

BALTIMORE GAS & ELECTRIC CO
Form 10-Q
November 07, 2011

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**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 **September 30, 2011**

Commission
File Number

1-12869

Exact name of registrant as specified in its charter

CONSTELLATION ENERGY GROUP, INC.

IRS Employer
Identification No.

52-1964611

100 CONSTELLATION WAY, BALTIMORE, MARYLAND 21202
(Address of principal executive offices) (Zip Code)

410-470-2800

(Registrant's telephone number, including area code)

1-1910

BALTIMORE GAS AND ELECTRIC COMPANY

52-0280210

2 CENTER PLAZA, 110 WEST FAYETTE STREET, BALTIMORE, MARYLAND 21202
(Address of principal executive offices) (Zip Code)

410-234-5000

(Registrant's telephone number, including area code)

MARYLAND

(State of Incorporation of both registrants)

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. has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark whether Baltimore Gas and Electric Company has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether Constellation Energy Group, Inc. is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

(Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether Baltimore Gas and Electric Company is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

(Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

**Common Stock, without par value 201,564,349 shares outstanding
of Constellation Energy Group, Inc. on October 31, 2011.**

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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PART I FINANCIAL INFORMATION

Item 1 Financial Statements

CONSOLIDATED STATEMENTS OF INCOME (LOSS) (UNAUDITED)

Constellation Energy Group, Inc. and Subsidiaries

	<i>Three Months Ended</i>		<i>Nine Months Ended</i>	
	<i>September 30,</i>		<i>September 30,</i>	
	2011	2010	2011	2010
	<i>(In millions, except per share amounts)</i>			
Revenues				
Nonregulated revenues	\$ 2,800.6	\$ 3,114.9	\$ 8,119.2	\$ 8,192.3
Regulated electric revenues	638.6	776.3	1,835.6	2,178.7
Regulated gas revenues	81.9	77.7	496.3	494.4
Total revenues	3,521.1	3,968.9	10,451.1	10,865.4
Expenses				
Fuel and purchased energy expenses	2,381.3	2,977.0	7,031.1	7,606.8
Fuel and purchased energy expenses from affiliate	249.0	254.7	653.1	675.3
Operating expenses	503.5	417.6	1,409.6	1,227.7
Merger costs	8.3		40.1	
Impairment losses and other costs		2,468.4		2,468.4
Depreciation, depletion, accretion, and amortization	143.7	123.0	449.6	380.6
Taxes other than income taxes	78.1	66.6	232.3	199.0
Total expenses	3,363.9	6,307.3	9,815.8	12,557.8
Equity Investment Earnings (Losses)	49.6	53.4	13.7	(0.8)
Gain on U.S. Department of Energy Settlement			35.5	
Net Gain on Divestitures	23.0	38.3	23.0	43.5
Income (Loss) from Operations	229.8	(2,246.7)	707.5	(1,649.7)
Other Expense	(17.8)	(18.4)	(52.5)	(49.6)
Fixed Charges				
Interest expense	67.0	62.6	203.5	244.5
Interest capitalized and allowance for borrowed funds used during construction	(4.0)	(5.7)	(8.4)	(30.0)
Total fixed charges	63.0	56.9	195.1	214.5
Income (Loss) from Continuing Operations Before Income Taxes	149.0	(2,322.0)	459.9	(1,913.8)
Income Tax Expense (Benefit)	51.1	(947.0)	174.5	(813.9)
Net Income (Loss)	97.9	(1,375.0)	285.4	(1,099.9)
Less: Net Income Attributable to Noncontrolling Interests and BGE Preference Stock Dividends	24.2	31.5	42.1	42.5
Net Income (Loss) Attributable to Common Stock	\$ 73.7	\$ (1,406.5)	\$ 243.3	\$ (1,142.4)
Average Shares of Common Stock Outstanding Basic	200.4	201.1	200.0	200.7
Average Shares of Common Stock Outstanding Diluted	202.4	201.1	201.7	200.7
Earnings (Loss) Per Common Share Basic	\$ 0.37	\$ (6.99)	\$ 1.22	\$ (5.69)
Earnings (Loss) Per Common Share Diluted	\$ 0.36	\$ (6.99)	\$ 1.21	\$ (5.69)

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Dividends Declared Per Common Share \$ **0.24** \$ 0.24 \$ **0.72** \$ 0.72

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

Constellation Energy Group, Inc. and Subsidiaries

	<i>Three Months Ended</i>		<i>Nine Months Ended</i>	
	<i>September 30,</i>		<i>September 30,</i>	
	2011	2010	2011	2010
	<i>(In millions)</i>			
Net Income (Loss)	\$ 97.9	\$ (1,375.0)	\$ 285.4	\$ (1,099.9)
Other comprehensive income (loss) (OCI)				
Hedging instruments:				
Reclassification of net loss on hedging instruments from OCI to net income, net of taxes	10.1	135.4	97.7	423.3
Net unrealized loss on hedging instruments, net of taxes	(68.8)	(149.0)	(110.8)	(311.0)
Available-for-sale securities:				
Reclassification of net gain on sales of securities from OCI to net income, net of taxes				(0.1)
Net unrealized gain on securities, net of taxes	4.1	0.2	4.2	0.4
Defined benefit obligations:				
Amortization of net actuarial loss, prior service cost, and transition obligation included in net periodic benefit cost, net of taxes	8.6	5.6	24.3	16.4
Net unrealized (loss) gain on foreign currency, net of taxes	(5.2)	0.7	(3.4)	(8.3)
Other comprehensive (loss) gain equity investment in CENG, net of taxes	(26.5)	22.3	(12.3)	10.1
Other comprehensive (loss) gain other equity method investees, net of taxes	(7.3)	0.2	(7.3)	(0.3)
Comprehensive income (loss)	12.9	(1,359.6)	277.8	(969.4)
Less: Comprehensive income attributable to noncontrolling interests, net of taxes	24.2	31.5	42.1	42.5
Comprehensive (Loss) Income Attributable to Common Stock	\$ (11.3)	\$ (1,391.1)	\$ 235.7	\$ (1,011.9)

See Notes to Consolidated Financial Statements.

Table of Contents**CONSOLIDATED BALANCE SHEETS***Constellation Energy Group, Inc. and Subsidiaries*

	<i>September 30,</i> 2011*	<i>December 31,</i> 2010
<i>(In millions)</i>		
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,171.0	\$ 2,028.5
Accounts receivable (net of allowance for uncollectibles of \$90.5 and \$85.0, respectively)	1,847.5	2,059.2
Accounts receivable consolidated variable interest entities (net of allowance for uncollectibles of \$101.3 and \$87.9, respectively)	319.8	308.9
Income taxes receivable	45.2	152.7
Fuel stocks	411.1	361.1
Materials and supplies	134.2	104.3
Derivative assets	233.8	534.4
Unamortized energy contract assets (includes \$106.4 and \$400.9, respectively, related to CENG)	195.1	544.7
Restricted cash	2.0	52.0
Restricted cash consolidated variable interest entities	73.1	52.3
Regulatory assets (net)	128.7	78.7
Other	278.8	175.8
Total current assets	4,840.3	6,452.6
Investments and Other Noncurrent Assets		
Investment in CENG	2,967.0	2,991.1
Other investments	196.6	189.9
Regulatory assets (net)	350.3	374.1
Goodwill	283.3	77.0
Derivative assets	258.2	258.9
Unamortized energy contract assets	63.7	109.8
Other	382.0	286.3
Total investments and other noncurrent assets	4,501.1	4,287.1
Property, Plant and Equipment		
Property, plant and equipment	15,237.6	13,588.9
Accumulated depreciation	(4,496.0)	(4,310.1)
Net property, plant and equipment	10,741.6	9,278.8
Total Assets	\$ 20,083.0	\$ 20,018.5

* Unaudited

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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CONSOLIDATED BALANCE SHEETS

Constellation Energy Group, Inc. and Subsidiaries

September 30, *December 31,*
2011* **2010**

(In millions)

Liabilities and Equity		
Current Liabilities		
Short-term borrowings	\$ 160.6	\$ 32.4
Current portion of long-term debt	131.5	245.6
Current portion of long-term debt consolidated variable interest entities	61.3	59.7
Accounts payable	976.0	1,072.6
Accounts payable consolidated variable interest entities	193.0	189.8
Derivative liabilities	487.8	622.3
Unamortized energy contract liabilities	129.5	130.5
Deferred income taxes	0.2	56.5
Accrued taxes	91.1	71.0
Accrued expenses	285.9	358.1
Other	575.1	438.7
Total current liabilities	3,092.0	3,277.2
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	2,684.8	2,489.8
Asset retirement obligations	32.1	32.3
Derivative liabilities	239.7	353.0
Unamortized energy contract liabilities	328.5	411.1
Defined benefit obligations	595.6	574.7
Deferred investment tax credits	24.3	27.6
Other	251.8	296.0
Total deferred credits and other noncurrent liabilities	4,156.8	4,184.5
Long-term Debt, Net of Current Portion	4,149.5	4,054.2
Long-term Debt, Net of Current Portion consolidated variable interest entities	404.4	394.6
Equity		
Common shareholders' equity:		
Common stock	3,279.7	3,231.7
Retained earnings	5,370.6	5,270.8
Accumulated other comprehensive loss	(680.9)	(673.3)
Total common shareholders' equity	7,969.4	7,829.2
BGE preference stock not subject to mandatory redemption	190.0	190.0
Noncontrolling interests	120.9	88.8
Total equity	8,280.3	8,108.0

Commitments, Guarantees, and Contingencies
(see Notes)

Total Liabilities and Equity	\$ 20,083.0	\$ 20,018.5
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** Unaudited*
See Notes to Consolidated Financial Statements.

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Net income (loss)	\$ 285.4	\$ (1,099.9)
Adjustments to reconcile to net cash provided by (used in) operating activities		
Depreciation, depletion, accretion, and amortization	449.6	380.6
Amortization of energy contracts and derivatives designated as hedges	316.7	198.9
All other amortization	28.0	23.4
Deferred income taxes	140.8	(989.0)
Investment tax credit adjustments	(3.2)	(3.4)
Deferred fuel costs	20.0	69.2
Deferred storm costs	(15.5)	
Defined benefit obligation expense	62.1	51.2
Defined benefit obligation payments	(30.9)	(61.0)
Impairment losses and other costs		2,468.4
Gain on divestitures	(23.0)	(43.5)
Equity in earnings of affiliates less than dividends received	5.0	30.3
Derivative contracts classified as financing activities	(7.4)	128.9
Changes in:		
Accounts receivable, excluding margin	(98.5)	(75.2)
Derivative assets and liabilities, excluding collateral	450.3	251.4
Net collateral and margin	(28.5)	(201.5)
Materials, supplies, and fuel stocks	10.8	39.8
Other current assets	80.5	(64.8)
Accounts payable	(207.7)	(21.1)
Liability for unrecognized tax benefits	(42.9)	(31.1)
Accrued taxes and other current liabilities	2.1	(1,110.7)
Other	(40.5)	38.5
Net cash provided by (used in) operating activities	1,353.2	(20.6)

Cash Flows From Investing Activities

Investments in property, plant and equipment	(851.4)	(752.2)
Asset and business acquisitions, net of cash acquired	(1,443.2)	(372.9)
Proceeds from U.S. Department of Energy grant	40.6	42.7
Proceeds from sales of investments and other assets	6.6	93.8
Proceeds from investment tax credits and grants related to renewable energy investments	58.9	40.0
Payment for issuance of loans receivable	(30.0)	
Contract and portfolio acquisitions	(3.7)	(208.8)
Decrease (increase) in restricted funds	30.9	(79.0)
Other	(4.5)	(31.1)
Net cash used in investing activities	(2,195.8)	(1,267.5)

Cash Flows From Financing Activities

Net issuance (repayment) of short-term borrowings	128.1	(9.0)
Proceeds from issuance of common stock	15.7	11.4
Proceeds from issuance of long-term debt	235.1	

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Repayment of long-term debt	(253.2)	(632.1)
Debt and credit facility costs	(3.2)	(0.7)
Common stock dividends paid	(136.3)	(138.8)
BGE preference stock dividends paid	(9.9)	(9.9)
Proceeds from contract and portfolio acquisitions	1.0	52.5
Derivative contracts classified as financing activities	7.4	(128.9)
Other	0.4	(1.2)
Net cash used in financing activities	(14.9)	(856.7)
Net Decrease in Cash and Cash Equivalents	(857.5)	(2,144.8)
Cash and Cash Equivalents at Beginning of Period	2,028.5	3,440.0
Cash and Cash Equivalents at End of Period	\$ 1,171.0	\$ 1,295.2

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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CONSOLIDATED STATEMENTS OF INCOME (LOSS) (UNAUDITED)

