obligations	834.3	928.3
Deferred investment tax credits	53.8	57.2
Other	148.2	109.0
Total deferred credits and other liabilities	5,972.3	5,562.8
<b>Long-term Debt</b>		
Long-term debt of Constellation Energy	2,433.7	3,042.9
Long-term debt of nonregulated businesses	325.3	347.4
Rate stabilization bonds of BGE	623.2	
First refunding mortgage bonds of BGE	123.1	244.5
Other long-term debt of BGE	1,214.5	1,214.5
6.20% deferrable interest subordinated debentures due October 15, 2043 to BGE wholly owned BGE Capital Trust II relating to trust preferred securities	257.7	257.7
Unamortized discount and premium	(5.3 )	(5.9 )
Current portion of long-term debt	(303.4 )	(878.8 )
Total long-term debt	4,668.8	4,222.3
<b>Minority Interests</b>		
BGE Preference Stock Not Subject to Mandatory Redemption	190.0	190.0
<b>Common Shareholders' Equity</b>		
Common stock	2,723.0	2,738.6
Retained earnings	3,593.2	3,474.3
Accumulated other comprehensive loss	(1,157.2 )	(1,603.6 )
Total common shareholders' equity	5,159.0	4,609.3
<b>Commitments, Guarantees, and Contingencies (see Notes)</b>		
<b>Total Liabilities and Equity</b>	<b>\$ 21,717.6</b>	<b>\$ 21,801.6</b>

\* Unaudited

See Notes to Consolidated Financial Statements.

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Constellation Energy Group, Inc. and Subsidiaries

Six Months Ended June 30,	2007	2006
	(In millions)	
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 312.0	\$ 207.0
Adjustments to reconcile to net cash provided by (used in) operating activities		
Gain on sales of discontinued operations		(0.9 )
Depreciation, depletion, and amortization	239.5	287.5
Accretion of asset retirement obligations	35.9	33.2
Deferred income taxes	60.2	(26.9 )
Investment tax credit adjustments	(3.4 )	(3.5 )
Deferred fuel costs	(260.5 )	17.8
Defined benefit obligation expense	73.1	64.7
Defined benefit obligation payments	(146.5 )	(69.7 )
Workforce reduction costs	2.3	2.2
Impairment losses and other costs	20.2	
Gains on sale of CEP LLC equity	(12.9 )	
Equity in earnings of affiliates less than dividends received	33.4	16.1
Proceeds from derivative power sales contracts classified as financing activities under SFAS No. 149	(3.8 )	(44.1 )
Changes in		
Accounts receivable	10.8	38.2
Mark-to-market energy assets and liabilities	0.4	(181.7 )
Risk management assets and liabilities	16.8	1.3
Materials, supplies, and fuel stocks	72.7	(188.2 )
Other current assets	11.4	11.6
Accounts payable and accrued liabilities	133.3	(303.0 )
Other current liabilities	(179.3 )	(286.8 )
Other	(5.5 )	5.9
Net cash provided by (used in) operating activities	410.1	(419.3 )
<b>Cash Flows From Investing Activities</b>		
Investments in property, plant and equipment	(564.1 )	(414.4 )
Acquisitions, net of cash acquired	(250.6 )	(126.2 )
Investments in nuclear decommissioning trust fund securities	(352.7 )	(236.2 )
Proceeds from nuclear decommissioning trust fund securities	343.9	227.4
Sales of investments and other assets	4.7	43.1
Contract and portfolio acquisitions	(474.2 )	(2.3 )
Other	(0.6 )	8.3
Net cash used in investing activities	(1,293.6 )	(500.3 )
<b>Cash Flows From Financing Activities</b>		
Net issuance of short-term borrowings		154.3
Proceeds from issuance of		
Common stock	39.2	40.8
Long-term debt	643.2	122.0
Repayment of long-term debt	(731.7 )	(123.0 )
Common stock dividends paid	(147.6 )	(127.7 )
Reacquisition of common stock	(114.4 )	
Proceeds from contract and portfolio acquisitions	847.8	221.3
Proceeds from derivative power sales contracts classified as financing activities under SFAS No. 149	3.8	44.1
Other	22.1	2.9
Net cash provided by financing activities	562.4	334.7
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(321.1 )</b>	<b>(584.9 )</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>2,289.1</b>	<b>813.0</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 1,968.0</b>	<b>\$ 228.1</b>

See Notes to Consolidated Financial Statements.



