BALTIMORE GAS & ELECTRIC CO
Form 10-Q
November 06, 2009

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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, 2009

Commission File Number	Exact name of registrant as specified in its charter	IRS Employer Identification No.
1-12869	**CONSTELLATION ENERGY GROUP, INC.**	**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 ý No o

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 ý No o

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 o No o

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 ý Accelerated filer o Non-accelerated filer o Smaller reporting company o

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 o Accelerated filer o Non-accelerated filer ý Smaller reporting company o

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

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 o No ý

Common Stock, without par value 200,899,295 shares outstanding of Constellation Energy Group, Inc. on October 30, 2009.

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 1 FINANCIAL INFORMATION

Item 1 Financial Statements

CONSOLIDATED STATEMENTS OF INCOME (LOSS) (UNAUDITED)

Constellation Energy Group, Inc. and Subsidiaries

	Three Months Ended September 30,		*Nine Months Ended September 30,*	
	2009	**2008**	**2009**	**2008**
	(In millions, except per share amounts)			
Revenues				
Nonregulated revenues	**$ 3,161.7**	$ 4,351.0	**$ 9,371.3**	$ 12,187.2
Regulated electric revenues	**788.3**	822.3	**2,250.8**	1,980.3
Regulated gas revenues	**77.7**	150.3	**573.1**	724.4
Total revenues	**4,027.7**	5,323.6	**12,195.2**	14,891.9
Expenses				
Fuel and purchased energy expenses	**2,650.4**	4,318.0	**8,555.2**	11,620.5
Operating expenses	**587.7**	482.9	**1,730.6**	1,784.5
Merger termination and strategic alternatives costs	**4.9**	39.2	**51.2**	39.2
Impairment losses and other costs	**7.5**	477.1	**103.3**	477.1
Workforce reduction costs	**0.4**	2.2	**11.6**	2.2
Depreciation, depletion, and amortization	**149.3**	134.3	**446.8**	424.5
Accretion of asset retirement obligations	**18.5**	17.2	**54.6**	50.8
Taxes other than income taxes	**74.4**	81.1	**224.7**	227.0
Total expenses	**3,493.1**	5,552.0	**11,178.0**	14,625.8
Net (loss) gain on divestitures	**(0.3)**		**(464.4)**	91.5
Income (Loss) from Operations	**534.3**	(228.4)	**552.8**	357.6
Other Income (Expense)	**38.7**	(15.8)	**23.3**	42.2
Fixed Charges				
Interest expense	**129.7**	100.0	**406.8**	252.3
Interest capitalized and allowance for borrowed funds used during construction	**(22.5)**	(10.5)	**(65.7)**	(26.2)
Total fixed charges	**107.2**	89.5	**341.1**	226.1
Income (Loss) from Operations Before Income Taxes	**465.8**	(333.7)	**235.0**	173.7
Income Tax Expense (Benefit)	**298.4**	(111.6)	**159.0**	71.4
Net Income (Loss)	**167.4**	(222.1)	**76.0**	102.3
Less: Net Income Attributable to Noncontrolling Interests and BGE Preference Stock Dividends	**29.8**	3.6	**53.8**	10.8
Net Income (Loss) Attributable to Common Stock	**$ 137.6**	$ (225.7)	**$ 22.2**	$ 91.5
Average Shares of Common Stock Outstanding Basic	**199.6**	178.4	**199.1**	178.3
Average Shares of Common Stock Outstanding Diluted	**200.8**	179.5	**199.9**	180.0
Earnings (Loss) Per Common Share Basic	**$ 0.69**	$ (1.27)	**$ 0.11**	$ 0.51
Earnings (Loss) Per Common Share Diluted	**$ 0.69**	$ (1.27)	**$ 0.11**	$ 0.51
Dividends Declared Per Common Share	**$ 0.24**	$ 0.4775	**$ 0.72**	$ 1.4325