Baltimore Gas and Electric Company and Subsidiaries

	<i>Three Months Ended</i>		<i>Nine Months Ended</i>	
	<i>September 30,</i>		<i>September 30,</i>	
	2011	2010	2011	2010
<i>(In millions)</i>				
Revenues				
Electric revenues	\$ 638.9	\$ 776.4	\$ 1,836.2	\$ 2,178.8
Gas revenues	84.0	79.7	500.4	498.1
Total revenues	722.9	856.1	2,336.6	2,676.9
Expenses				
Operating expenses				
Electricity purchased for resale	210.3	362.5	707.0	998.9
Electricity purchased for resale from affiliate	136.7	134.3	266.6	372.9
Gas purchased for resale	35.5	32.7	256.4	269.3
Operations and maintenance	184.7	124.3	435.4	363.4
Operations and maintenance from affiliate	23.6	28.4	84.5	84.8
Merger costs	2.2		11.4	
Depreciation and amortization	60.0	52.7	203.1	181.0
Taxes other than income taxes	47.1	45.6	143.3	138.2
Total expenses	700.1	780.5	2,107.7	2,408.5
Income from Operations	22.8	75.6	228.9	268.4
Other Income	6.4	5.2	18.6	17.2
Fixed Charges				
Interest expense	33.1	34.0	99.7	102.3
Allowance for borrowed funds used during construction	(1.8)	(1.4)	(5.1)	(4.2)
Total fixed charges	31.3	32.6	94.6	98.1
(Loss) Income Before Income Taxes	(2.1)	48.2	152.9	187.5
Income Tax (Benefit) Expense	(3.7)	16.4	53.6	74.3
Net Income	1.6	31.8	99.3	113.2
Preference Stock Dividends	3.3	3.3	9.9	9.9
Net (Loss) Income Attributable to Common Stock	\$ (1.7)	\$ 28.5	\$ 89.4	\$ 103.3

See Notes to Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEETS
Baltimore Gas and Electric Company and Subsidiaries

	September 30, 2011*	December 31, 2010
<i>(In millions)</i>		
Assets		
Current Assets		
Cash and cash equivalents	\$ 51.3	\$ 50.0
Accounts receivable (net of allowance for uncollectibles of \$36.3 and \$34.9, respectively)	349.6	351.4
Accounts receivable, unbilled (net of allowance for uncollectibles of \$1.1 and \$1.0, respectively)	143.7	268.8
Accounts receivable, affiliated companies	1.6	1.1
Income taxes receivable, net		55.9
Fuel stocks	81.8	66.5
Materials and supplies	35.9	31.2
Prepaid taxes other than income taxes	77.5	51.7
Regulatory assets (net)	128.7	78.7
Restricted cash consolidated variable interest entity	51.7	29.5
Other	5.8	9.5
Total current assets	927.6	994.3
Investments and Other Assets		
Regulatory assets (net)	350.3	374.1
Receivable, affiliated company	465.7	494.3
Other	40.2	52.2
Total investments and other assets	856.2	920.6
Utility Plant		
Plant in service		
Electric	5,340.8	5,127.9
Gas	1,374.5	1,323.0
Common	432.7	507.8
Total plant in service	7,148.0	6,958.7
Accumulated depreciation	(2,462.6)	(2,449.3)
Net plant in service	4,685.4	4,509.4
Construction work in progress	352.8	232.9
Plant held for future use	11.2	10.1

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Net utility plant	5,049.4	4,752.4
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Total Assets	\$ 6,833.2	\$ 6,667.3
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* Unaudited

See Notes to Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEETS

Baltimore Gas and Electric Company and Subsidiaries

	<i>September 30,</i> 2011*	<i>December 31,</i> 2010
<i>(In millions)</i>		
Liabilities and Equity		
Current Liabilities		
Short-term borrowings	\$ 140.0	\$
Current portion of long-term debt	131.5	22.0
Current portion of long-term debt consolidated variable interest entity	61.3	59.7
Accounts payable	191.4	252.9
Accounts payable, affiliated companies	63.6	84.9
Customer deposits	83.6	78.9
Deferred income taxes	55.2	30.1
Accrued taxes	23.3	19.0
Liability for uncertain tax positions	10.8	62.8
Accrued expenses and other	163.8	99.7
Total current liabilities	924.5	710.0
Deferred Credits and Other Liabilities		
Deferred income taxes	1,437.1	1,354.9
Payable, affiliated company	256.9	250.8
Deferred investment tax credits	7.7	8.4
Other	20.2	20.1
Total deferred credits and other liabilities	1,721.9	1,634.2
Long-term Debt		
Rate stabilization bonds consolidated variable interest entity	424.7	454.4
Other long-term debt	1,431.5	1,431.5
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
Unamortized discount and premium	(1.9)	(2.0)
Current portion of long-term debt	(131.5)	(22.0)
Current portion of long-term debt consolidated variable interest entity	(61.3)	(59.7)
Total long-term debt	1,919.2	2,059.9
Equity		
Common shareholder's equity	2,077.6	2,073.2
Preference stock not subject to mandatory redemption	190.0	190.0
Total equity	2,267.6	2,263.2
Commitments, Guarantees, and Contingencies (see Notes)		
Total Liabilities and Equity	\$ 6,833.2	\$ 6,667.3

* Unaudited

See Notes to Consolidated Financial Statements.

Table of Contents**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)***Baltimore Gas and Electric Company and Subsidiaries**Nine Months Ended September 30,***2011****2010***(In millions)*

Cash Flows From Operating Activities		
Net income	\$ 99.3	\$ 113.2
Adjustments to reconcile to net cash provided by operating activities		
Depreciation and amortization	203.1	181.0
Other amortization	5.4	3.3
Deferred income taxes	93.7	97.0
Investment tax credit adjustments	(0.8)	(0.8)
Deferred fuel costs	20.0	69.2
Deferred storm costs	(15.5)	
Defined benefit plan expenses	31.2	26.0
Allowance for equity funds used during construction	(10.7)	(7.7)
Changes in:		
Accounts receivable	121.0	6.1
Accounts receivable, affiliated companies	(0.5)	13.5
Materials, supplies, and fuel stocks	(20.0)	(10.1)
Income tax receivable, net	55.9	
Other current assets	(92.1)	(88.9)
Accounts payable	(61.5)	21.6
Accounts payable, affiliated companies	(21.3)	(12.1)
Other current liabilities	43.5	(14.6)
Long-term receivables and payables, affiliated companies	3.5	(22.5)
Regulatory assets, net	13.1	21.6
Other	(52.5)	(61.2)
Net cash provided by operating activities	414.8	334.6
Cash Flows From Investing Activities		
Utility construction expenditures (excluding equity portion of allowance for funds used during construction)	(444.6)	(365.7)
Proceeds from U.S. Department of Energy grants	40.6	42.7
Change in cash pool at parent		314.7
Proceeds from sales of investments and other assets		20.9
Increase in restricted funds	(22.2)	(26.0)
Net cash used in investing activities	(426.2)	(13.4)
Cash Flows From Financing Activities		
Repayment of long-term debt	(29.7)	(28.1)
Issuance (repayment) of short-term borrowings	140.0	(46.0)
Credit facility costs	(2.7)	(0.3)
Preference stock dividends paid	(9.9)	(9.9)
Distribution to parent	(85.0)	
Net cash provided by (used in) financing activities	12.7	(84.3)
Net Increase in Cash and Cash Equivalents	1.3	236.9
Cash and Cash Equivalents at Beginning of Period	50.0	13.6

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Cash and Cash Equivalents at End of Period	\$ 51.3	\$ 250.5
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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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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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.

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.

Reclassifications

We made the following reclassifications:

- We have separately presented "Regulatory assets (net)" that was previously presented within "Other current assets" on our Consolidated Balance Sheets.
- We have separately presented "Liability for unrecognized tax benefits" that was previously presented within "Other" on our Consolidated Statements of Cash Flows.
- We have separately presented "Regulatory assets, net" that was previously presented within "Other" on BGE's Consolidated Statements of Cash Flows.
- We have separately presented "Proceeds from U.S. Department of Energy grants" that was previously presented within "Investments in property, plant and equipment" on our, and BGE's, Consolidated Statements of Cash Flows.

Pending Merger with Exelon Corporation

On April 28, 2011, Constellation Energy entered into an Agreement and Plan of Merger with Exelon Corporation (Exelon). At closing, each issued and outstanding share of common stock of Constellation Energy will be cancelled and converted into the right to receive 0.93 shares of common stock of Exelon, and Constellation Energy will become a wholly owned subsidiary of Exelon.

The merger agreement contains certain termination rights for both Constellation Energy and Exelon. Under specified circumstances Constellation Energy may be required to pay Exelon a termination fee of \$200 million and Exelon may be required to pay Constellation Energy a termination fee of \$800 million.

In connection with the proposed merger, Exelon and Constellation Energy announced several commitments, each of which is contingent upon completion of the merger, that they included in their filing for approval of the merger with the Maryland Public Service Commission (Maryland PSC). The estimated value of the commitments, including a proposed distribution rate credit of \$100 per residential BGE customer, is approximately \$250 million.

The merger agreement has been approved by both companies' boards of directors, but completion of the merger is contingent upon, among other things, the approval of the transaction by stockholders of both companies and receipt of required regulatory approvals, including the Federal Energy Regulatory Commission, the Nuclear Regulatory Commission, the Maryland PSC and several other state and federal regulatory bodies. The parties are working to complete the merger early in 2012.

During the quarter and nine months ended September 30, 2011, we incurred \$8.3 million and \$40.1 million pre-tax, respectively, in costs related to our pending merger with Exelon.

Variable Interest Entities

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As of September 30, 2011, we consolidate four variable interest entities (VIEs) for which we are the primary beneficiary, and we have significant interests in six other VIEs for which we do not have controlling financial interests. We discuss our VIEs in more detail in *Note 4* of our 2010 Annual Report on Form 10-K.

Consolidated Variable Interest Entities

Our, and BGE's, consolidated VIEs consist of:

- RSB BondCo LLC (BondCo), a special purpose bankruptcy-remote limited liability company formed by BGE to acquire, hold, and to issue and service bonds secured by rate stabilization property,
- a retail gas group formed to enter into a collateralized gas supply agreement with a third party gas supplier,
- a retail power supply company, and
- a group of solar project limited liability companies formed to build, own, and operate solar power facilities. While we own 100% of these entities, we determined that the individual solar project entities are VIEs because either the entities require additional subordinated financial support in the form of parental guarantee of debt, loans from the customers in order to obtain the necessary funds for construction of the solar facilities, or the customers absorb price variability from the entities through the fixed price power and/or renewable energy credits purchase agreements. We are the primary beneficiary of the solar project entities because we control the design, construction, and operation of the solar power facilities.

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We further discuss how we determine whether we are the primary beneficiary of VIEs in more detail in *Note 4* of our 2010 Annual Report on Form 10-K.

For each of our consolidated VIEs:

The assets of the VIEs are restricted and can only be used to settle obligations of the respective VIE. In the case of BondCo, BGE is required to remit all payments it receives from customers for rate stabilization charges to BondCo. During the quarter and nine months ended September 30, 2011, BGE remitted \$26.5 million and \$65.0 million, respectively, to BondCo. During the quarter and nine months ended September 30, 2010, BGE remitted \$26.7 million and \$68.7 million, respectively, to BondCo.

Except for providing a parental guarantee of a \$150 million credit facility and capital funding to the solar entities for ongoing construction of the solar power facilities and a \$75 million parental guarantee to the third party gas supplier in support of the retail gas group, during the quarter and nine months ended September 30, 2011, neither we nor BGE:

provided any additional financial support to the VIEs, and

had any contractual commitments or obligations to provide financial support to the VIEs.

The creditors of the VIEs do not have recourse to our or BGE's general credit with the exception of certain of the solar entities where we have issued a parental guarantee for a \$150 million credit facility.

We include four consolidated VIEs in our consolidated financial statements at September 30, 2011 and three consolidated VIEs in our consolidated financial statements at December 31, 2010 as follows:

	September 30, 2011	December 31, 2010	
	<i>(In millions)</i>		
Current assets	\$ 544.1	\$ 516.6	
Noncurrent assets	222.6	57.7	
Total Assets	\$ 766.7	\$ 574.3	
Current liabilities	\$ 370.9	\$ 345.5	
Noncurrent liabilities	550.6	399.0	
Total Liabilities	\$ 921.5	\$ 744.5	

Unconsolidated Variable Interest Entities

As of September 30, 2011 and December 31, 2010, we had significant interests in six VIEs for which we were not the primary beneficiary. We have not provided any material financial or other support to these entities during the quarter and nine months ended September 30, 2011 and we do not intend to provide any additional financial or other support to these entities in the future.

The following tables present summary information about these entities:

	Power Contract Monetization VIEs	All Other VIEs	Total
<i>As of September 30, 2011</i>			
	<i>(In millions)</i>		
Total assets	\$ 389.7	\$ 318.1	\$ 707.8
Total liabilities	307.1	117.1	424.2

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Our ownership interest		56.6	56.6
Other ownership interests	82.6	144.4	227.0
Our maximum exposure to loss:			
Letters of credit	18.6		18.6
Carrying amount of our investment		49.6	49.6
Other investments			
Debt and payment guarantees		5.0	5.0

	Power Contract Monetization VIEs	All Other VIEs	Total
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As of December 31, 2010

	<i>(In millions)</i>		
Total assets	\$ 492.9	\$ 288.3	\$ 781.2
Total liabilities	382.6	113.2	495.8
Our ownership interest		48.7	48.7
Other ownership interests	110.3	126.4	236.7
Our maximum exposure to loss:			
Letters of credit	24.9		24.9
Carrying amount of our investment		41.4	41.4
Other investments			
Debt and payment guarantees		5.0	5.0

We assess the risk of a loss equal to our maximum exposure to be remote. In addition, there are no agreements with, or commitments by, third parties that would affect the fair value or risk of our variable interests in these VIEs.

Earnings Per Share

Basic earnings (loss) per common share (EPS) is computed by dividing net income (loss) attributable to common stock by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the

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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:

	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010

(In millions)

Non-dilutive stock options	4.1	5.8	4.2	5.5
Dilutive common stock equivalent shares	2.0	1.7	1.7	1.7

As a result of the Company incurring a loss for the quarter and nine months ended September 30, 2010, dilutive common stock equivalent shares were not included in calculating diluted EPS for these periods.

Acquisitions

MXenergy Holdings Inc.