*Certain prior-period amounts have been reclassified to conform with the current period's presentation.*

6

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*Baltimore Gas and Electric Company and Subsidiaries*

	<i>Three Months Ended</i>		<i>Six Months Ended</i>	
	<i>June 30,</i>		<i>June 30,</i>	
	2007	2006	2007	2006
	<i>(In millions)</i>			
<b>Revenues</b>				
Electric revenues	\$ 544.3	\$ 498.7	\$ 1,059.1	\$ 1,002.7
Gas revenues	162.8	143.6	570.1	563.8
Total revenues	707.1	642.3	1,629.2	1,566.5
<b>Expenses</b>				
Operating expenses				
Electricity purchased for resale	320.9	279.8	595.1	542.7
Gas purchased for resale	102.9	83.8	387.0	382.2
Operations and maintenance	131.3	120.3	254.4	240.3
Merger-related costs		1.9		2.5
Depreciation and amortization	58.5	57.2	117.4	114.9
Taxes other than income taxes	43.0	40.8	88.8	84.3
Total expenses	656.6	583.8	1,442.7	1,366.9
<b>Income from Operations</b>	<b>50.5</b>	<b>58.5</b>	<b>186.5</b>	<b>199.6</b>
<b>Other Income</b>	<b>5.4</b>	<b>0.9</b>	<b>10.0</b>	<b>1.0</b>
<b>Fixed Charges</b>				
Interest expense	29.1	24.3	57.1	48.5
Allowance for borrowed funds used during construction	(0.7 )	(0.5 )	(1.1 )	(0.9 )
Total fixed charges	28.4	23.8	56.0	47.6
<b>Income Before Income Taxes</b>	<b>27.5</b>	<b>35.6</b>	<b>140.5</b>	<b>153.0</b>
<b>Income Taxes</b>	<b>10.6</b>	<b>13.9</b>	<b>54.3</b>	<b>59.6</b>
<b>Net Income</b>	<b>16.9</b>	<b>21.7</b>	<b>86.2</b>	<b>93.4</b>
<b>Preference Stock Dividends</b>	<b>3.3</b>	<b>3.3</b>	<b>6.6</b>	<b>6.6</b>
<b>Earnings Applicable to Common Stock</b>	<b>\$ 13.6</b>	<b>\$ 18.4</b>	<b>\$ 79.6</b>	<b>\$ 86.8</b>

*See Notes to Consolidated Financial Statements.*

*Baltimore Gas and Electric Company and Subsidiaries*

	<i>June 30, 2007*</i>	<i>December 31, 2006</i>
	<i>(In millions)</i>	
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 634.7	\$ 10.9
Accounts receivable (net of allowance for uncollectibles of \$16.1 and \$16.1, respectively)	410.0	344.7
Investment in cash pool, affiliated company		60.6
Accounts receivable, affiliated companies	2.2	2.5
Fuel stocks	77.6	110.9
Materials and supplies	45.6	40.2
Prepaid taxes other than income taxes	0.3	48.0
Regulatory assets, net	61.4	62.5
Other	18.8	35.2
Total current assets	1,250.6	715.5
<b>Investments and Other Assets</b>		
Regulatory assets (net)	627.0	389.0
Receivable, affiliated company	166.0	150.5
Other	139.5	127.5
Total investments and other assets	932.5	667.0
<b>Utility Plant</b>		
Plant in service		
Electric	4,138.4	4,060.2
Gas	1,165.1	1,148.3
Common	444.1	444.6
Total plant in service	5,747.6	5,653.1
Accumulated depreciation	(2,042.6 )	(1,994.7 )
Net plant in service	3,705.0	3,658.4
Construction work in progress	143.4	97.1
Plant held for future use	2.4	2.7
Net utility plant	3,850.8	3,758.2
<b>Total Assets</b>	<b>\$ 6,033.9</b>	<b>\$ 5,140.7</b>