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

Constellation Energy Group, Inc. and Subsidiaries

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
	(In millions)			
Net Income (Loss)	**$ 167.4**	$ (222.1)	**$ 76.0**	$ 102.3
Other comprehensive income (OCI)				
Hedging instruments:				
Reclassification of net loss (gain) on hedging instruments from OCI to net (loss) income, net of taxes	**358.9**	(166.4)	**1,218.3**	(88.4)
Net unrealized loss on hedging instruments, net of taxes	**(29.9)**	(1,059.4)	**(414.8)**	(186.0)
Available-for-sale securities:				
Reclassification of net (gain) loss on sales of securities from OCI to net (loss) income, net of taxes	**(2.6)**	8.9	**26.9**	10.5
Net unrealized gain (loss) on securities, net of taxes	**56.7**	(79.1)	**75.6**	(107.8)
Defined benefit obligations:				
Amortization of net actuarial loss, prior service cost, and transition obligation included in net periodic benefit cost, net of taxes	**7.4**	5.4	**29.5**	15.9
Net unrealized gain on foreign currency, net of taxes	**2.4**	0.5	**6.9**	0.1
Comprehensive income (loss)	**560.3**	(1,512.2)	**1,018.4**	(253.4)
Less: Comprehensive income attributable to noncontrolling interests, net of taxes	**29.8**	3.6	**53.8**	10.8
Comprehensive Income (Loss) Attributable to Common Stock	**$ 530.5**	$ (1,515.8)	**$ 964.6**	$ (264.2)

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 BALANCE SHEETS

Constellation Energy Group, Inc. and Subsidiaries

	September 30, 2009*	December 31, 2008
	(In millions)	
Assets		
Current Assets		
Cash and cash equivalents	**$ 742.6**	$ 202.2
Accounts receivable (net of allowance for uncollectibles of **$180.9** and $240.6, respectively)	**2,217.1**	3,389.9
Fuel stocks	**303.8**	717.9
Materials and supplies	**224.4**	224.5
Derivative assets	**582.8**	1,465.0
Unamortized energy contract assets	**89.8**	81.3
Restricted cash	**48.9**	1,030.5
Deferred income taxes	**346.0**	268.0
Other	**264.7**	815.5
Total current assets	**4,820.1**	8,194.8
Investments and Other Noncurrent Assets		
Nuclear decommissioning trust funds	**1,200.4**	1,006.3
Other investments	**350.0**	421.0
Regulatory assets (net)	**434.1**	494.7
Goodwill	**25.4**	4.6
Derivative assets	**917.7**	851.8
Unamortized energy contract assets	**212.5**	173.1
Other	**292.0**	421.3
Total investments and other noncurrent assets	**3,432.1**	3,372.8
Property, Plant and Equipment		
Property, plant and equipment	**16,148.0**	15,285.6
Nuclear fuel (net of amortization)	**528.4**	443.0
Accumulated depreciation	**(5,222.6)**	(5,012.1)
Net property, plant and equipment	**11,453.8**	10,716.5
Total Assets	**$ 19,706.0**	$ 22,284.1

* *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, **2009***	*December 31,* **2008**
	(In millions)	
Liabilities and Equity		
Current Liabilities		
Short-term borrowings	**$ 334.9**	$ 855.7
Current portion of long-term debt	**1,333.6**	2,591.5
Accounts payable and accrued liabilities	**1,368.9**	2,370.1
Customer deposits and collateral	**105.4**	120.3
Derivative liabilities	**823.1**	1,241.8
Unamortized energy contract liabilities	**397.4**	393.5
Accrued expenses	**393.9**	373.1
Other	**447.7**	514.2
Total current liabilities	**5,204.9**	8,460.2
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**1,223.2**	677.0
Asset retirement obligations	**1,040.8**	987.3
Derivative liabilities	**964.8**	1,115.0
Unamortized energy contract liabilities	**682.3**	906.4
Defined benefit obligations	**1,049.5**	1,354.3
Deferred investment tax credits	**39.6**	44.1
Other	**365.8**	249.6
Total deferred credits and other noncurrent liabilities	**5,366.0**	5,333.7
Long-term Debt, Net of Current Portion	**4,839.6**	5,098.7
Equity		
Common shareholders' equity:		
Common stock	**3,213.0**	3,164.5
Retained earnings	**2,089.4**	2,228.7
Accumulated other comprehensive loss	**(1,269.4)**	(2,211.8)
Total common shareholders' equity	**4,033.0**	3,181.4
BGE preference stock not subject to mandatory redemption	**190.0**	190.0
Noncontrolling interests	**72.5**	20.1
Total equity	**4,295.5**	3,391.5
Commitments and Contingencies (see Notes)		
Total Liabilities and Equity	**$ 19,706.0**	$ 22,284.1