In July 2011, we acquired all of the outstanding stock of MXenergy Holdings Inc. (MXenergy), a retail energy marketer of natural gas and electricity to residential and commercial customers, for approximately \$214.5 million, subject to certain purchase price adjustments. MXenergy serves approximately 540,000 customers in numerous markets across the United States and Canada.

We recorded the acquisition as follows:

At July 1, 2011

(In millions)

Cash and cash equivalents	\$	0.9		
Accounts receivable		50.7		
Restricted cash ¹		63.8		
Other current assets		45.4		
Goodwill ²		101.1		
Acquired contracts and intangibles ^{2,3}		84.5		
Other assets		12.8		
 Total assets acquired		 359.2		
 Bond payable ¹		 (82.9)		
Other current liabilities		(60.2)		
Noncurrent liabilities		(1.6)		
 Total liabilities		 (144.7)		
 Net assets acquired	 \$	 214.5		

1 The bond payable was fully repaid during August 2011 primarily with the restricted cash.

2 None is deductible for tax purposes.

3 The weighted average amortization period for these assets is approximately 4 years.

The preliminary net assets acquired are based on estimates, which could impact the final net assets acquired.

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We have included MXenergy's results of operations in our consolidated financial statements as part of our NewEnergy business segment since the date of acquisition.

The proforma impact of this acquisition would not have been material to our results of operations for the quarters and nine months ended September 30, 2011 and 2010 and to our financial condition as of December 31, 2010.

Star Electricity, Inc.

In May 2011, we acquired all of the outstanding stock of Star Electricity, Inc. (StarTex), a retail electric provider, for \$163.5 million in cash, all of which was paid at closing. StarTex serves approximately 170,000 customers in the Texas residential market.

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We recorded the acquisition as follows:

At May 27, 2011

	<i>(In millions)</i>
Cash and cash equivalents	\$ 17.9
Other current assets	43.8
Goodwill ¹	100.9
Acquired contracts and intangibles ^{1 2}	78.3
Other assets	1.0
Total assets acquired	241.9
Total liabilities	(78.4)
Net assets acquired	\$ 163.5

1 None is deductible for tax purposes.

2 The weighted average amortization period for these assets is approximately 3 years.

The net assets acquired are preliminary pending final purchase price adjustments.

We have included StarTex's results of operations in our consolidated financial statements as part of our NewEnergy business segment since the date of acquisition.

The proforma impact of this acquisition would not have been material to our results of operations for the quarters and nine months ended September 30, 2011 and 2010 and to our financial condition as of December 31, 2010.

Boston Generating

In January 2011, we acquired Boston Generating's 2,950 MW fleet of generating plants for cash of \$1.1 billion. The fleet acquired includes the following four natural gas power plants and one fuel oil plant located in the Boston, Massachusetts area:

- Mystic 7 574 MW,
- Mystic 8 and 9 1,580 MW,
- Fore River 787 MW, and
- Mystic Jet, a fuel oil plant 9 MW.

We recorded the acquisition as follows:

At January 3, 2011

	<i>(In millions)</i>
Current assets	\$ 92.2
Land	29.2
Property, plant and equipment	1,061.8
Noncurrent assets	0.1
Total assets acquired	1,183.3
Current liabilities	(77.5)

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Noncurrent liabilities	(21.8)
Total liabilities	(99.3)
Net assets acquired	\$ 1,084.0

We have included the results of operations from these plants in our consolidated financial statements as part of our Generation business segment since the date of acquisition.

The proforma impact of this acquisition would not have been material to our results of operations for the quarters and nine months ended September 30, 2011 and 2010 and to our financial condition as of December 31, 2010.

Divestitures

Constellation Energy Partners LLC

In August 2011, we sold a majority of our interests in Constellation Energy Partners LLC (CEP) to PostRock Energy Corporation (PostRock). Under the terms of the agreement, PostRock received all of our Class A member interests, which includes the right to appoint two of the five members of CEP's board of directors, and approximately 3.1 million units of our Class B member interests. In return, we received \$6.6 million in cash, one million shares of PostRock common stock and warrants to acquire an additional 673,822 shares of PostRock common stock. As a result of this transaction, we recorded a pre-tax gain of \$11.4 million in the "Net Gain on Divestitures" line in our Consolidated Statements of Income (Loss).

We have retained a portion of the voting Class B member interests and other classes of non-voting member interests in CEP. However, since we no longer have significant influence over CEP's activities following the sale of the Class A and some of the Class B member interests, these retained interests do not qualify for the equity method of accounting. Therefore, we will account for each of the retained interests as either available for sale securities or as cost method investments. Upon the cessation of equity method accounting, we reclassified our remaining balance in accumulated other comprehensive income to

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earnings, recognizing a pre-tax gain of \$11.6 million in the "Net Gain on Divestitures" line in our Consolidated Statements of Income (Loss).

Quail Run Energy Center

In December 2010, we signed an agreement to sell our Quail Run Energy Center (Quail Run), a 550 MW natural gas plant in west Texas, to High Plains Diversified Energy Corporation (HPDEC). This agreement was contingent upon HPDEC obtaining financing through the sale of municipal bonds.

In June 2011, we terminated the agreement to sell Quail Run based on the buyer's inability to satisfy all of the conditions for the sale.

Gain on U.S. Department of Energy Settlement

On June 30, 2011, CENG executed a settlement agreement with the United States Department of Energy (DOE) under which Constellation Energy would receive payment of \$35.5 million related to costs incurred through October 31, 2008 to store spent nuclear fuel at the Calvert Cliffs nuclear power plant. The settlement also details a framework and procedure for recovery of damages incurred or to be incurred through the end of 2013. The agreement settles a lawsuit that sought to recover damages caused by the DOE's failure to comply with legal and contractual obligations to dispose of spent nuclear fuel at the Calvert Cliffs nuclear power plant. We discuss our lawsuit involving CENG's nuclear plants in more detail in *Item 1 Business* of our 2010 Annual Report on Form 10-K.

As part of the 2009 agreement between Constellation Energy and EDF in which Constellation Energy sold a 49.99% interest in CENG to EDF, Constellation Energy retained the right to receive payments from any settlement with the DOE that related to periods prior to the formation of the joint venture on November 6, 2009. As such, Constellation Energy recognized a pre-tax gain in the second quarter of 2011 for \$35.5 million and we received the funds in the third quarter of 2011.

The lawsuits relating to the storage of spent nuclear fuel at the Ginna and Nine Mile Point nuclear power plants remain outstanding.

Investment in Constellation Energy Nuclear Group, LLC (CENG)

We own a 50.01% interest in CENG, a nuclear generation and operation business. Our total equity in earnings of our investment in CENG is as follows:

	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
	<i>(In millions)</i>			
CENG	\$ 79.4	\$ 95.1	\$ 107.1	\$ 158.7
Amortization of basis difference in CENG	(43.7)	(52.4)	(112.9)	(156.6)
Total equity investment earnings (losses) CENG	\$ 35.7	\$ 42.7	\$ (5.8)	\$ 2.1

1 For the quarters ended September 30, 2011 and 2010, total equity investment earnings in CENG include \$0.2 million and \$0.5 million, respectively, of expense related to the portion of cost of certain share-based awards that we fund on behalf of EDF Group and affiliates (EDF). For the nine months ended September 30, 2011 and 2010, total equity investment (losses) earnings in CENG include \$1.0 million and \$2.1 million, respectively, of expense related to the portion of cost of certain share-based awards that we fund on behalf of EDF.

The basis difference is the difference between the carrying amount of our investment in CENG and our share of the underlying equity in CENG, because the underlying assets of CENG were retained at their historical carrying value. See *Note 2* to our 2010 Annual Report on Form 10-K for a more detailed discussion.

Summarized income statement information for CENG for the quarters and nine months ended September 30, 2011 and 2010 is as follows:

Quarter Ended	Nine Months Ended
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September 30, September 30,
2011 2010 2011 2010

(In millions)

Revenues	\$ 438.0	\$ 456.2	\$ 1,151.1	\$ 1,193.2
Expenses	283.0	276.2	958.2	902.5
Income from operations	155.0	180.0	192.9	290.7
Net income	159.1	191.1	216.2	321.5

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Regulatory Assets (net)

In March 2011, the Maryland PSC issued a comprehensive rate order setting forth the details of the decision contained in its abbreviated electric and gas distribution rate order issued in December 2010. As part of the March 2011 comprehensive rate order, BGE was authorized to defer \$18.9 million of costs as regulatory assets. These costs will be recovered over a 5-year period beginning December 2010 and relate to the deferral of:

- \$15.8 million of storm costs incurred in February 2010,
- \$2.7 million of electric deferred income tax expense recognized in 2010 relating to the elimination of the tax exempt status of drug subsidies provided to companies under Medicare Part D after December 31, 2012, and
- \$0.4 million of electric workforce reduction costs incurred in 2010.

The regulatory assets for the storm costs and the workforce reduction costs will earn a regulated rate of return.

Information by Operating Segment

Our reportable operating segments are Generation, NewEnergy, Regulated Electric, and Regulated Gas. We discuss our reportable operating segments in detail in *Note 3* of our 2010 Annual Report on Form 10-K.

These reportable segments are strategic businesses based principally upon regulations, products, and services that require different technologies 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 in the table below.

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	Reportable Segments				Holding Company and		Eliminations	Consolidated
	Generation	NewEnergy	Electric	Regulated Gas	Regulated Gas	Other		
<i>(In millions)</i>								
<i>Quarter ended September 30,</i>								
2011								
Unaffiliated revenues	\$ 311.4	\$ 2,488.9	\$ 638.7	\$ 81.9	\$ 0.2	\$	\$	\$ 3,521.1
Intersegment revenues	416.8	181.4	0.2	2.1			(600.5)	
Total revenues	728.2	2,670.3	638.9	84.0	0.2	(600.5)		3,521.1
Net income (loss)	30.1	64.4	11.7	(10.1)	1.8			97.9
Net income (loss) attributable to common stock	30.1	43.5	9.2	(10.9)	1.8			73.7
2010								
Unaffiliated revenues	\$ 328.7	\$ 2,786.1	\$ 776.3	\$ 77.7	\$ 0.1	\$	\$	\$ 3,968.9
Intersegment revenues	258.9	134.2	0.1	2.0			(395.2)	
Total revenues	587.6	2,920.3	776.4	79.7	0.1	(395.2)		3,968.9
Net (loss) income	(1,420.1)	13.4	37.6	(5.8)	(0.1)			(1,375.0)
Net (loss) income attributable to common stock	(1,420.1)	(14.8)	35.0	(6.5)	(0.1)			(1,406.5)
<i>Nine months ended</i>								
<i>September 30,</i>								
2011								
Unaffiliated revenues	\$ 827.3	\$ 7,291.6	\$ 1,835.7	\$ 496.3	\$ 0.2	\$	\$	\$ 10,451.1
Intersegment revenues	1,245.0	350.6	0.5	4.1			(1,600.2)	
Total revenues	2,072.3	7,642.2	1,836.2	500.4	0.2	(1,600.2)		10,451.1
Net income (loss)	83.8	104.7	74.3	25.0	(2.4)			285.4
Net income (loss) attributable to common stock	83.8	72.5	66.9	22.5	(2.4)			243.3
2010								
Unaffiliated revenues	\$ 902.9	\$ 7,289.2	\$ 2,178.7	\$ 494.4	\$ 0.2	\$	\$	\$ 10,865.4
Intersegment revenues	814.9	372.8	0.1	3.7			(1,191.5)	
Total revenues	1,717.8	7,662.0	2,178.8	498.1	0.2	(1,191.5)		10,865.4
Net (loss) income	(1,377.7)	168.3	85.7	27.5	(3.7)			(1,099.9)
Net (loss) income attributable to common stock	(1,377.7)	135.7	78.0	25.3	(3.7)			(1,142.4)

Our Generation business operating results for the quarter and nine months ended September 30, 2011 include the following after-tax items:

- amortization of basis difference in investment in CENG of \$26.3 million and \$68.0 million, respectively,
- impact of power purchase agreement with CENG of \$31.3 million and \$88.6 million, respectively, (amount represents the amortization of our "unamortized energy contract asset" less our 50.01% equity in CENG's amortization of its "unamortized energy contract liability"),
- gain on settlement with DOE for storage of spent nuclear fuel of zero and \$21.3 million, respectively,
- transaction fees incurred related to our acquisition of Boston Generating's 2,950 MW fleet of generating plants in Massachusetts of zero and \$10.1 million, respectively, and
- costs incurred related to our pending merger with Exelon of \$2.5 million and \$12.0 million, respectively.

Our NewEnergy business operating results for the quarter and nine months ended September 30, 2011 include the amortization of credit facility amendment fees in connection with the 2009 EDF transaction of \$1.5 million and \$4.4 million, respectively, and costs incurred relating to our pending merger with Exelon of \$1.3 million and \$5.6 million, respectively.

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Our Regulated Electric business operating results for the quarter and nine months ended September 30, 2011 include costs incurred relating to our pending merger with Exelon of \$1.0 million and \$5.1 million, respectively. BGE will not seek recovery of these costs in rates. In addition, our regulated electric business incurred total operating expenses of \$35.9 million related to Hurricane Irene.

Our Regulated Gas business operating results for the quarter and nine months ended September 30, 2011 include costs incurred relating to our pending merger with Exelon of \$0.3 million and \$1.7 million, respectively. BGE will not seek recovery of these costs in rates.