\* Unaudited

See Notes to Consolidated Financial Statements.

## Baltimore Gas and Electric Company and Subsidiaries

	June 30, 2007 *		December 31, 2006
	(In millions)		
<b>Liabilities and Equity</b>			
<b>Current Liabilities</b>			
Current portion of long-term debt	\$ 287.9		\$ 258.3
Accounts payable and accrued liabilities	159.4		187.3
Accounts payable and accrued liabilities, affiliated companies	155.0		163.4
Borrowing from cash pool, affiliated company	270.8		
Customer deposits	72.1		71.4
Deferred income taxes	38.2		47.4
Accrued expenses and other	102.1		98.3
Total current liabilities	1,085.5		826.1
<b>Deferred Credits and Other Liabilities</b>			
Deferred income taxes	778.3		697.7
Payable, affiliated company	248.7		250.7
Deferred investment tax credits	12.7		13.5
Other	18.5		14.0
Total deferred credits and other liabilities	1,058.2		975.9
<b>Long-term Debt</b>			
Rate stabilization bonds	623.2		
First refunding mortgage bonds	123.1		244.5
Other long-term debt	1,214.5		1,214.5
6.20% deferrable interest subordinated debentures due October 15, 2043 to wholly owned BGE Capital Trust II relating to trust preferred securities	257.7		257.7
Long-term debt of nonregulated businesses	25.0		25.0
Unamortized discount and premium	(2.7)	)	(2.9)
Current portion of long-term debt	(287.9)	)	(258.3)
Total long-term debt	1,952.9		1,480.5
<b>Minority Interest</b>	16.7		16.7
<b>Preference Stock Not Subject to Mandatory Redemption</b>	190.0		190.0
<b>Common Shareholder s Equity</b>			
Common stock	912.2		912.2
Retained earnings	817.7		738.6
Accumulated other comprehensive income	0.7		0.7
Total common shareholder s equity	1,730.6		1,651.5
<b>Commitments, Guarantees, and Contingencies (see Notes)</b>			
<b>Total Liabilities and Equity</b>	\$ 6,033.9		\$ 5,140.7

\* Unaudited

See Notes to Consolidated Financial Statements.

*Baltimore Gas and Electric Company and Subsidiaries*

<b>Six Months Ended June 30,</b>	<b>2007</b>	<b>2006</b>
	<i>(In millions)</i>	
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 86.2	\$ 93.4
Adjustments to reconcile to net cash (used in) provided by operating activities		
Depreciation and amortization	123.7	121.9
Deferred income taxes	87.3	(15.5 )
Investment tax credit adjustments	(0.8 )	(0.8 )
Deferred fuel costs	(260.5 )	17.8
Defined benefit plan expenses	20.3	22.6
Allowance for equity funds used during construction	(2.1 )	(1.6 )
Changes in		
Accounts receivable	(65.3 )	161.4
Accounts receivable, affiliated companies	0.3	0.1
Materials, supplies, and fuel stocks	27.9	25.3
Other current assets	64.1	46.3
Accounts payable and accrued liabilities	(27.9 )	(83.9 )
Accounts payable and accrued liabilities, affiliated companies	(8.5 )	60.2
Other current liabilities	(29.5 )	52.4
Long-term receivables and payables, affiliated companies	(37.8 )	(37.2 )
Other	(1.6 )	5.2
Net cash (used in) provided by operating activities	(24.2 )	467.6
<b>Cash Flows From Investing Activities</b>		
Utility construction expenditures (excluding equity portion of allowance for funds used during construction)	(175.5 )	(147.5 )
Change in cash pool at parent	331.4	(241.7 )
Other	(3.1 )	10.3
Net cash provided by (used in) investing activities	152.8	(378.9 )
<b>Cash Flows From Financing Activities</b>		
Proceeds from issuance of long-term debt	623.2	
Repayment of long-term debt	(121.4 )	(25.0 )
Preference stock dividends paid	(6.6 )	(6.6 )
Distribution to parent		(59.8 )
Net cash provided by (used in) financing activities	495.2	(91.4 )
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>623.8</b>	<b>(2.7 )</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>10.9</b>	<b>15.1</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 634.7</b>	<b>\$ 12.4</b>