** 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 STATEMENTS OF CASH FLOWS (UNAUDITED)

Constellation Energy Group, Inc. and Subsidiaries

Nine Months Ended September 30,	2009	2008
	(In millions)	
Cash Flows From Operating Activities		
Net income	**$ 76.0**	$ 102.3
Adjustments to reconcile to net cash provided by operating activities		
Depreciation, depletion, and amortization	**446.8**	424.5
Amortization of nuclear fuel	**102.7**	91.2
Amortization of energy contracts	**(149.7)**	(193.8)
All other amortization	**93.2**	18.2
Accretion of asset retirement obligations	**54.6**	50.8
Deferred income taxes	**(63.8)**	45.0
Investment tax credit adjustments	**(4.5)**	(4.8)
Deferred fuel costs	**55.4**	40.8
Defined benefit obligation expense	**83.5**	77.2
Defined benefit obligation payments	**(361.2)**	(111.4)
Workforce reduction costs	**11.6**	2.2
Impairment losses and other costs	**103.3**	477.1
Impairment losses on nuclear decommissioning trust assets	**62.6**	43.6
Merger termination and strategic alternatives costs	**37.2**	
Loss (gain) on divestitures	**464.4**	(103.8)
Gains on termination of contracts		(81.6)
Equity in earnings of affiliates less than dividends received	**17.8**	1.1
Derivative contracts classified as financing activities	**1,007.0**	(37.1)
Changes in:		
Accounts receivable, excluding margin	**754.2**	221.2
Derivative assets and liabilities, excluding collateral	**125.0**	(935.0)
Net collateral and margin	**1,504.8**	(568.6)
Materials, supplies, and fuel stocks	**239.8**	(328.5)
Other current assets	**223.9**	(134.7)
Accounts payable and accrued liabilities	**(1,010.9)**	57.2
Liability for uncertain tax expense	**96.7**	
Other current liabilities	**(47.9)**	(173.8)
Other	**53.1**	6.6
Net cash provided by (used in) operating activities	**3,975.6**	(1,014.1)
Cash Flows From Investing Activities		
Investments in property, plant and equipment	**(1,243.2)**	(1,360.5)
Asset and business acquisitions, net of cash acquired	**(20.8)**	(316.5)
Investments in nuclear decommissioning trust fund securities	**(349.5)**	(365.4)
Proceeds from nuclear decommissioning trust fund securities	**330.8**	346.7
Proceeds from sales of investments and other assets	**81.1**	241.2
Contract and portfolio acquisitions	**(2,153.7)**	
Repayments of loans receivable		26.0
Decrease in restricted funds	**979.9**	8.3
Other	**(15.8)**	(4.1)
Net cash used in investing activities	**(2,391.2)**	(1,424.3)
Cash Flows From Financing Activities		
Net (repayment) issuance of short-term borrowings	**(520.8)**	1,207.5
Proceeds from issuance of common stock	**24.4**	17.6
Proceeds from issuance of long-term debt	**121.1**	2,100.0
Repayment of long-term debt	**(1,680.6)**	(265.7)
Debt issuance costs	**(67.8)**	(50.6)
Common stock dividends paid	**(179.6)**	(250.7)

Reacquisition of common stock		(16.2)
BGE preference stock dividends paid	**(9.9)**	(9.9)
Proceeds from contract and portfolio acquisitions	**2,263.1**	
Derivative contracts classified as financing activities	**(1,007.0)**	37.1
Other	**13.1**	7.4
Net cash (used in) provided by financing activities	**(1,044.0)**	2,776.5
Net Increase in Cash and Cash Equivalents	**540.4**	338.1
Cash and Cash Equivalents at Beginning of Period	**202.2**	1,095.9
Cash and Cash Equivalents at End of Period	**$ 742.6**	$ 1,434.0