Table of Contents**Pension and Postretirement Benefits**

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

	Quarter Ended		Nine Months Ended	
	September 30, 2011	2010	September 30, 2011	2010
<i>(In millions)</i>				
Components of net periodic pension benefit cost				
Service cost	\$ 13.4	\$ 9.7	\$ 39.8	\$ 28.3
Interest cost	24.0	21.7	71.2	63.1
Expected return on plan assets	(31.7)	(26.0)	(94.0)	(75.9)
Recognized net actuarial loss	12.3	8.8	36.4	25.6
Amortization of prior service cost	1.1	1.0	3.2	2.9
Amount capitalized as construction cost	(2.7)	(2.5)	(8.8)	(7.3)
Net periodic pension benefit cost ¹	\$ 16.4	\$ 12.7	\$ 47.8	\$ 36.7

1 BGE's portion of our net periodic pension benefit cost, excluding amounts capitalized, was \$10.5 million for the quarter ended September 30, 2011 and \$7.9 million for the quarter ended September 30, 2010. BGE's portion of our net periodic pension benefit cost, excluding amounts capitalized, was \$28.6 million for the nine months ended September 30, 2011 and \$22.7 million for the nine months ended September 30, 2010. Net periodic pension benefit costs exclude settlement charges of \$4.0 million for the nine months ended September 30, 2011 and \$1.5 million in the nine months ended September 30, 2010.

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

	Quarter Ended		Nine Months Ended	
	September 30, 2011	2010	September 30, 2011	2010
<i>(In millions)</i>				
Components of net periodic postretirement benefit cost				
Service cost	\$ 0.8	\$ 0.6	\$ 2.3	\$ 1.9
Interest cost	4.6	3.9	13.9	13.6
Amortization of transition obligation	0.4	0.5	1.4	1.6
Recognized net actuarial loss (gain)	0.4	0.1	1.2	0.3
Amortization of prior service cost	(0.7)	(0.6)	(2.2)	(2.0)
Amount capitalized as construction cost	(1.2)	(1.2)	(4.3)	(4.1)
Net periodic postretirement benefit cost ¹	\$ 4.3	\$ 3.3	\$ 12.3	\$ 11.3

1 BGE's portion of our net periodic postretirement benefit cost, excluding amounts capitalized, was \$4.7 million for the quarter ended September 30, 2011 and \$3.8 million for the quarter ended September 30, 2010. BGE's portion of our net periodic postretirement benefit costs, excluding amounts capitalized, was \$14.2 million for the nine months ended September 30, 2011 and \$13.2 million for the nine months ended September 30, 2010.

Our non-qualified pension plans and our postretirement benefit programs are not funded; however, we have trust assets securing certain executive pension benefits. We estimate that we will incur approximately \$9.4 million in pension benefit payments for our non-qualified pension plans and approximately \$22.6 million for retiree health and life insurance costs in 2011.

Table of Contents**Financing Activities*****Credit Facilities and Short-term Borrowings***

We discuss the purposes for and the types of instruments used for entering into credit facilities and short-term borrowings in *Note 8* of our 2010 Annual Report on Form 10-K.

Constellation Energy

Constellation Energy had bank lines of credit under committed credit facilities totaling \$4.2 billion at September 30, 2011 for short-term financial needs, primarily for our NewEnergy business, as follows:

Type of Credit Facility	Amount (In billions)	Expiration Date	Capacity Type
Syndicated Revolver	\$ 2.50	October 2013	Letters of credit and cash
Commodity-linked	0.50	August 2014	Letter of credit and cash
Bilateral	0.55	September 2014	Letters of credit
Bilateral	0.25	December 2014	Letters of credit and cash
Bilateral	0.25	June 2014	Letters of credit and cash
Bilateral	0.15	September 2013	Letters of credit
Total	\$ 4.20		

At September 30, 2011, we had approximately \$1.6 billion in letters of credit issued, including \$0.4 billion in letters of credit issued under the commodity-linked credit facility, and no commercial paper outstanding under these facilities. The commodity-linked facility capacity increases as natural gas price levels decrease compared to a reference price that is adjusted periodically. As of September 30, 2011, this facility's capacity was \$0.5 billion.

In July 2011, a subsidiary of Constellation Energy entered into a three-year senior secured credit facility that is designed to support the growth of our solar operations. The amount committed under the facility is \$150 million, which may be increased up to \$200 million at the subsidiary's request with additional commitments by the lenders. As of September 30, 2011, we had borrowed \$130.0 million. Borrowings incur interest at a variable rate payable quarterly and are secured by the equity interests in the subsidiary and the entities that own the solar projects as well as the assets of the subsidiary and each project entity. The obligations of our subsidiary are guaranteed by Constellation Energy and the project entities. The Constellation Energy guarantee will terminate upon the subsidiary obtaining a stand-alone investment grade credit rating or the satisfaction of a number of conditions, at which time the financing will become nonrecourse to Constellation Energy. We discuss the accounting treatment for our solar operations in more detail on page 9.

Also, in July 2011, a subsidiary of Constellation Energy entered into a \$40 million nonrecourse project financing to fund construction of our 30MW solar facility in Sacramento, California. Borrowings will incur interest at a variable rate, payable quarterly, and are secured by the equity interests and assets of the subsidiary. The construction borrowings will convert into a 19-year variable rate note upon commercial operation of the facility. Construction is expected to be completed by December 2011. The subsidiary also executed interest rate swaps for a notional amount of \$30 million in order to convert the variable interest payments to fixed payments on the \$40 million facility amount.

In addition to this facility, this subsidiary entered into a treasury grant bridge loan for \$26 million and an equity bridge loan for \$28 million. Both loans will be utilized to fund construction and must be repaid shortly after commercial operation of the solar facility.

At September 30, 2011, Constellation Energy had \$20.6 million of short-term notes outstanding with a weighted average effective interest rate of 6.54%.

BGE

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As of September 30, 2011, BGE has a \$600.0 million revolving credit facility expiring in March 2015. BGE can borrow directly from the banks, use the facility to allow commercial paper to be issued, if available, or issue letters of credit. At September 30, 2011, BGE had \$140.0 million of commercial paper outstanding with a weighted average interest of 0.37%. There were immaterial letters of credit outstanding at September 30, 2011.

Debt

In July 2011, we amended and extended our existing reserve based lending facility that supports our upstream gas operations. The borrowing base committed under the facility was increased to \$150 million and can increase to a total of \$500 million if the assets support a higher borrowing base and we are able to obtain additional commitments from lenders. The facility now expires in July 2016. Borrowings under this facility are secured by the upstream gas properties, and the lenders do not have recourse against Constellation Energy in the event of a default. As of September 30, 2011, we had borrowed \$72.0 million under the facility with interest payable quarterly. The facility includes a provision that requires our entities that own the upstream gas properties subject to the agreement to maintain a current ratio of one-to-one. As of September 30, 2011, we are compliant with this provision.

In January 2011, we redeemed \$213.5 million of our 7.00% Notes, which represented the remaining outstanding

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7.00% Notes due April 1, 2012, pursuant to a notice to redeem that was issued in December 2010. We redeemed these notes with part of the proceeds from the \$550 million 5.15% Notes issued in December 2010, terminated certain interest rate swaps and recognized a pre-tax loss of approximately \$5 million on this transaction. We discuss the termination of the interest rate swaps in our *Derivative Instruments* note.

Net Available Liquidity

The following table provides a summary of our, and BGE's, net available liquidity at September 30, 2011:

<i>At September 30, 2011</i>	Constellation Energy (excluding BGE)	BGE
(In billions)		
Credit facilities ¹	\$ 3.7	\$ 0.6
Less: Letters of credit issued ¹	(1.2)	
Less: Cash drawn on credit facilities		
Undrawn facilities	2.5	0.6
Less: Commercial paper outstanding		(0.1)
Net available facilities	2.5	0.5
Add: Cash and cash equivalents ²	1.1	
Net available liquidity	\$ 3.6	\$ 0.5

1 Excludes \$0.5 billion commodity-linked credit facility due to its contingent nature and \$0.4 billion in letters of credit posted against it.

2 BGE's cash balance at September 30, 2011 was \$51.3 million.

Credit Facility Compliance and Covenants

The credit facilities of Constellation Energy and BGE contain a material adverse change representation but draws on the facilities are not conditioned upon Constellation Energy and BGE making this representation at the time of the draw. However, to the extent a material adverse change has occurred and prevents Constellation Energy or BGE from making other representations that are required at the time of the draw, the draw would be prohibited.

Certain credit facilities of Constellation Energy contain a provision requiring Constellation Energy to maintain a ratio of debt to capitalization equal to or less than 65%. At September 30, 2011, the debt to capitalization ratio as defined in the credit agreements was 36%.

The credit agreement of BGE contains a provision requiring BGE to maintain a ratio of debt to capitalization equal to or less than 65%. At September 30, 2011, the debt to capitalization ratio for BGE as defined in this credit agreement was 45%.

Decreases in Constellation Energy's or BGE's credit ratings would not trigger an early payment on any of our, or BGE's, credit facilities. However, the impact of a credit ratings downgrade on our financial ratios associated with our credit facility covenants would depend on our financial condition at the time of such a downgrade and on the source of funds used to satisfy the incremental collateral obligation resulting from a credit ratings downgrade. For example, if we were to use existing cash balances to fund the cash portion of any additional collateral obligations resulting from a credit ratings downgrade, we would not expect a material impact on our financial ratios. However, if we were to issue long-term debt or use our credit facilities to fund any additional collateral obligations, our financial ratios could be materially affected. Failure by Constellation Energy, or BGE, to comply with these covenants could result in the acceleration of the maturity of the borrowings outstanding and preclude us from issuing letters of credit under these facilities.

Income Taxes

We compute the income tax expense for each quarter based on our estimated annual effective tax rate for the year. The effective tax rate was 34.3% and 37.9% for the quarter and nine months ended September 30, 2011, respectively, compared to 40.8% and 42.5% for the same periods of 2010. The lower effective tax rates for the quarter and nine months ended September 30, 2011 are primarily due to lower pre-tax income due to extreme weather events in Texas and Maryland and nontaxable income from a consolidated VIE.

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The BGE effective tax rate was 176.2% and 35.1% for the quarter and nine months ended September 30, 2011, respectively, compared to 34.0% and 39.6% for the same periods of 2010. The higher effective tax rate for the quarter ended September 30, 2011 is due to a small pre-tax loss of \$2.1 million primarily as a result of Hurricane Irene storm-related expenses and the impact of new guidance from the IRS National Office on electric transmission and distribution assets pertaining to capitalization versus repair expense, which increased the income tax benefit. The lower effective tax rate for the nine months ended September 30, 2011 is primarily due to the favorable impact from the IRS National Office guidance mentioned above and partial reversal during the quarter ended March 31, 2011 of the unfavorable tax adjustment recorded in the quarter ended March 31, 2010 to reflect the impact on our regulated electric business of the healthcare reform legislation that eliminated the tax exempt status of prescription drug subsidies received under Medicare Part D. The partial

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reversal in 2011 resulted from the Maryland PSC's authorization for BGE to create an electric regulatory asset for this tax law change and amortize the balance over a five-year period as provided in its March 2011 comprehensive order in BGE's most recent base rate case.

Income tax expense for both Constellation Energy and BGE for the quarter and nine months ended September 30, 2011 reflects a deferred tax benefit for the costs incurred associated with our pending merger with Exelon. The ultimate treatment of these costs for tax purposes will be determined at the time the merger is closed or terminated. We discuss our pending merger with Exelon on page 9.

Income Tax Audits

We file income tax returns in the United States and foreign jurisdictions. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for the years before 2007. In August 2011, we formally agreed to an assessment of tax by the IRS for the 2005 - 2007 tax years. The assessment did not have a material impact on our, or BGE's, financial condition or results of operation.

The IRS has audited our consolidated federal income tax return for the 2008 tax year and completion of the audit is awaiting additional industry guidance from the IRS National Office regarding BGE's change of accounting for tax purposes with respect to certain electric and gas transmission and distribution expenditures. IRS industry guidance on electric transmission and distribution expenditures was issued in August 2011 and additional guidance on gas transmission and distribution expenditures is expected in 2012. Application and compliance with the IRS industry guidance for electric and gas transmission and distribution expenditures should result in the completion of the IRS examination for the 2008 tax year. The IRS is also currently auditing our consolidated federal income tax returns for the 2009 - 2010 tax years as well as examining the 2011 tax year concurrently as part of the IRS Compliance Assurance Process. Although the final outcome of the 2008 - 2011 IRS audit and future tax audits is uncertain, we believe that adequate provisions for income taxes have been made for potential liabilities resulting from such matters.

Unrecognized Tax Benefits

The following table summarizes the change in unrecognized tax benefits during 2011 and our total unrecognized tax benefits at September 30, 2011:

At September 30, 2011

	<i>(In millions)</i>
Total unrecognized tax benefits, January 1, 2011	\$ 239.8
Increases in tax positions related to the current year	0.9
Increases in tax positions related to prior years	29.7
Reductions in tax positions related to prior years	(89.1)
Total unrecognized tax benefits, September 30, 2011¹	\$ 181.3

1 BGE's portion of our total unrecognized tax benefits at September 30, 2011 was \$12.0 million.

If the total amount of unrecognized tax benefits of \$181.3 million were ultimately realized, our income tax expense would decrease by approximately \$170 million. The \$170 million includes state tax refund claims of \$55.9 million that have been disallowed by tax authorities and are subject to appeals.

It is reasonably possible that unrecognized tax benefits could decrease within the next year by approximately \$12 million primarily as a result of an expected settlement with the IRS regarding BGE's change of accounting method for tax purposes with respect to certain gas transmission and distribution expenditures. This decrease is not expected to have a material impact on BGE's financial condition or results of operation.