*See Notes to Consolidated Financial Statements.*

*Certain prior-period amounts have been reclassified to conform with the current period's presentation.*



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Various factors can have a significant impact on our results for interim periods. This means that the results for this quarter are not necessarily indicative of future quarters or full year results given the seasonality of our business.

Our interim financial statements on the previous pages reflect all adjustments that management believes are necessary for the fair statement of the results of operations for the interim periods presented. These adjustments are of a normal recurring nature.

### Basis of Presentation

This Quarterly Report on Form 10-Q is a combined report of Constellation Energy Group, Inc. (Constellation Energy) and Baltimore Gas and Electric Company (BGE). References in this report to we and our are to Constellation Energy and its subsidiaries, collectively. References in this report to the regulated business(es) are to BGE.

### Variable Interest Entities

We have a significant interest in the following variable interest entities (VIE) for which we are not the primary beneficiary:

VIE	Nature of Involvement	Date of Involvement
Power projects	Equity investment and guarantees	Prior to 2003
Power contract monetization entities	Power sale agreements, loans, and guarantees	March 2005
Oil and gas fields	Equity investment	May 2006
Retail power supply	Power sale agreement	September 2006

We discuss the nature of our involvement with the power contract monetization VIEs in detail in *Note 4* to our 2006 Annual Report on Form 10-K.

The following is summary information available as of June 30, 2007 about the VIEs in which we have a significant interest, but are not the primary beneficiary:

	Power Contract Monetization VIEs	All Other VIEs (In millions)	Total
Total assets	\$ 742.8	\$ 356.5	\$ 1,099.3
Total liabilities	589.2	151.6	740.8
Our ownership interest		49.4	49.4
Other ownership interests	153.6	155.5	309.1
Our maximum exposure to loss	62.6	97.9	160.5

The maximum exposure to loss represents the loss that we would incur in the unlikely event that our interests in all of these entities were to become worthless and we were required to fund the full amount of all guarantees associated with these entities. Our maximum exposure to loss as of June 30, 2007 consists of the following:

- ◆ outstanding receivables, loans and letters of credit totaling \$98.5 million,
- ◆ the carrying amount of our investment totaling \$49.3 million, and
- ◆ debt and performance guarantees totaling \$12.7 million.

We assess the risk of a loss equal to our maximum exposure to be remote.

*RSB BondCo LLC*

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In 2007, BGE formed RSB BondCo LLC (BondCo), a special purpose bankruptcy-remote limited liability company. In June 2007, BondCo purchased rate stabilization property from BGE, including the right to assess, collect, and receive non-bypassable rate stabilization charges payable by all residential electric customers of BGE. These charges are being assessed in order to recover previously incurred power purchase costs that BGE deferred pursuant to Senate Bill 1. We discuss Senate Bill 1 in more detail in our 2006 Annual Report on Form 10-K.

BGE has determined that BondCo is a variable interest entity for which it is also the primary beneficiary. As a result, BGE consolidated BondCo. We discuss the consolidation method of accounting in more detail in *Note 1* of our 2006 Annual Report on Form 10-K.