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CONSOLIDATED STATEMENTS OF INCOME (LOSS) (UNAUDITED)

Baltimore Gas and Electric Company and Subsidiaries

	Three Months Ended September 30,		*Nine Months Ended September 30,*	
	2009	**2008**	**2009**	**2008**
	(In millions)			
Revenues				
Electric revenues	**$ 788.3**	$ 822.4	**$ 2,250.8**	$ 1,980.5
Gas revenues	**78.2**	155.5	**576.8**	740.0
Total revenues	**866.5**	977.9	**2,827.6**	2,720.5
Expenses				
Operating expenses				
Electricity purchased for resale	**508.2**	556.6	**1,435.9**	1,416.2
Gas purchased for resale	**31.2**	107.5	**340.9**	505.2
Operations and maintenance	**142.6**	139.5	**418.5**	409.9
Merger termination and strategic alternatives costs		11.1		11.1
Depreciation and amortization	**61.7**	49.5	**194.3**	171.2
Taxes other than income taxes	**44.1**	44.1	**136.3**	130.7
Total expenses	**787.8**	908.3	**2,525.9**	2,644.3
Income from Operations	**78.7**	69.6	**301.7**	76.2
Other Income	**7.0**	9.3	**21.7**	23.5
Fixed Charges				
Interest expense	**35.9**	38.6	**108.6**	105.6
Allowance for borrowed funds used during construction	**(1.1)**	(1.2)	**(3.2)**	(3.3)
Total fixed charges	**34.8**	37.4	**105.4**	102.3
Income (Loss) Before Income Taxes	**50.9**	41.5	**218.0**	(2.6)
Income Taxes	**18.6**	18.0	**84.7**	1.9
Net Income (Loss)	**32.3**	23.5	**133.3**	(4.5)
Preference Stock Dividends	**3.3**	3.3	**9.9**	9.9
Net Income (Loss) Attributable to Common Stock before Noncontrolling Interests	**29.0**	20.2	**123.4**	(14.4)
Net Income Attributable to Noncontrolling Interests	**(0.4)**	(0.3)	**(0.4)**	(0.1)
Net Income (Loss) Attributable to Common Stock	**$ 28.6**	$ 19.9	**$ 123.0**	$ (14.5)

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

Baltimore Gas and Electric Company and Subsidiaries

	September 30, 2009*	***December 31, 2008***
	(In millions)	
Assets		
Current Assets		
Cash and cash equivalents	**$ 9.2**	$ 10.7
Accounts receivable (net of allowance for uncollectibles of **$52.0** and $33.3, respectively)	**328.1**	327.0
Accounts receivable, unbilled (net of allowance for uncollectibles of **$0.9** and $0.9, respectively)	**156.0**	232.3
Investment in cash pool, affiliated company	**77.3**	148.8
Accounts receivable, affiliated companies	**1.7**	4.3
Income taxes receivable (net)	**187.0**	2.4
Fuel stocks	**89.1**	143.7
Materials and supplies	**32.3**	38.4
Prepaid taxes other than income taxes	**64.2**	51.0
Regulatory assets (net)	**73.7**	79.7
Restricted cash	**46.0**	23.7
Other	**2.3**	8.4
Total current assets	**1,066.9**	1,070.4
Investments and Other Assets		
Regulatory assets (net)	**434.1**	494.7
Receivable, affiliated company	**322.5**	161.1
Other	**117.0**	131.6
Total investments and other assets	**873.6**	787.4
Utility Plant		
Plant in service		
Electric	**4,656.1**	4,493.7
Gas	**1,243.3**	1,221.1
Common	**496.7**	476.3
Total plant in service	**6,396.1**	6,191.1
Accumulated depreciation	**(2,285.7)**	(2,191.0)
Net plant in service	**4,110.4**	4,000.1
Construction work in progress	**253.3**	225.7
Plant held for future use	**2.3**	2.6