The decrease in unrecognized tax benefits for the nine months ended September 30, 2011 is primarily related to the issuance of guidance from the IRS National Office in August 2011 regarding electric transmission and distribution expenditures. The decrease did not have a material impact on our, or BGE's, financial position or results of operation.

Interest and penalties recorded in our Consolidated Statements of Income (Loss) as tax expense relating to liabilities for unrecognized tax benefits were as follows:

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Quarter Ended		Nine Months Ended	
September 30,		September 30,	
2011	2010	2011	2010

(In millions)

Interest and penalties recorded as tax (benefit) expense	\$	(1.6)	\$	3.0	\$	3.9	\$	(4.3)
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BGE's portion of interest and penalties was immaterial for both periods presented.

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Accrued interest and penalties recognized in our Consolidated Balance Sheets were \$20.7 million, of which BGE's portion was \$1.1 million, at September 30, 2011, and \$16.8 million, of which BGE's portion was \$3.8 million, at December 31, 2010.

Taxes Other Than Income Taxes

Taxes other than income taxes primarily include property and gross receipts taxes along with franchise taxes and other non-income taxes, surcharges, and fees.

BGE and our NewEnergy operations collect certain taxes from customers such as sales and gross receipts taxes, along with other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of gas and electricity. Some of these taxes are imposed on the customer and others are imposed on BGE and our NewEnergy business. Where these taxes, such as sales taxes, are imposed on the customer, we account for these taxes on a net basis with no impact to our Consolidated Statements of Income (Loss). However, where these taxes, such as gross receipts taxes or other surcharges or fees, are imposed on BGE or our NewEnergy business, we account for these taxes on a gross basis. Accordingly, we recognize revenues for these taxes collected from customers along with an offsetting tax expense, which are both included in our and BGE's Consolidated Statements of Income (Loss). The taxes, surcharges, or fees that are included in revenues were as follows:

	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
	<i>(In millions)</i>			
Constellation Energy (including BGE)	\$ 36.4	\$ 31.6	\$ 106.6	\$ 93.1
BGE	20.2	20.4	62.8	61.6

Guarantees

Our guarantees do not represent incremental Constellation Energy obligations; rather they primarily represent parental guarantees of subsidiary obligations. The following table summarizes the maximum exposure by guarantor based on the stated limit of our outstanding guarantees:

At September 30, 2011 **Stated Limit**

	<i>(In billions)</i>	
Constellation Energy guarantees	\$	9.1
BGE guarantees		0.3
Total guarantees	\$	9.4

At September 30, 2011, Constellation Energy had a total of \$9.4 billion in guarantees outstanding related to loans, credit facilities, and contractual performance of certain of its subsidiaries as described below.

Constellation Energy guaranteed a face amount of \$9.1 billion as follows:

\$8.6 billion on behalf of our Generation and NewEnergy businesses to allow them the flexibility needed to conduct business with counterparties without having to post other forms of collateral. Our estimated net exposure for obligations under commercial transactions covered by these guarantees was approximately \$1 billion at September 30, 2011, which represents the total amount the parent company could be required to fund based on September 30, 2011 market prices. For those guarantees related to our derivative liabilities, the fair value of the obligation is recorded in our Consolidated Balance Sheets.

\$0.5 billion primarily on behalf of CENG's nuclear generating facilities for nuclear insurance and credit support to ensure these plants have funds to meet expenses and obligations to safely operate and maintain the plants. We recorded the fair value of \$11.1 million for these guarantees on our Consolidated Balance Sheets.

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BGE guaranteed the Trust Preferred Securities of \$250.0 million of BGE Capital Trust II.

Commitments and Contingencies

At September 30, 2011, the total amount of commitments was \$8.4 billion. These commitments are primarily related to our Generation, NewEnergy, regulated electric and gas, and other nonregulated businesses. These commitments relate to:

- purchase of electric generating capacity and energy as well as renewable energy credits,
- procurement and delivery of fuels,
- the capacity and transmission and transportation rights for the physical delivery of power and gas to meet our obligations to our customers, and
- service agreements, capital for construction programs, and other.

Our Generation and NewEnergy businesses enter into various contracts for the procurement and delivery of fuels primarily related to supplying our generating plant requirements. In most cases, our contracts contain provisions for price escalations, minimum purchase levels, and other financial commitments. These contracts expire in various years between 2011 and 2030. In addition, our Generation and NewEnergy businesses enter into contracts for the purchase of energy, capacity and transmission rights for the delivery of energy to meet our physical obligations

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to our customers. These contracts expire in various years between 2011 and 2023.

Our Generation and NewEnergy businesses also have committed to service agreements and other purchase commitments for our plants.

Our regulated electric business enters into various contracts for the procurement of electricity. These contracts expire between 2011 and 2013 and represent BGE's estimated requirements to serve residential and small commercial customers as follows:

<i>Contract Duration</i>	<i>Percentage of Estimated Requirements</i>
From October 1, 2011 to May 2012	100%
From June 2012 to September 2012	75
From October 2012 to May 2013	50
From June 2013 to September 2013	25

The cost of power under these contracts is recoverable under the Provider of Last Resort agreement reached with the Maryland PSC.

Our regulated gas business enters into various contracts for the procurement, transportation, and storage of gas. Our regulated gas business has gas procurement contracts that expire between 2011 and 2014 and transportation and storage contracts that expire between 2012 and 2027. The cost of gas under these contracts is recoverable under BGE's gas cost adjustment clause discussed in *Note 1* of our 2010 Annual Report on Form 10-K.

We have also committed to service agreements and other obligations related to our information technology systems.

Long-Term Power Sales Contracts

We enter into long-term power sales contracts in connection with our load-serving activities. We also enter into long-term power sales contracts associated with certain of our power plants. Our load-serving power sales contracts extend for terms through 2031 and provide for the sale of energy to electricity distribution utilities and certain retail customers. Our power sales contracts associated with our power producing facilities, including renewable energy, extend for terms into 2033 and provide for the sale of all or a portion of the actual output of certain of our power producing facilities. Substantially all long-term contracts were executed at pricing that approximated market rates, including profit margin, at the time of execution.

Contingencies

Litigation

In the normal course of business, we are involved in various legal proceedings. We discuss the significant matters below.

Merger with Exelon

In late April and early May 2011, shortly after Constellation Energy and Exelon announced their agreement to merge the two companies, twelve shareholder class action lawsuits were filed in the Circuit Court for Baltimore City in Maryland. Each class action suit was filed on behalf of a proposed class of the shareholders of Constellation Energy against Constellation Energy, members of Constellation Energy's board of directors, and Exelon. The shareholder class actions generally allege that the individual directors breached their fiduciary duties by entering into the proposed merger because they failed to maximize the value that the shareholders would receive from the merger, and failed to disclose adequately all material information relating to the proposed merger. The class actions also allege that Constellation Energy and Exelon aided and abetted the individual directors' breaches of their fiduciary duties. The lawsuits challenge the proposed merger, seek to enjoin a shareholder vote on the proposed merger until all material information is provided relating to the proposed merger, and ask for rescission of the proposed merger and any related transactions that have been completed as of the date that the court grants any relief. The class action lawsuits also seek certification as class actions, compensatory damages, costs and disbursements related to the action, including attorneys' and experts' fees, and rescission damages. Plaintiffs in three of the twelve lawsuits subsequently filed motions to consolidate all the lawsuits. The court has granted the motion to consolidate.

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In August 2011, two shareholder class action lawsuits were filed in the United States District Court for the District of Maryland. The class actions generally assert that Constellation Energy's directors breached their fiduciary duties to Constellation Energy's shareholders in connection with the pending merger and that Constellation Energy's directors, Constellation Energy, and Exelon aided and abetted the alleged breaches and that Constellation Energy's directors, Constellation Energy and/or Exelon violated Section 14(a) of the Securities Exchange Act of 1934 based on alleged material misrepresentations and omissions in the preliminary joint proxy statement/prospectus filed on June 27, 2011. The class actions seek various forms of relief, including, among other things, a declaratory judgment, an injunction prohibiting the merger, fees, expenses, and other costs.

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In the third quarter of 2011, the parties to the consolidated action in the state court and the two actions in the federal court entered into a memorandum of understanding setting forth an agreement in principle regarding the settlement of the actions. Under the agreement, Constellation Energy and Exelon agreed to provide certain additional disclosures in the joint proxy statement/prospectus relating to the merger. The agreement provides that the actions will be dismissed with prejudice and that the members of the class of Constellation Energy shareholders will release the defendants from all claims that were or could have been raised in the actions, including all claims relating to the merger. The agreement also provides that the plaintiffs' counsel may apply to the state court for an award of attorney's fees and expenses. The settlement is subject to customary conditions, including, among other things, the execution of definitive settlement papers and approval of the settlement by the state court.

Constellation Energy and Constellation Energy's directors believe the actions are without merit and that they have valid defenses to all claims asserted therein. They entered into the memorandum of understanding solely to eliminate the burden, expense, and uncertainties inherent in further litigation. If the state court does not approve the settlement or any of the other conditions to consummation of the settlement are not satisfied, Constellation Energy and Constellation Energy's directors will continue to defend their positions in these matters vigorously.

Securities Class Action

Three federal securities class action lawsuits were filed in the United States District Courts for the Southern District of New York and the District of Maryland between September 2008 and November 2008. The cases were filed on behalf of a proposed class of persons who acquired publicly traded securities, including the Series A Junior Subordinated Debentures (Debentures), of Constellation Energy between January 30, 2008 and September 16, 2008, and who acquired Debentures in an offering completed in June 2008. The securities class actions generally allege that Constellation Energy, a number of its present or former officers or directors, and the underwriters violated the securities laws by issuing a false and misleading registration statement and prospectus in connection with Constellation Energy's June 27, 2008 offering of Debentures. The securities class actions also allege that Constellation Energy issued false or misleading statements or was aware of material undisclosed information which contradicted public statements including in connection with its announcements of financial results for 2007, the fourth quarter of 2007, the first quarter of 2008 and the second quarter of 2008 and the filing of its first quarter 2008 Form 10-Q. The securities class actions seek, among other things, certification of the cases as class actions, compensatory damages, reasonable costs and expenses, including counsel fees, and rescission damages.

The Southern District of New York granted the defendants' motion to transfer the two securities class actions filed in Maryland to the District of Maryland, and the actions have since been transferred for coordination with the securities class action filed there. On June 18, 2009, the court appointed a lead plaintiff, who filed a consolidated amended complaint on September 17, 2009. On November 17, 2009, the defendants moved to dismiss the consolidated amended complaint in its entirety. On August 13, 2010, the District Court of Maryland issued a ruling on the motion to dismiss, holding that the plaintiffs failed to state a claim with respect to the claims of the common shareholders under the Securities Act of 1934 and limiting the suit to those persons who purchased Debentures in the June 2008 offering. In August 2011, plaintiffs requested permission from the court to file a third amended complaint in an effort to attempt to revive the claims of the common shareholders. Constellation Energy has filed an objection to the plaintiffs' request for permission to file a third amended complaint. Given that limited discovery has occurred, that the court has not certified any class and the plaintiffs have not quantified their potential damage claims, we are unable at this time to provide an estimate of the range of possible loss relating to these proceedings or to determine the ultimate outcome of the securities class actions or their possible effect on our, or BGE's financial results.

Mercury

Since September 2002, BGE, Constellation Energy, and several other defendants have been involved in numerous actions filed in the Circuit Court for Baltimore City, Maryland alleging mercury poisoning from several sources, including coal plants formerly owned by BGE. The plants are now owned by a subsidiary of Constellation Energy. In addition to BGE and Constellation Energy, approximately 11 other defendants, consisting of pharmaceutical companies, manufacturers of vaccines, and manufacturers of Thimerosal have been sued. Approximately 70 cases, involving claims related to approximately 132 children, have been filed to date, with each claimant seeking \$20 million in compensatory damages, plus punitive damages, from us.

The claims against BGE and Constellation Energy had been dismissed in all of the cases either with prejudice based on rulings by the Court or without prejudice based on voluntary dismissals by the plaintiffs' counsel although the plaintiffs had a right to appeal once the cases were finally concluded as to all defendants. These cases have

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been concluded as to all defendants and no appeals have been filed. As a result, the cases are concluded with respect to BGE and Constellation Energy.

Asbestos

Since 1993, BGE and certain Constellation Energy subsidiaries have been involved in several actions concerning asbestos. The actions are based upon the theory of "premises liability," alleging that BGE and Constellation Energy knew of and exposed individuals to an asbestos hazard. In addition to BGE and Constellation Energy, numerous other parties are defendants in these cases.

Approximately 484 individuals who were never employees of BGE or Constellation Energy have pending claims each seeking several million dollars in compensatory and punitive damages. Cross-claims and third party claims brought by other defendants may also be filed against BGE and Constellation Energy in these actions. To date, most asbestos claims which have been resolved have been dismissed or resolved without any payment by BGE or Constellation Energy and a small minority of these cases have been resolved for amounts that were not material to our financial results.

Discovery begins in these cases once they are placed on the trial docket. At present, only a small number of our pending cases have reached the trial docket. Given the limited discovery, BGE and Constellation Energy do not know the specific facts that we believe are necessary for us to provide an estimate of the possible loss relating to these claims. The specific facts we do not know include:

- the identity of the facilities at which the plaintiffs allegedly worked as contractors,
- the names of the plaintiffs' employers,
- the dates on which and the places where the exposure allegedly occurred, and
- the facts and circumstances relating to the alleged exposure.

Insurance and hold harmless agreements from contractors who employed the plaintiffs may cover a portion of any awards in the actions.