11

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### Discontinued Operations

In the fourth quarter of 2006, we completed the sale of six natural gas-fired plants. We recognized an after-tax loss of \$1.6 million as a component of *Income (loss) from discontinued operations* for the six months ended June 30, 2007 due to post-closing working capital adjustments. We discuss the details of the sale in *Note 2* of our 2006 Annual Report on Form 10-K.

### Impairment Losses and Other Costs

In connection with the termination of the merger agreement with FPL Group, Inc., we acquired certain rights relating to a wind development project in Western Maryland. In the second quarter of 2007, we elected not to make the additional investment that was required at that time to retain our rights in the project; therefore, we recorded a charge of \$20.2 million pre-tax to write-off our investment in these development rights.

### Workforce Reduction Costs

We incurred costs related to workforce reduction efforts initiated in 2006. We discuss these costs in more detail in *Note 2* of our 2006 Annual Report on Form 10-K.

The following table summarizes the status of the 2006 involuntary severance liability for Nine Mile Point and Calvert Cliffs at June 30, 2007:

	<i>(In millions)</i>
Initial severance liability balance	\$ 19.6
Amounts recorded as pension and postretirement liabilities	(7.3 )
Net cash severance liability	12.3
Cash severance payments	(8.6 )
Other	
Severance liability balance at June 30, 2007	\$ 3.7

In June 2007, we approved an additional restructuring of the workforce at our Nine Mile Point nuclear facility. We recognized costs of \$2.3 million pre-tax during the quarter ended June 30, 2007 related to the elimination of 23 positions associated with this restructuring.

### Earnings Per Share

Basic earnings per common share (EPS) is computed by dividing earnings applicable to common stock by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution of common stock equivalent shares that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

Our dilutive common stock equivalent shares consist of stock options and other stock-based compensation awards. The following table presents stock options that were not dilutive and were excluded from the computation of diluted EPS in each period, as well as the dilutive common stock equivalent shares:

	2007	Quarter Ended June 30, 2006	2007 <i>(In millions)</i>	Six Months Ended June 30, 2006
Non-dilutive stock options		2.2		2.0
Dilutive common stock equivalent shares	2.4	1.6	2.3	1.8

### Accretion of Asset Retirement Obligations

We discuss our asset retirement obligations in more detail in *Note 1* of our 2006 Annual Report on Form 10-K. The change in our *Asset retirement obligations liability* during 2007 was as follows:

	<i>(In millions)</i>
Liability at January 1, 2007	\$ 974.8
Accretion expense	35.9

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Liabilities incurred	
Liabilities settled	
Revisions to expected future cash flows	
Other	(2.9 )
Liability at June 30, 2007	\$ 1,007.8

Other represents Constellation Energy Partners LLC's (CEP) asset retirement obligation that is no longer included in our Consolidated Balance Sheets. We discuss the deconsolidation of CEP on the next page.

In 2007, we are performing site specific studies for all three of our nuclear facilities. We expect to complete these studies and adjust our nuclear decommissioning asset retirement obligations in the third quarter of 2007.

### Constellation Energy Partners LLC

In April 2007, CEP acquired 100% ownership of certain coalbed methane properties located in the Cherokee Basin in Kansas and Oklahoma. In anticipation of closing this acquisition and the related equity issuance, at March 31, 2007 we evaluated the probability of forecasted sales of natural gas from CEP's properties that previously had been hedged by our merchant energy business. As a result of the anticipated deconsolidation of CEP resulting from this equity issuance, which we discuss on the next page, we determined that the hedged forecasted sales were probable of not occurring. Therefore, we reclassified \$21.8 million pre-tax in previously deferred cash-flow hedge losses from

Accumulated other comprehensive loss to earnings during the first quarter of 2007.