Net utility plant		**4,366.0**		4,228.4
Total Assets	**$**	**6,306.5**	$	6,086.2

** 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

Baltimore Gas and Electric Company and Subsidiaries

	September 30, 2009*	December 31, 2008
	(In millions)	
Liabilities and Equity		
Current Liabilities		
Short-term borrowings	**$ 334.9**	$ 370.0
Current portion of long-term debt	**66.5**	90.0
Accounts payable and accrued liabilities	**124.2**	231.0
Accounts payable and accrued liabilities, affiliated companies	**76.7**	97.0
Customer deposits	**74.6**	72.3
Current portion of deferred income taxes	**31.8**	40.2
Accrued taxes	**21.6**	18.8
Accrued expenses and other	**103.9**	98.4
Total current liabilities	**834.2**	1,017.7
Deferred Credits and Other Liabilities		
Deferred income taxes	**1,074.2**	843.3
Payable, affiliated company	**244.4**	243.2
Deferred investment tax credits	**9.8**	10.6
Liability for uncertain tax positions	**74.8**	5.5
Other	**22.8**	23.1
Total deferred credits and other liabilities	**1,426.0**	1,125.7
Long-term Debt		
Rate stabilization bonds	**537.8**	564.4
Other long-term debt	**1,443.0**	1,443.0
6.20% deferrable interest subordinated debentures due October 15, 2043 to wholly owned BGE Capital Trust II relating to trust preferred securities	**257.7**	257.7
Long-term debt of nonregulated businesses		25.0
Unamortized discount and premium	**(2.2)**	(2.4)
Current portion of long-term debt	**(66.5)**	(90.0)
Total long-term debt	**2,169.8**	2,197.7
Equity		
Common shareholder's equity:		
Common stock	**912.2**	912.2
Retained earnings	**748.4**	625.4
Accumulated other comprehensive income	**0.6**	0.6
Total common shareholder's equity	**1,661.2**	1,538.2
Preference stock not subject to mandatory redemption	**190.0**	190.0
Noncontrolling interest	**25.3**	16.9
Total equity	**1,876.5**	1,745.1

Commitments and Contingencies (see Notes)				
Total Liabilities and Equity	**$**	**6,306.5**	$	6,086.2

** 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 STATEMENTS OF CASH FLOWS (UNAUDITED)

Baltimore Gas and Electric Company and Subsidiaries

Nine Months Ended September 30,	**2009**	**2008**
	(In millions)	
Cash Flows From Operating Activities		
Net income (loss)	**$ 133.3**	$ (4.5)
Adjustments to reconcile to net cash provided by operating activities		
Depreciation and amortization	**194.4**	171.2
Other amortization	**6.5**	10.2
Deferred income taxes	**289.7**	20.5
Investment tax credit adjustments	**(0.8)**	(1.0)
Deferred fuel costs	**55.4**	40.8
Defined benefit plan expenses	**25.7**	27.3
Allowance for equity funds used during construction	**(6.1)**	(6.1)
Changes in:		
Accounts receivable	**75.2**	177.1
Accounts receivable, affiliated companies	**2.6**	1.9
Materials, supplies, and fuel stocks	**60.7**	(73.7)
Income tax receivable (net)	**(184.6)**	(94.4)
Other current assets	**(7.0)**	(11.6)
Accounts payable and accrued liabilities	**(106.8)**	6.1
Accounts payable and accrued liabilities, affiliated companies	**(20.3)**	(51.3)
Other current liabilities	**(66.9)**	12.2
Long-term receivables and payables, affiliated companies	**(185.8)**	(44.1)
Other	**38.9**	(36.8)
Net cash provided by operating activities	**304.1**	143.8
Cash Flows From Investing Activities		
Utility construction expenditures (excluding equity portion of allowance for funds used during construction)	**(265.8)**	(319.0)
Change in cash pool at parent	**71.6**	15.3
Sales of investments and other assets		12.9
Increase in restricted funds	**(22.3)**	(5.4)
Net cash used in investing activities	**(216.5)**	(296.2)
Cash Flows From Financing Activities		
Net (repayment) issuance of short-term borrowings	**(35.1)**	189.0
Proceeds from issuance of long-term debt		400.0
Repayment of long-term debt	**(51.6)**	(259.5)
Debt issuance costs	**(0.5)**	(2.5)
Contribution from noncontrolling interest	**8.0**	
Preference stock dividends paid	**(9.9)**	(9.9)
Distribution to parent		(171.7)
Net cash (used in) provided by financing activities	**(89.1)**	145.4
Net Decrease in Cash and Cash Equivalents	**(1.5)**	(7.0)
Cash and Cash Equivalents at Beginning of Period	**10.7**	17.6
Cash and Cash Equivalents at End of Period	**$ 9.2**	$ 10.6

See Notes to Consolidated Financial Statements.
Certain prior-period amounts have been reclassified to conform with the current period's presentation.