Federal Energy Regulatory Commission Investigation

The Federal Energy Regulatory Commission (FERC) staff in the Office of Enforcement, Division of Investigations, is conducting a non-public investigation of our virtual transactions and physical schedules in and around the New York ISO from September 2007 through December 2008. On August 29, 2011, the FERC staff notified us of its preliminary findings relating to our alleged violation of FERC's rules in connection with these activities. We continue to cooperate fully with the FERC investigation and, on October 28, 2011, we delivered to the FERC staff a response to their preliminary findings letter explaining why our conduct was lawful and refuting any allegation of wrongdoing. The FERC staff will determine whether to close the investigation without further action, to pursue the investigation further, or to attempt to resolve the matter through settlement. As we only recently produced our response to FERC's preliminary findings and we cannot predict whether FERC will agree with our response, we cannot predict at this time whether or to what extent we may incur a liability.

Environmental Matters

Solid and Hazardous Waste

In 1999, the EPA proposed to add the 68th Street Dump in Baltimore, Maryland to the Superfund National Priorities List, which is its list of sites targeted for clean-up and enforcement, and sent a general notice letter to BGE and 19 other parties identifying them as potentially responsible parties at the site. In March 2004, we and other potentially responsible parties formed the 68th Street Coalition and entered into consent order negotiations with the EPA to investigate clean-up options for the site under the Superfund Alternative Sites Program. In May 2006, a settlement among the EPA and 19 of the potentially responsible parties, including BGE, with respect to investigation of the site became effective. The settlement requires the potentially responsible parties, over the course of several years, to identify contamination at the site and recommend clean-up options. BGE is indemnified by a wholly owned subsidiary of Constellation Energy for most of the costs related to this settlement and clean-up of the site. The potentially responsible parties submitted their investigation of the range of clean-up options in the first quarter of 2011. Although the investigation and options provided to the EPA are still subject to EPA review, we believe that the range of estimated clean-up costs to be allocated among all of the potentially responsible parties will be between approximately \$50 million and \$64 million depending on the clean-up option selected by the EPA. The EPA is expected to make a final selection of one of the alternatives in 2012. As the alternative to be selected by the EPA and the allocation of the clean-up costs among the potentially responsible parties is not yet known, we cannot provide an

estimate of the range of our possible loss.

Air Quality

In January 2009, the EPA issued a notice of violation (NOV) to a subsidiary of Constellation Energy, as well as to the other owners and the operator of the Keystone coal-fired power plant in Shelocta, Pennsylvania. We hold a 20.99% interest in the Keystone plant. The NOV alleges that the plant performed various capital projects beginning

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in 1984 without complying with the new source review permitting requirements of the Clean Air Act. The EPA also contends that the alleged failure to comply with those requirements are continuing violations under the plant's air permits. The EPA could seek civil penalties under the Clean Air Act for the alleged violations.

The owners and operator of the Keystone plant have investigated the allegations and had a meeting with the EPA where they provided the EPA with both legal and factual documentation to support their position that no violations have occurred. Since that time, the EPA has not requested any further meeting or otherwise acted on the allegations. We believe there are meritorious defenses to the allegations contained in the NOV. Because there are significant facts in dispute and this matter is only in the NOV stage, at this time we cannot estimate the range of possible loss or predict whether a proceeding will be commenced.

Water Quality

In October 2007, a subsidiary of Constellation Energy entered into a consent decree with the Maryland Department of the Environment relating to groundwater contamination at a third party facility that was licensed to accept fly ash, a byproduct generated by our coal-fired plants. The consent decree requires the payment of a \$1.0 million penalty, remediation of groundwater contamination resulting from the ash placement operations at the site, replacement of drinking water supplies in the vicinity of the site, and monitoring of groundwater conditions. We recorded a liability in our Consolidated Balance Sheets of approximately \$10.6 million, which includes the \$1 million penalty and our estimate of probable costs to remediate contamination, replace drinking water supplies, monitor groundwater conditions, and otherwise comply with the consent decree. We have paid approximately \$5.5 million of these costs as of September 30, 2011, resulting in a remaining liability at September 30, 2011 of \$5.1 million. We estimate that it is reasonably possible that we could incur additional costs of up to approximately \$10 million more than the liability that we accrued.

In April 2007, PennEnvironment and the Sierra Club brought a Clean Water Act citizen suit against the operator of the Conemaugh power plant in Pennsylvania, seeking civil penalties and injunctive relief for alleged violations of Conemaugh's water permit. Throughout the relevant time period, the operator of the Conemaugh plant has been working closely with the Pennsylvania Department of Environmental Protection (PADEP) to ensure that the facility operates in an environmentally sound manner, and does not cause any adverse environmental impacts. Pursuant to a consent order between PADEP and the operator, a variety of studies have been conducted and treatment facilities have been designed and have been built or are pending construction, all in order to comply with the stringent limits set out in Conemaugh's water permit. On March 21, 2011, the court entered a partial summary judgment in the plaintiffs' favor, declaring as a matter of law that discharges from the Conemaugh plant had violated the water permit. In June 2011, the parties agreed to settle the proceeding for an immaterial amount.

Insurance

We discuss our non-nuclear insurance programs in *Note 12* of our 2010 Annual Report on Form 10-K.

Derivative Instruments

Risks, Objectives, and Strategies

Substantially all of our risk management activities involving derivatives occur in our competitive businesses. In carrying out our competitive business activities, we purchase and sell power, fuel, and other energy-related commodities in competitive markets. These activities expose us to significant risks, including market risk from price volatility for energy commodities and the credit risks of counterparties with which we enter into contracts.

To lower our exposure to the risk of unfavorable fluctuations in commodity prices, interest rates, and foreign currency rates, we routinely enter into derivative contracts, such as fixed price forward physical purchase and sales contracts, futures, financial swaps, and option contracts traded in the over-the-counter markets or on exchanges, for hedging purposes. We also enter into derivative contracts for trading purposes.

We discuss the nature of our business and associated risks in connection with our objectives and strategies for using derivatives for both risk management and non-risk management activities in *Note 13* of our 2010 Annual Report on Form 10-K.

Accounting for Derivative Instruments

We recognize all qualifying derivative instruments on the balance sheet at fair value as either assets or liabilities.

Accounting Designation

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We must evaluate new and existing transactions and agreements to determine whether they meet the definition of a derivative, for which there are several possible accounting treatments. The permissible accounting treatments include:

- normal purchase normal sale (NPNS),
- cash flow hedge,
- fair value hedge, and
- mark-to-market.

Mark-to-market is required as the default accounting treatment for all derivatives unless they qualify, and we specifically designate them, for one of the other accounting treatments. Derivatives designated for any of the elective accounting treatments must meet specific, restrictive criteria, both at the time of designation and on an ongoing basis.

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We discuss our accounting policies for derivatives and hedging activities and their impacts on our financial statements in *Note 1* to our 2010 Annual Report on Form 10-K.

In the sections below, we describe the significant activity in 2011 by accounting treatment.

NPNS

We continue to elect NPNS accounting for certain contracts that provide for the purchase or sale of a physical commodity that will be delivered in quantities expected to be used or sold over a reasonable period in the normal course of business.

*Cash Flow Hedging*Commodity Cash Flow Hedges

We have designated fixed-price forward contracts as cash-flow hedges of forecasted purchases and sales of energy, fuel, and other related commodities for the years 2011 through 2017. We had net unrealized pre-tax losses on these cash-flow hedges recorded in "Accumulated other comprehensive loss" of \$406.8 million at September 30, 2011 and \$388.0 million at December 31, 2010.

We expect to reclassify \$224.7 million of net pre-tax losses on cash-flow hedges from "Accumulated other comprehensive loss" into earnings during the next twelve months based on market prices at September 30, 2011. However, the actual amount reclassified into earnings could vary from the amounts recorded at September 30, 2011, due to future changes in market prices.

When we determine that a forecasted transaction originally designated as a hedged item has become probable of not occurring, we immediately reclassify net unrealized gains or losses associated with those hedges from "Accumulated other comprehensive loss" to earnings. We recognized in earnings the following pre-tax amounts on such contracts:

Quarter Ended		Nine Months Ended	
September 30,		September 30,	
2011	2010	2011	2010

(In millions)

Pre-tax gains (losses)	\$ (3.4)	\$	\$ (3.7)	\$ (0.3)
------------------------	----------	----	----------	----------

Interest Rate Swaps Designated as Cash Flow Hedges

Accumulated other comprehensive loss includes net unrealized pre-tax gains on interest rate cash-flow hedges of prior debt issuances totaling \$8.9 million at September 30, 2011 and \$10.1 million at December 31, 2010. We expect to reclassify \$0.1 million of pre-tax net gains on these cash-flow hedges from "Accumulated other comprehensive loss" into "Interest expense" during the next twelve months. We had no hedge ineffectiveness on these swaps.

During the third quarter of 2011, a subsidiary of Constellation Energy entered into forward-starting interest rate swap contracts to manage a portion of our interest rate exposure for anticipated long-term borrowings to finance our solar projects. The swaps have contract amounts that total \$30.6 million with an average interest rate of 3.6% and expire in 2027. At September 30, 2011, the fair value of these swap contracts was an unrealized pre-tax loss of \$3.3 million.

Fair Value Hedging

We elect fair value hedge accounting for a limited portion of our derivative contracts including certain interest rate swaps and certain forward contracts and swaps associated with natural gas fuel in storage. The objectives for electing fair value hedge accounting in these situations are to manage our exposure to changes in the fair value of our assets and liabilities, to optimize the mix of our fixed and floating-rate debt, and to hedge the value of our natural gas in storage.

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Interest Rate Swaps Designated as Fair Value Hedges

At December 31, 2010, we had interest rate swaps qualifying as fair value hedges relating to \$400 million of our fixed-rate debt maturing in 2012 and 2015. The fair value of these hedges was an unrealized gain of \$35.7 million at December 31, 2010.

At September 30, 2011, we have interest rate swaps qualifying as fair value hedges relating to \$550 million of our fixed-rate debt maturing in 2015, and converted this notional amount of debt to floating-rate. The fair value of these hedges was an unrealized gain of \$47.0 million at September 30, 2011.

We recorded the fair value of these hedges as an increase in our "Derivative assets" and an increase in our "Long-term debt."

Table of Contents*Hedge Ineffectiveness*

For all categories of derivative instruments designated in hedging relationships, we recorded in earnings the following pre-tax gains (losses) related to hedge ineffectiveness:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
<i>(In millions)</i>				
Cash-flow hedges	\$ (76.8)	\$ (21.8)	\$ (99.6)	\$ (46.1)
Fair value hedges	0.6		(1.2)	
Total	\$ (76.2)	\$ (21.8)	\$ (100.8)	\$ (46.1)

The ineffectiveness in the table above excludes pre-tax gains of \$1.6 million and \$2.7 million related to the change in our fair value hedges excluded from hedge ineffectiveness for the quarter and nine months ended September 30, 2011, respectively. We did not recognize any gain or loss related to the change in our fair value hedges excluded from hedge ineffectiveness during the quarter and nine months ended September 30, 2010.

Mark-to-Market

During February 2011, we entered into interest rate swaps through 2015 related to \$150 million of our fixed rate debt maturing in 2020, and converted this notional amount of debt to floating rate over the related time frame. However, these interest rate swaps do not qualify as fair value hedges and will be marked to market through earnings.

Quantitative Information About Derivatives and Hedging Activities*Balance Sheet Tables*

We present our derivative assets and liabilities in our Consolidated Balance Sheets on a net basis, including cash collateral, whenever we have a legally enforceable master netting agreement with a counterparty to a derivative contract. We use master netting agreements whenever possible to manage and substantially reduce our potential counterparty credit risk. The net presentation in our Consolidated Balance Sheets reflects our actual credit exposure after giving effect to the beneficial effects of these agreements and cash collateral, and our credit risk is reduced further by other forms of collateral.

The following tables provide information about the risks we manage using derivatives. These tables only include derivatives and do not reflect the price risks we are hedging that arise from physical assets or nonderivative accrual contracts within our Generation and NewEnergy businesses.

We present this information by disaggregating our net derivative assets and liabilities into gross components on a contract-by-contract basis before giving effect to the risk-reducing benefits of master netting arrangements and collateral. As a result, we must present each individual contract as an "asset value" if it is in the money or a "liability value" if it is out of the money, regardless of whether the individual contracts offset market or credit risks of other contracts in full or in part. Therefore, the gross amounts in these tables do not reflect our actual economic or credit risk associated with derivatives. This gross presentation is intended only to show separately the various derivative contract types we use, such as commodities, interest rate, and foreign exchange.

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The contracts in the tables below are segregated between derivatives designated for hedge accounting and those not designated for hedge accounting. Derivatives not designated in hedging relationships include our NewEnergy retail operations, economic hedges of accrual activities, and risk management and trading activities. We use the end of period accounting designation to determine the classification for each derivative position.