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As a result of the April 2007 equity issuance by CEP, our ownership percentage in CEP fell below 50 percent. Therefore, during the second quarter of 2007, we deconsolidated CEP and began accounting for our investment using the equity method under Accounting Principles Board Opinion (APB) No. 18, *The Equity Method of Accounting for Investments in Common Stock*. We discuss the equity method of accounting in more detail in Note 1 of our 2006 Annual Report on Form 10-K.

The details of the April 2007 CEP equity issuance and subsequent equity sales, as well as the gains recognized by or expected to be recognized by us, are summarized below:

	Units Issued	Price/ Unit	Proceeds to CEP	Approximate pre-tax gain
	<i>(In millions, except price/unit)</i>			
<b>April 2007 Sale</b>				
Common units	2.2	\$ 26.12	\$ 58	\$ 12.5
Class E units 1	0.1	25.84	2	0.4
<b>July 2007 Sale</b>				
Common units	2.7	35.25	94	20.6
Class F units 2	3.4	34.43	116	13-18
<b>Pending sale</b>				
Common units <sup>3</sup>	2.5	42.50	105	14-20

1 The gain on Class E units was recognized upon conversion to common units in the quarter ended June 30, 2007.

2 The Class F units are expected to be converted to common units within 90 days after the closing of the July 2007 sale of common units. We expect to record the pre-tax gain upon conversion.

3 The sale of common units and recognition of gain is contingent upon CEP issuing these common units.

### Acquisitions

#### *Working Interests in Gas Producing Fields*

In the first quarter of 2007, we acquired working interests of 41% and 55% in two gas and oil producing properties in Oklahoma for \$212.0 million in cash, subject to closing adjustments. We purchased leases, producing wells, inventory, and related equipment. We have included the results of operations from these properties in our merchant energy business segment since the date of acquisition.

Our preliminary purchase price is allocated to the net assets acquired as follows:

*At March 23, 2007*

	<i>(In millions)</i>
Property, Plant and Equipment	
Inventory	\$ 0.2
Unproved property	7.3
Proved property	204.5
Net Assets Acquired	\$ 212.0

The purchase price is subject to closing adjustments, which could impact our purchase price allocation.

We believe that the pro-forma impact of the acquisition of these working interests would not have been material to our results of operations for the three months ended March 31, 2007 and for the quarter and six month periods ended June 30, 2006.

#### *Contract and Portfolio Acquisitions*

In June 2007, our wholesale marketing, risk management, and trading operation closed a transaction for the purchase of a portfolio of power-related contracts in the southeast region of the United States. Under this transaction, we assumed several full-requirements fixed-price power sales agreements with peak demand totaling more than 3,000 megawatts, and several long-term tolling agreements. The power sales and

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tolling agreements terminate at various dates through 2015. In addition, we also assumed various power and natural gas hedges.

The market price was different than the contract prices at closing. As a result, each contract was evaluated to determine whether the fair value of the contract price was above- or below-market at the time of closing. We recorded the fair value of each contract as an asset if the fair value was above-market (in-the-money) and as a liability if the contract was below-market (out-of-the-money).

The table below summarizes the transaction and the net cash received at closing:

	<i>(In millions)</i>
Contracts out-of-the-money at closing	\$ 820.8
Contracts in-the-money at closing	(474.2 )
Net cash received at closing	\$ 346.6

We recorded this transaction in our financial statements as follows:

	Balance Sheet	Cash Flows
Acquisition of out-of-the-money contracts	Unamortized energy contract liabilities and risk management liabilities	Financing cash inflow
Acquisition of in-the-money contracts	Unamortized energy contract assets, mark-to-market energy assets, risk management assets, and accounts receivable	Investing cash outflow

We recorded the acquisition of contracts out-of-the-money at closing as a financing cash inflow because it does not represent a cash inflow from current period operating activities. For those acquired contracts that are derivatives, we record the ongoing cash flows related to the contract with the counterparties as financing cash inflows in accordance with SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. We record all other ongoing cash flows from the sale or purchase of power under contracts assumed in this transaction as operating cash flows.