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.

We have evaluated events or transactions that occurred after September 30, 2009 for inclusion in these financial statements through November 6, 2009, the date these financial statements were issued.

Reclassifications

In accordance with the requirements for the presentation of noncontrolling interests, which were effective on January 1, 2009 (see page 41 for more details), we have separately presented:

- "Net income (loss) attributable to noncontrolling interests" on our, and BGE's, Consolidated Statements of Income (Loss),
- "Noncontrolling interests" and "BGE Preference Stock Not Subject to Mandatory Redemption" as noncontrolling interests on our Consolidated Balance Sheets,
- "Comprehensive income attributable to noncontrolling interests, net of taxes" in our Statements of Comprehensive Income (Loss), and
- "BGE preference stock dividends paid" in the financing section of our Consolidated Statements of Cash Flows.

We also made the following reclassifications:

- We have separately presented "Income taxes receivable (net)" that were previously reported within "Other current assets" on BGE's Consolidated Balance Sheets.
- We have also separately presented "Liability for uncertain tax positions" that was previously reported within "Other long-term liabilities" on BGE's Consolidated Balance Sheets.

Investment Agreement with EDF Group

On December 17, 2008, we entered into an Investment Agreement with EDF Group and related entities (EDF) under which EDF will purchase from us a 49.99% membership interest in our nuclear generation and operation business for $4.5 billion (subject to certain adjustments). We discuss the Investment Agreement with EDF in more detail in *Note 15* of our 2008 Annual Report on Form 10-K.

In October 2009, the Maryland PSC issued an order approving our transaction with EDF subject to the following conditions:

- Constellation Energy is to fund a one-time per customer distribution rate credit for BGE residential customers, before the end of March 2010, totaling $110.5 million, for which we will record a liability upon closing.
- Constellation Energy will make a $250 million cash capital contribution to BGE by no later than June 30, 2010.

BGE will not pay dividends to Constellation Energy if (a) after the dividend payment, BGE's equity ratio would be below 48% or (b) BGE's senior unsecured credit rating is rated by two of the three major credit rating agencies below investment grade.

BGE may file an electric distribution rate case at any time beginning in January 2010 and may not file a subsequent electric distribution rate case until January 2011. Any rate increase in the first electric distribution rate case will be capped at 5% as agreed to by Constellation Energy in its 2008 settlement with the Maryland PSC. The timing of any gas distribution rate filing will also occur no earlier than the electric cases.

Constellation Energy will be limited to allocating no more than 31% of its holding company costs to BGE until the Maryland PSC reviews cost allocation in the context of BGE's next rate case.

Upon closing the EDF transaction, Constellation Energy and BGE will begin to implement "ring fencing" measures to ensure the bankruptcy protection and credit rating separation of BGE from Constellation Energy including the formation of a new special purpose subsidiary by Constellation Energy to hold all of the common equity interests in BGE. Timing for implementation of these measures will be proposed at a Maryland PSC hearing in December 2009.

With the receipt of the Maryland PSC's order, Constellation Energy and EDF are proceeding with closing this transaction. Upon closing of the transaction, we will

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sell a 49.99% membership interest in Constellation Energy Nuclear Group LLC and its affiliates (CENG), our nuclear generation and operation business, to EDF for total consideration of approximately $4.7 billion (includes $4.5 billion at close and expense reimbursements). As a result, we will cease to have a controlling financial interest in CENG and will deconsolidate CENG in the fourth quarter of 2009. The following summarizes the estimated impact of this transaction upon closing:

We receive total cash consideration of approximately $3.5 billion and redeem the $1.0 billion of the Series B Preferred Stock held by EDF as additional purchase price resulting in net proceeds of approximately $2.2 billion after the payment of taxes.