As of September 30, 2011	Derivatives Designated as Hedging Instruments for Accounting Purposes		Derivatives Not Designated As Hedging Instruments for Accounting Purposes		All Derivatives Combined	
	Asset Values ³	Liability Values ⁴	Asset Values ³	Liability Values ⁴	Asset Values ³	Liability Values ⁴
<i>(In millions)</i>						
Power contracts	\$ 617.0	\$ (683.7)	\$ 4,028.3	\$ (4,322.5)	\$ 4,645.3	\$ (5,006.2)
Gas contracts	1,270.0	(1,302.8)	3,547.1	(3,594.8)	4,817.1	(4,897.6)
Coal contracts	28.4	(22.3)	109.0	(96.8)	137.4	(119.1)
Other commodity contracts ¹			538.9	(529.2)	538.9	(529.2)
Interest rate contracts	47.0	(3.3)	57.7	(51.9)	104.7	(55.2)
Foreign exchange contracts			14.4	(5.5)	14.4	(5.5)
Equity contracts			0.4		0.4	
Total gross fair values	\$ 1,962.4	\$ (2,012.1)	\$ 8,295.8	\$ (8,600.7)	\$ 10,258.2	\$ (10,612.8)
Netting arrangements ⁵					(9,883.4)	9,883.4
Cash collateral					(81.4)	1.9
Net fair values					\$ 293.4	\$ (727.5)
Net fair value by balance sheet line item:						
Accounts receivable ²					\$ (198.6)	
Derivative assets current					233.8	
Derivative assets noncurrent					258.2	
Derivative liabilities current						(487.8)
Derivative liabilities noncurrent						(239.7)
Total Derivatives					\$ 293.4	\$ (727.5)

1 Other commodity contracts include oil, freight, emission allowances, renewable energy credits, and weather contracts.

2 Represents the unrealized fair value of exchange traded derivatives, exclusive of cash margin posted.

3 Represents in-the-money contracts without regard to potentially offsetting out-of-the-money contracts under master netting agreements.

4 Represents out-of-the-money contracts without regard to potentially offsetting in-the-money contracts under master netting agreements.

5 Represents the effect of legally enforceable master netting agreements.

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As of December 31, 2010	Derivatives Designated as Hedging Instruments for Accounting Purposes		Derivatives Not Designated As Hedging Instruments for Accounting Purposes		All Derivatives Combined	
	Asset Values ³	Liability Values ⁴	Asset Values ³	Liability Values ⁴	Asset Values ³	Liability Values ⁴
<i>(In millions)</i>						
Power contracts	\$ 1,167.9	\$ (1,362.8)	\$ 6,795.0	\$ (7,166.5)	\$ 7,962.9	\$ (8,529.3)
Gas contracts	1,902.3	(1,832.8)	3,390.1	(3,155.3)	5,292.4	(4,988.1)
Coal contracts	97.0	(48.6)	266.0	(259.7)	363.0	(308.3)
Other commodity contracts ¹			61.4	(61.6)	61.4	(61.6)
Interest rate contracts	35.7		34.4	(35.7)	70.1	(35.7)
Foreign exchange contracts			11.0	(8.4)	11.0	(8.4)
Total gross fair values	\$ 3,202.9	\$ (3,244.2)	\$ 10,557.9	\$ (10,687.2)	\$ 13,760.8	\$ (13,931.4)
Netting arrangements ⁵					(12,955.5)	12,955.5
Cash collateral					(28.4)	0.6
Net fair values					\$ 776.9	\$ (975.3)
Net fair value by balance sheet line item:						
Accounts receivable ²					\$ (16.4)	
Derivative assets current					534.4	
Derivative assets noncurrent					258.9	
Derivative liabilities current						(622.3)
Derivative liabilities noncurrent						(353.0)
Total Derivatives					\$ 776.9	\$ (975.3)

1 Other commodity contracts include oil, freight, emission allowances, and weather contracts.

2 Represents the unrealized fair value of exchange traded derivatives, exclusive of cash margin posted.

3 Represents in-the-money contracts without regard to potentially offsetting out-of-the-money contracts under master netting agreements.

4 Represents out-of-the-money contracts without regard to potentially offsetting in-the-money contracts under master netting agreements.

5 Represents the effect of legally enforceable master netting agreements.

Gain and (Loss) Tables

The tables below summarize derivative gains and losses segregated into the following categories:

- cash flow hedges,
- fair value hedges, and
- mark-to-market derivatives.

The tables only include this information for derivatives and do not reflect the related gains or losses that arise from generation and generation-related assets, nonderivative accrual contracts, or NPNS contracts within our Generation and NewEnergy businesses, other than fair

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value hedges, for which we separately show the gain or loss on the hedged asset or liability. As a result, these tables only reflect the impact of derivatives themselves and therefore do not necessarily include all of the income statement impacts of the transactions for which derivatives are used to manage risk. For a more complete discussion of how derivatives affect our financial performance, see our accounting policy for *Revenues, Fuel and Purchased Energy Expenses, and Derivatives and Hedging Activities* in *Note 1* of our 2010 Annual Report on Form 10-K.

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The following tables present gains and losses on derivatives designated as cash flow hedges.

Cash Flow Hedges

Quarter Ended September 30,

Contract type:	Gain (Loss) Recorded in AOCI		Statement of Income (Loss) Line Item	Gain (Loss) Reclassified from AOCI into Earnings		Ineffectiveness Gain (Loss) Recorded in Earnings	
	2011	2010		2011	2010	2011	2010
<i>(In millions)</i>							
Hedges of forecasted sales:			Nonregulated revenues				
Power contracts	\$ 25.0	\$ 92.1		\$ (7.7)	\$ (72.5)	\$ 0.6	\$ 14.3
Gas contracts	(2.9)	(20.2)		48.0	19.4	4.4	(0.2)
Total gains (losses)	\$ 22.1	\$ 71.9	Total included in nonregulated revenues	\$ 40.3	\$ (53.1)	\$ 5.0	\$ 14.1
Hedges of forecasted purchases:			Fuel and purchased energy expense				
Power contracts	\$ (16.9)	\$ (211.6)		\$ (63.5)	\$ (195.3)	\$ (13.6)	\$ (16.3)
Gas contracts	(110.8)	(119.7)		(4.3)	41.1	(69.7)	(20.0)
Coal contracts	(4.3)	20.8		11.6	(9.1)	1.5	0.4
Total (losses) gains	\$ (132.0)	\$ (310.5)	Total included in fuel and purchased energy expense	\$ (56.2)	\$ (163.3)	\$ (81.8)	\$ (35.9)
Hedges of interest rates:			Interest expense				
Interest rate contracts	3.3				0.1		
Total gains	\$ 3.3	\$ -	-	-	-	190.1	(190.1)
Income tax credit paid on business acquisition	-	-	-	-	(297.7)	297.7	
Investments in associated companies	-	-	-	-	-	-	-
Increase in	(0.9)	(89.1)	88.2	(24.7)	(65.3)	40.7	

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Other Investments						
Proceeds from sale of discontinued operations	-	(3.9)	3.9	718.6	-	718.6
Discontinued operations	-	152.6	(152.6)	242.4	419.3	(176.9)
	-----	-----	-----	-----	-----	-----
Net cash (used in) provided by investing activities	(172.8)	(108.3)	(64.5)	350.5	(1,802.3)	2,152.8
Dividends paid in cash and other distributions to company's equity shareholders	-	-	-	(100.2)	(100.2)	-
Dividends paid in cash and other distributions to minority shareholders	-	-	-	(19.6)	(20.0)	0.4
Net proceeds from Initial Public Offering	-	-	-	-	-	-
Contributions from shareholders	-	-	-	-	-	-
Contributions from minority shareholders in consolidated subsidiaries	-	-	-	-	1.2	(1.2)
Proceeds from borrowings	147.8	190.7	(42.8)	519.8	4,052.7	(3,532.9)
Repayment of borrowings	(78.9)	(142.5)	63.6	(1,152.9)	(2,574.6)	1,421.7
	-----	-----	-----	-----	-----	-----
Net cash provided by (used in) financing	68.9	48.1	20.8	(752.9)	1,359.0	(2,112.0)

activities

Increase
(decrease) in
cash and cash
equivalents

472.2	(72.1)	544.3	115.1	493.1	(378.0)
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Shipments

Thousand tons	4Q 2008	3Q 2008	4Q 2007	FY 2008	FY 2007
South & Central America					
South & Central America	559.9	680.4	699.0	2,604.2	2,499.1
North America	642.2	901.8	993.6	3,666.1	3,034.9
Europe & other	36.0	2.8	12.3	55.2	184.9
	-----	-----	-----	-----	-----
Total flat products	1,238.1	1,585.1	1,704.9	6,325.5	5,718.9
South & Central America					
South & Central America	91.9	86.0	55.2	302.5	132.8
North America	213.2	173.3	268.9	901.3	1,113.4
Europe & other	3.6	-	15.0	13.3	15.0
	-----	-----	-----	-----	-----
Total long products	308.7	259.2	339.1	1,217.2	1,261.2
Total flat and long products	1,546.8	1,844.3	2,044.0	7,542.7	6,980.1

Revenue / ton

US\$/ton	4Q 2008	3Q 2008	4Q 2007	FY 2008	FY 2007
South & Central America					
South & Central America	1,147	1,153	870	1,068	815
North America	1,146	1,412	882	1,171	847
Europe & other	834	933	641	860	665
	-----	-----	-----	-----	-----
Total flat products	1,137	1,300	875	1,126	827
South & Central America					
South & Central America	780	1,212	489	907	527
North America	749	1,108	611	878	625
Europe & other	884	-	457	669	457
	-----	-----	-----	-----	-----
Total long products	760	1,142	585	883	613
Total flat and long products	1,062	1,278	827	1,087	789

Net Sales

US\$ million	4Q 2008	3Q 2008	4Q 2007	FY 2008	FY 2007
	642.4	784.4	607.9	2,782.5	2,037.0

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South & Central America					
North America	735.7	1,273.4	876.3	4,294.7	2,571.8
Europe & other	30.0	2.6	7.9	47.5	123.0
	-----	-----	-----	-----	-----
Total flat products	1,408.1	2,060.4	1,492.0	7,124.7	4,731.7
South & Central America	71.7	104.2	27.0	274.4	70.0
North America	159.7	192.0	164.4	791.8	696.0
Europe & other	3.1	-	6.9	8.9	6.9
	-----	-----	-----	-----	-----
Total long products	234.5	296.2	198.2	1,075.1	772.8
	-----	-----	-----	-----	-----
Total flat and long products	1,642.6	2,356.6	1,690.3	8,199.8	5,504.5
Other products (1)	78.5	80.3	32.8	265.1	128.8
	-----	-----	-----	-----	-----
Total net sales	1,721.1	2,436.9	1,723.1	8,464.9	5,633.4

(1) Includes iron ore, pig iron and metal buildings.

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Consolidated income statement (historical series including Consorcio Minero Benito Juarez Pena Colorada S.A. de C.V. and Pena Colorada Servicios S.A. de C.V. under the proportionate consolidation method)

US\$ million	Year 2008	4Q 2008	3Q 2008	2Q 2008	1Q 2008
Net sales	8,464.9	1,721.1	2,436.9	2,364.2	1,942.6
Cost of sales	(6,128.0)	(1,376.7)	(1,724.1)	(1,579.5)	(1,447.7)
	-----	-----	-----	-----	-----
Gross profit	2,336.9	344.4	712.8	784.8	494.9
Selling, general and administrative expenses	(669.5)	(159.6)	(184.8)	(179.6)	(145.5)
Other operating income (expenses), net	8.7	1.4	(3.8)	1.1	10.0
	-----	-----	-----	-----	-----
Operating income	1,676.0	186.3	524.2	606.2	359.4
Interest expense	(136.1)	(32.7)	(29.1)	(30.1)	(44.3)
Interest income	32.2	5.9	2.2	12.0	12.1
Other financial(expenses)income, net	(693.2)	(654.9)	(156.5)	115.3	3.0
Equity in earnings (losses) of associated companies	1.9	1.1	(0.1)	0.4	0.4
	-----	-----	-----	-----	-----
Income (Loss) before income tax expense	880.8	(494.4)	340.6	703.8	330.6
Income tax (expense) benefit					
Current and deferred income tax expense	(259.0)	145.9	(90.5)	(208.2)	(106.2)
Reversal of deferred statutory profit sharing	96.3	-	-	-	96.3
Discontinued operations	157.1	-	(2.8)	0.0	159.9
Net income (loss) for the year / period	875.2	(348.5)	247.3	495.7	480.7
Attributable to:					
Equity holders of the Company	715.4	(334.0)	211.7	415.6	422.1
Minority interest	159.7	(14.5)	35.6	80.0	58.6
	-----	-----	-----	-----	-----
	875.2	(348.5)	247.3	495.7	480.7
US\$ million	Year 2007	4Q 2007	3Q 2007	2Q 2007	1Q 2007

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Net sales	5,633.4	1,723.1	1,496.9	1,246.9	1,166.5
Cost of sales	(4,287.7)	(1,350.8)	(1,135.6)	(927.0)	(874.3)
	-----	-----	-----	-----	-----
Gross profit	1,345.7	372.3	361.3	319.9	292.2
Selling, general and administrative expenses	(517.4)	(166.5)	(143.0)	(116.5)	(91.5)
Other operating income (expenses), net	8.5	5.3	0.4	(3.7)	6.5
	-----	-----	-----	-----	-----
Operating income	836.8	211.1	218.7	199.8	207.2
Interest expense	(133.1)	(61.4)	(47.1)	(10.4)	(14.1)
Interest income	41.6	13.7	12.9	7.7	7.2
Other financial (expenses) income, net	(38.5)	8.8	(53.7)	(10.8)	17.2
Equity in earnings (losses) of associated companies	0.4	1.6	(0.3)	(0.4)	(0.5)
	-----	-----	-----	-----	-----
Income before income tax expense	707.2	173.8	130.4	186.0	217.0
Income tax (expense) benefit					
Current and deferred income tax expense	(291.3)	(70.1)	(63.0)	(71.9)	(86.3)
Reversal of deferred statutory profit sharing	-	-	-	-	-
Discontinued operations	579.9	117.7	143.5	199.0	119.8
Net income for the year / period	995.8	221.4	210.9	313.0	250.5
Attributable to:					
Equity holders of the Company	784.5	165.6	159.8	236.9	222.1
Minority interest	211.3	55.8	51.1	76.1	28.3
	-----	-----	-----	-----	-----
	995.8	221.4	210.9	313.0	250.5