#### *Cornerstone Energy*

In July 2007, our retail competitive supply operation acquired 100% ownership of Cornerstone Energy, Inc. for approximately \$100 million. Cornerstone Energy, Inc. provides natural gas supply and related services to more than 1,400 commercial, industrial and institutional customers across the central United States. It also provides natural gas and related services to more than 8,500 small commercial businesses. Cornerstone Energy, Inc. is expected to add 100 billion cubic feet of natural gas to our annual volumes served.

#### **Shipping Joint Venture**

In December 2006, we formed a shipping joint venture in which we have a 50% ownership interest. The joint venture will own and operate six freight ships. In July 2007, we made an initial cash contribution of approximately \$37 million to the joint venture. We expect our total cash contribution will be approximately \$60 million in 2007. The joint venture will be accounted for using the equity method of accounting under APB No. 18. We discuss the equity method of accounting in more detail in *Note 1* of our 2006 Annual Report on Form 10-K.

#### **Electricite de France Joint Venture**

In July 2007, we announced a joint venture, UniStar Nuclear Energy, LLC (UniStar) with an affiliate of Electricite de France, SA (EDF). We have a 50% ownership interest in this joint venture to develop, own, and operate new nuclear projects in the United States and Canada. This joint venture will be accounted for using the equity method of accounting under APB No. 18. The agreement with EDF includes a phased-in investment of \$625 million by EDF in UniStar. Initially, EDF will invest \$350 million in UniStar, and we will contribute the new nuclear line of businesses we have developed over the past two years and the right to develop possible new nuclear projects at our existing nuclear plant locations. Upon reaching certain licensing milestones, EDF will contribute up to an additional \$275 million in UniStar.

In connection with this joint venture, we entered into an investor agreement with EDF under which EDF may purchase in the open market up to a total of 9.9% of our outstanding common stock during the next five years, with a limit of 5% ownership during the first twelve months of the agreement. EDF has agreed to vote any shares of our common stock owned by it in the manner recommended by our Board of Directors and to not take any actions that seek control of Constellation Energy during the next five years.

#### **Information by Operating Segment**

Our reportable operating segments are Merchant Energy, Regulated Electric, and Regulated Gas:

◆ Our merchant energy business is nonregulated and includes:

full requirements load-serving sales of energy and capacity to utilities, cooperatives, and commercial, industrial, and governmental customers,

structured transactions and risk management services for various customers (including hedging of output from generating facilities and fuel costs),

deployment of risk capital through portfolio management and trading activities,

gas retail energy products and services to commercial, industrial, and governmental customers,

fossil, nuclear, and interests in hydroelectric generating facilities and qualifying facilities, fuel processing facilities, and power projects in the United States,

upstream (exploration and production) and downstream (transportation and storage) natural gas operations,

coal sourcing and logistics services for the variable or fixed supply needs of global customers, and

generation operations and maintenance and new nuclear development consulting services.

- ◆ Our regulated electric business purchases, transmits, distributes, and sells electricity in Central Maryland.
- ◆ Our regulated gas business purchases, transports, and sells natural gas in Central Maryland.

Our remaining nonregulated businesses:

- ◆ design, construct, and operate heating, cooling, and cogeneration facilities for commercial, industrial, and municipal customers throughout North America, and
- ◆ provide home improvements, service electric and gas appliances, service heating, air conditioning, plumbing, electrical, and indoor air quality systems, and provide natural gas marketing to residential customers in Central Maryland.

In addition, we own several investments that we do not consider to be core operations. These include financial investments and real estate projects.

Our Merchant Energy, Regulated Electric, and Regulated Gas reportable segments are strategic businesses based principally upon regulations, products, and services that require different technology and marketing strategies. We evaluate the performance of these segments based on net income. We account for intersegment revenues using market prices. A summary of information by operating segment is shown on the next page.