We remove the individual assets and liabilities of CENG from our balance sheet with a net asset value of approximately $2.6 billion.

We record our retained investment in CENG at its estimated fair value of approximately $4.7 billion.

We recognize a pre-tax gain on sale of approximately $6.8 billion, calculated as follows:

		(In billions)
Fair value of the consideration received from EDF	$	4.7
Estimated fair value of our retained interest in CENG		4.7
Carrying amount of CENG's assets and liabilities prior to deconsolidation		(2.6)
Estimated pre-tax gain	$	6.8

Upon closing, we will account for our retained investment in CENG using the equity method and report our share of its earnings in the merchant energy segment. As a result, we will no longer record the individual income statement line items, but instead will record our share of the investment's earnings in a single line in our Consolidated Statements of Income (Loss).

Immediately prior to the closing of the sale, we will execute a power purchase agreement (PPA) with CENG with a fair value of approximately $0.7 billion. We will report the PPA on our Consolidated Balance Sheets within "Unamortized energy contract assets" and amortize its value on our Consolidated Statements of Income (Loss) to "Fuel and purchased energy expense" over a period of approximately two years.

In addition, the completion of the transaction with EDF will impact our credit facilities as discussed in the *Financing* section beginning on page 21.

Merger Termination and Strategic Alternatives Costs

We incurred costs during the quarter ended September 30, 2009 primarily related to the transactions related to EDF, and other strategic alternatives costs. For the nine months ended September 30, 2009, we incurred costs related to the terminated merger agreement with MidAmerican Energy Holdings Company (MidAmerican), the conversion of our Series A Preferred Stock, the transactions related to EDF, and other strategic alternatives costs. These costs totaled $4.9 million pre-tax and $51.2 million pre-tax for the quarter and nine months ended September 30, 2009, respectively, and primarily relate to the first quarter of 2009 write-off of the unamortized debt discount associated with the 14% Senior Notes (Senior Notes) that were repaid in full to MidAmerican in January 2009.

Variable Interest Entities

As of September 30, 2009, we consolidated three variable interest entities (VIE) in which we were the primary beneficiary, and we had significant interests in six VIEs for which we did not have controlling financial interests and, accordingly, were not the primary beneficiary. We discuss our VIEs in more detail in *Note 4* of our 2008 Annual Report on Form 10-K.

Consolidated Variable Interest Entities

In 2007, BGE formed RSB BondCo LLC (BondCo), a special purpose bankruptcy-remote limited liability company, to acquire and hold rate stabilization property and to issue and service bonds secured by the rate stabilization property. In June 2007, BondCo purchased rate stabilization property from BGE, including the right to assess, collect, and receive non-bypassable rate stabilization charges payable by all

residential electric customers of BGE. These charges are being assessed in order to recover previously incurred power purchase costs that BGE deferred pursuant to Senate Bill 1. We discuss Senate Bill 1 in more detail in *Management's Discussion and Analysis* section of our 2008 Annual Report on Form 10-K.

BGE determined that BondCo is a VIE for which it is the primary beneficiary. As a result, BGE, and we, consolidated BondCo.

The BondCo assets are restricted and can only be used to settle the obligations of BondCo. Further, 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, 2009, BGE remitted $23.0 million and $65.1 million, respectively, to BondCo.

BGE did not provide any additional financial support to BondCo during the quarter and nine months ended

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September 30, 2009. Further, BGE does not have any contractual commitments or obligations to provide additional financial support to BondCo unless additional rate stabilization bonds are issued. The BondCo creditors do not have any recourse to the general credit of BGE in the event the rate stabilization charges are not sufficient to cover the bond principal and interest payments of BondCo.

During the second quarter of 2009, our retail gas customer supply operation formed two new entities and combined them with our existing retail gas customer supply operation into a retail gas entity group for the purpose of entering into a collateralized gas supply agreement (GSA) with a third party gas supplier. While we own 100% of these entities, we determined that the retail gas entity group is a VIE because there is not sufficient equity to fund the group's activities without the additional credit support we provide in the form of a letter of credit and a parental guarantee. We are the primary beneficiary of the retail gas entity group; accordingly, we consolidate the retail gas entity group as a VIE, including the existing retail gas customer supply operation, which we formerly consolidated as a voting interest entity.