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Consolidated balance sheet (historical series including Consorcio Minero Benito Juarez Pena Colorada S.A. de C.V. and Pena Colorada Servicios S.A. de C.V. under the proportionate consolidation method)

US\$ million	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008	December 31, 2007
Property, plant and equipment, net	4,212.3	4,948.2	5,101.5	6,830.4	6,776.6
Intangible assets, net	1,136.4	1,418.4	1,497.5	1,460.7	1,449.3
Investment in associated companies	5.6	4.6	4.7	44.7	44.0
Other investments, net	16.9	17.0	15.4	15.3	14.8
Deferred tax assets	-	5.4	2.2	24.1	31.8
Receivables, net	120.2	106.4	96.9	77.5	236.5
	-----	-----	-----	-----	-----
Total non-current assets	5,491.4	6,499.9	6,718.3	8,452.7	8,553.1
Receivables	249.0	100.4	219.1	558.6	405.0
Derivative financial instruments	1.5	0.1	0.5	-	0.6
Inventories, net	1,826.5	2,752.2	2,328.7	2,119.7	1,904.5
Trade receivables, net	623.0	927.1	1,023.1	898.2	825.6
Available for sale assets	1,318.9	1,318.9	1,318.9	-	-
Other investments	90.0	89.1	-	66.1	65.3
Cash and cash equivalents	1,065.6	611.9	688.6	996.4	1,125.8
	-----	-----	-----	-----	-----
Total current assets	5,174.5	5,799.7	5,578.8	4,639.0	4,326.8
Current assets classified as held for sale	5.3	6.3	6.7	7.1	769.1
	-----	-----	-----	-----	-----
Total assets	10,671.2	12,305.9	12,303.8	13,098.8	13,649.1
Shareholders' equity	4,597.4	5,516.9	5,353.2	4,902.7	4,452.7
Minority interest in subsidiaries	964.1	1,099.5	1,074.2	1,864.7	1,805.2
Minority interest & shareholders' equity	5,561.5	6,616.4	6,427.4	6,767.4	6,257.9

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Provisions	24.4	30.7	29.3	59.6	57.3
Deferred income tax liabilities	810.2	977.9	1,221.5	1,147.4	1,327.8
Tax liabilities	-	69.5	-	1.5	-
Other liabilities	148.7	171.8	173.4	361.5	333.7
Trade payables	-	-	-	6.6	6.7
Derivative financial instruments	65.8	-	-	-	-
Borrowings	2,325.9	2,322.0	2,568.1	2,630.5	3,676.1
	-----	-----	-----	-----	-----
Total non-current liabilities	3,375.0	3,571.8	3,992.2	4,207.1	5,401.5
Current tax liabilities	194.1	249.0	196.5	275.6	179.7
Other liabilities	103.4	132.9	136.4	178.5	181.0
Trade payables	438.7	822.3	940.1	1,098.0	995.7
Derivative financial instruments	57.2	29.9	15.4	29.5	13.3
Borrowings	941.5	883.6	595.8	542.7	406.2
	-----	-----	-----	-----	-----
Total current liabilities	1,734.8	2,117.6	1,884.1	2,124.4	1,775.8
Liabilities related to non-current assets classified as held for sale	-	-	-	-	213.8
	-----	-----	-----	-----	-----
Total liabilities	5,109.8	5,689.4	5,876.3	6,331.4	7,391.2
Total liabilities, minority interest & shareholders' equity	10,671.2	12,305.9	12,303.8	13,098.8	13,649.1

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Consolidated cash flow statement (historical series including Consorcio Minero Benito Juarez Pena Colorada S.A. de C.V. and Pena Colorada Servicios S.A. de C.V. under the proportionate consolidation method)

US\$ million	Year 2008	4Q 2008	3Q 2008	2Q 2008	1Q 2008
Net income for the period/year	718.1	(348.5)	250.1	495.7	320.8
Adjustments for:					
Depreciation and amortization	413.5	94.9	111.8	101.9	105.0
Equity in (earnings) losses of associated companies	(1.9)	(1.1)	0.1	(0.4)	(0.4)
Changes in provisions	2.4	(2.3)	2.8	0.7	1.2
Net foreign exchange and others	629.5	649.8	137.3	(117.9)	(39.7)
Interest accruals less payments	(84.2)	1.6	(1.1)	3.0	(87.7)
Income tax accruals less payments	(88.5)	(198.5)	37.7	139.7	(67.3)
Changes in working capital	(1,071.5)	380.4	(550.7)	(671.1)	(230.1)
	-----	-----	-----	-----	-----
Net cash provided by (used in) operating activities	517.5	576.2	(11.9)	(48.5)	1.7
Capital expenditures	(587.9)	(172.6)	(168.3)	(146.5)	(100.5)
Proceeds from sale of property, plant & equipment	2.1	0.7	0.4	0.3	0.7
Acquisition of business					
Purchase consideration	-	-	-	-	-
Cash acquired	-	-	-	-	-
Income tax credit paid on business acquisition	-	-	-	-	-
(Increase) Decrease in Other Investments	(24.7)	(0.9)	(89.1)	66.1	(0.8)
Proceeds from sale of discontinued operations	718.6	-	(3.9)	-	722.5
Discontinued operations	242.4	-	152.6	57.7	32.2
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Net cash provided by (used in) investing activities	350.5	(172.8)	(108.3)	(22.4)	654.0
Dividends paid in cash and other distributions to company's equity shareholders	(100.2)	-	-	(100.2)	-
Dividends paid in cash and other distributions to minority shareholders	(19.6)	-	-	(19.6)	-
Contributions from minority shareholders in consolidated subsidiaries	-	-	-	-	-
Proceeds from borrowings	519.8	147.8	190.7	76.3	105.0
Repayment of borrowings	(1,152.9)	(78.9)	(142.5)	(40.3)	(891.2)
	-----	-----	-----	-----	-----
Net cash (used in) provided by financing activities	(752.9)	68.9	48.1	(83.8)	(786.2)
Increase (Decrease) in cash and cash equivalents	115.1	472.2	(72.1)	(154.6)	(130.4)

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Consolidated cash flow statement (historical series including Consorcio Minero Benito Juarez Pena Colorada S.A. de C.V. and Pena Colorada Servicios S.A. de C.V. under the proportionate consolidation method)

US\$ million	Year 2007	4Q 2007	3Q 2007	2Q 2007	1Q 2007
Net income for the period/year	415.9	103.7	67.4	114.1	130.7
Adjustments for:					
Depreciation and amortization	355.3	118.9	94.2	77.6	64.6
Equity in (earnings) losses of associated companies	(0.4)	(1.6)	0.3	0.4	0.5
Changes in provisions	3.0	2.1	0.6	0.5	(0.3)
Net foreign exchange and others	28.9	(13.1)	45.3	10.0	(13.4)
Interest accruals less payments	87.6	54.9	35.4	2.4	(5.1)
Income tax accruals less payments	(51.5)	(31.1)	(16.2)	(68.0)	63.8
Changes in working capital	97.7	(49.3)	4.1	54.9	88.1
	-----	-----	-----	-----	-----
Net cash provided by (used in) operating activities	936.4	184.7	231.1	191.8	328.8
Capital expenditures	(344.3)	(100.1)	(81.5)	(76.0)	(86.7)
Proceeds from sale of property, plant & equipment	24.5	17.8	0.5	1.1	5.1
Acquisition of business					
Purchase consideration	(1,728.9)	(0.1)	(1,728.7)	(0.1)	-
Cash acquired	190.1	-	190.1	-	-
Income tax credit paid on business acquisition	(297.7)	-	(297.7)	-	-
Investments in associated companies	-				
(Increase) Decrease in Other					
Investments	(65.3)	(0.8)	(64.5)	-	-
Discontinued operations	419.3	34.1	116.0	59.9	209.4
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Net cash (used in) provided by investing	(1,802.3)	(49.1)	(1,865.8)	(15.2)	127.8

activities

Dividends paid in cash and other distributions to company's equity shareholders	(100.2)	-	-	(100.2)	-
Dividends paid in cash and other distributions to minority shareholders	(20.0)	-	(0.1)	(19.9)	-
Contributions from minority shareholders in consolidated subsidiaries	1.2	0.0	1.1	-	-
Proceeds from borrowings	4,052.7	70.8	3,869.7	72.1	40.1
Repayment of borrowings	(2,574.6)	(157.5)	(1,889.6)	(371.6)	(156.0)
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Net cash provided by (used in) financing activities	1,359.0	(86.7)	1,981.1	(419.6)	(115.8)
Increase (Decrease) in cash and cash equivalents	493.1	48.9	346.4	(243.0)	340.7

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Net Sales (historical series including Consorcio Minero Benito Juarez Pena Colorada S.A. de C.V. and Pena Colorada Servicios S.A. de C.V. under the proportionate consolidation method)

Shipments (historical series ex-Sidor)

Thousand tons	Year 2008	4Q 2008	3Q 2008	2Q 2008	1Q 2008
South & Central America	2,604.2	559.9	680.4	690.9	673.0
North America	3,666.1	642.2	901.8	1,042.2	1,080.0
Europe & other	55.2	36.0	2.8	11.6	4.8
	-----	-----	-----	-----	-----
Total flat products	6,325.5	1,238.1	1,585.1	1,744.7	1,757.7

South & Central America	302.5	91.9	86.0	67.9	56.7
North America	901.3	213.2	173.3	249.6	265.3
Europe & other	13.3	3.6	-	1.0	8.8
	-----	-----	-----	-----	-----
Total long products	1,217.2	308.7	259.2	318.5	330.7

Total flat and long products	7,542.7	1,546.8	1,844.3	2,063.2	2,088.5
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Revenue / ton
(historical series
ex-Sidor)

US\$/ton	Year 2008	4Q 2008	3Q 2008	2Q 2008	1Q 2008
South & Central America	1,068	1,147	1,153	1,042	945
North America	1,171	1,146	1,412	1,213	945
Europe & other	860	834	933	864	1,008
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Total flat products	1,126	1,137	1,300	1,143	945

South & Central America	907	780	1,212	913	643
North America	878	749	1,108	1,017	703
Europe & other	669	884	-	630	587
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Total long products	883	760	1,142	993	689

Total flat and long products	1,087	1,062	1,278	1,120	905
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Net Sales (historical series ex-Sidor)

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US\$ million	Year 2008	4Q 2008	3Q 2008	2Q 2008	1Q 2008
South & Central					
America	2,782.5	642.4	784.4	719.9	635.8
North America	4,294.7	735.7	1,273.4	1,264.6	1,021.0
Europe & other	47.5	30.0	2.6	10.0	4.8
	-----	-----	-----	-----	-----
Total flat products	7,124.7	1,408.1	2,060.4	1,994.5	1,661.6
South & Central					
America	274.4	71.7	104.2	62.1	36.4
North America	791.8	159.7	192.0	253.8	186.4
Europe & other	8.9	3.1	-	0.6	5.2
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Total long products	1,075.1	234.5	296.2	316.4	228.0
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Total flat and long products	8,199.8	1,642.6	2,356.6	2,311.0	1,889.6
Other products (1)	265.1	78.5	80.3	53.2	53.0
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Total net sales	8,464.9	1,721.1	2,436.9	2,364.2	1,942.6

Shipments (historical series ex-Sidor)

Thousand tons	Year 2007	4Q 2007	3Q 2007	2Q 2007	1Q 2007
South & Central					
America	2,499.1	699.0	637.8	598.9	563.5
North America	3,034.9	993.6	834.7	592.1	614.5
Europe & other	184.9	12.3	18.5	101.2	52.8
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Total flat products	5,718.9	1,704.9	1,491.0	1,292.1	1,230.8
South & Central					
America	132.8	55.2	52.3	25.3	-
North America	1,113.4	268.9	244.8	286.4	313.3
Europe & other	15.0	15.0	-	-	-
	-----	-----	-----	-----	-----
Total long products	1,261.2	339.1	297.1	311.7	313.3
Total flat and long products	6,980.1	2,044.0	1,788.1	1,603.9	1,544.1

Revenue / ton
(historical series ex-Sidor)

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US\$/ton	Year 2007	4Q 2007	3Q 2007	2Q 2007	1Q 2007
South & Central America					
America	815	870	829	779	769
North America	847	882	877	817	781
Europe & other	665	641	619	682	654
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Total flat products	827	875	853	789	770
South & Central America					
America	527	489	550	565	-
North America	625	611	637	638	616
Europe & other	457	457	-	-	-
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Total long products	613	585	622	632	616
Total flat and long products	789	827	815	758	739
Net Sales (historical series ex-Sidor)					
US\$ million	Year 2007	4Q 2007	3Q 2007	2Q 2007	1Q 2007
South & Central America					
America	2,037.0	607.9	528.9	466.6	433.5
North America	2,571.8	876.3	731.8	483.6	480.1
Europe & other	123.0	7.9	11.5	69.1	34.5
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Total flat products	4,731.7	1,492.0	1,272.2	1,019.2	948.2
South & Central America					
America	70.0	27.0	28.7	14.3	-
North America	696.0	164.4	156.0	182.6	192.9
Europe & other	6.9	6.9	-	-	-
	-----	-----	-----	-----	-----
Total long products	772.8	198.2	184.8	196.9	192.9
Total flat and long products	5,504.5	1,690.3	1,457.0	1,216.2	1,141.1
Other products (1)	128.8	32.8	39.8	30.7	25.4
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Total net sales	5,633.4	1,723.1	1,496.9	1,246.9	1,166.5

(1) Includes iron ore, pig iron and metal buildings.

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