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	Merchant Energy Business	Reportable Segments Regulated Electric Business	Regulated Gas Business	Other Nonregulated Businesses	Eliminations	Consolidated
	(In millions)					
<i>For the three months ended</i>						
<i>June 30,</i>						
<b>2007</b>						
Unaffiliated revenues	\$ 4,072.0	\$ 544.3	\$ 159.1	\$ 44.8	\$	\$ 4,820.2
Intersegment revenues	267.7		3.7		(271.4 )	
Total revenues	4,339.7	544.3	162.8	44.8	(271.4 )	4,820.2
Net income (loss)	102.2	19.4	(5.7 )	0.4		116.3
<b>2006</b>						
Unaffiliated revenues	\$ 3,675.4	\$ 498.7	\$ 141.8	\$ 62.9	\$	\$ 4,378.8
Intersegment revenues	232.5		1.8		(234.3 )	
Total revenues	3,907.9	498.7	143.6	62.9	(234.3 )	4,378.8
Income from discontinued operations	19.1					19.1
Net income (loss)	71.7	19.9	(1.4 )	2.9		93.1
<i>For the six months ended</i>						
<i>June 30,</i>						
<b>2007</b>						
Unaffiliated revenues	\$ 8,135.5	\$ 1,059.1	\$ 561.6	\$ 119.5	\$	\$ 9,875.7
Intersegment revenues	590.6		8.5		(599.1 )	
Total revenues	8,726.1	1,059.1	570.1	119.5	(599.1 )	9,875.7
Loss from discontinued operations	(1.6 )					(1.6 )
Net income	222.2	51.6	28.0	10.2		312.0
<b>2006</b>						
Unaffiliated revenues	\$ 7,551.5	\$ 1,002.7	\$ 560.1	\$ 123.7	\$	\$ 9,238.0
Intersegment revenues	439.7		3.7	0.1	(443.5 )	
Total revenues	7,991.2	1,002.7	563.8	123.8	(443.5 )	9,238.0
Income from discontinued operations	30.5			0.9		31.4
Net income	115.3	53.5	33.6	4.6		207.0

*Certain prior year amounts have been reclassified to conform with the current year's presentation. The reclassifications primarily relate to operations that have been classified as discontinued operations in the current year.*



**Pension and Postretirement Benefits**

We show the components of net periodic pension benefit cost in the following table:

	2007		Quarter Ended June 30, 2006		2007		Six Months Ended June 30, 2006	
	(In millions)							
<b>Components of net periodic pension benefit cost</b>								
Service cost	\$	12.2	\$	12.9	\$	24.7	\$	24.6
Interest cost		22.9		24.0		47.3		44.5
Expected return on plan assets		(24.7)		(26.2)		(51.3)		(48.5)
Recognized net actuarial loss		8.4		10.2		16.4		18.8
Amortization of prior service cost		1.3		1.5		2.6		2.8
Amount capitalized as construction cost		(2.9)		(3.8)		(5.9)		(6.7)
Net periodic pension benefit cost <sup>1</sup>	\$	17.2	\$	18.6	\$	33.8	\$	35.5

<sup>1</sup> BGE's portion of our net periodic pension benefit cost, excluding amounts capitalized, was \$5.1 million for the quarter ended June 30, 2007 and \$6.8 million for the quarter ended June 30, 2006. BGE's portion of our net periodic pension benefit cost, excluding amounts capitalized, was \$10.3 million for the six months ended June 30, 2007 and \$12.4 million for the six months ended June 30, 2006.

We show the components of net periodic postretirement benefit cost in the following table:

	2007		Quarter Ended June 30, 2006		2007		Six Months Ended June 30, 2006	
	(In millions)							
<b>Components of net periodic postretirement benefit cost</b>								
Service cost	\$	1.8	\$	2.1	\$	3.5	\$	4.2
Interest cost		7.1						