The gas supply arrangement is collateralized as follows:

- The assets of the retail gas entity group must be used to settle obligations under the third party gas supply agreement before it can make any distributions to us,
- The third party gas supplier has a collateral interest in all of the assets and equity of the retail gas entity group, and
- We currently have provided a $100 million parental guarantee and a $100 million letter of credit to the third party gas supplier in support of the retail gas entity group.

Other than credit support provided by the parental guarantee and the letter of credit, we do not have any contractual or other obligations to provide additional financial support to the retail gas entity group. The retail gas entity group creditors do not have any recourse to our general credit. Finally, we did not provide any financial support to the retail gas entity group during the quarter and nine months ended September 30, 2009, other than the equity contributions, parental guarantee and the letter of credit.

We also consolidate a retail power supply VIE for which we became the primary beneficiary in 2008 as a result of a modification to its contractual arrangements that changed the allocation of the economic risks and rewards of the VIE among the variable interest holders. The consolidation of this VIE did not have a material impact on our financial results or financial condition.

The carrying amounts and classification of the above consolidated VIEs' assets and liabilities included in our consolidated financial statements at September 30, 2009 are as follows:

	(In millions)
Current assets	$ 605.0
Noncurrent assets	317.1
Total Assets	$ 922.1
Current liabilities	$ 540.1
Noncurrent liabilities	686.6
Total Liabilities	$ 1,226.7

All of the assets in the table above are restricted for settlement of the VIE obligations and all of the liabilities in the table above can only be settled using VIE resources.

Unconsolidated Variable Interest Entities

As of September 30, 2009, 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, 2009.

We describe the nature of these entities and our involvement with them in the following table:

VIE Category	Nature of Entity Financing	Nature of Constellation Energy Involvement	Obligations or Requirement to Provide Financial Support	Date of Involvement
Power contract monetization entities (2 entities)	Combination of debt and equity financing	Power sale agreements, loans, and guarantees	$37.7 million in letters of credit	March 2005
Power projects and fuel supply entities (4 entities)	Combination of debt and equity financing	Equity investments and guarantees	$2.0 million debt guarantee and working capital funding	Prior to 2003

We discuss the nature of our involvement with the power contract monetization VIEs in detail in *Note 4* of our 2008 Annual Report on Form 10-K.

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The following is summary information available as of September 30, 2009 about these entities:

	Power Contract Monetization VIEs	All Other VIEs	Total
	(In millions)		
Total assets	$ 571.3	$ 316.8	$ 888.1
Total liabilities	463.4	72.2	535.6
Our ownership interest		58.8	58.8
Other ownership interests	107.9	185.8	293.7
Our maximum exposure to loss	37.7	60.8	98.5
Carrying amount and location of variable interest on balance sheet:			
-Other investments		58.8	58.8

Our maximum exposure to loss is the loss that we would incur in the unlikely event that our interests in all of these entities were to become worthless and we were required to fund the full amount of all guarantees associated with these entities. Our maximum exposure to loss as of September 30, 2009 consists of the following:

- outstanding receivables, loans, and letters of credit totaling $37.7 million,
- the carrying amount of our investment totaling $58.8 million, and
- debt and payment guarantees totaling $2.0 million.

We assess the risk of a loss equal to our maximum exposure to be remote and, accordingly have not recognized a liability associated with any portion of the maximum exposure to loss. 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 variable interest entities.

Impairment Losses and Other Costs

Available for Sale Securities

We evaluated for impairment certain of our investments in equity securities during the nine months ended September 30, 2009. The investments we evaluated included our nuclear decommissioning trust fund assets and other marketable securities. We record an impairment charge if an investment has experienced a decline in fair value to a level less than its carrying value and the decline is "other than temporary."

In making this determination, we evaluate the reasons for an investment's decline in value, the extent and duration of that decline, and factors that indicate whether and when the value will recover. For securities held in our nuclear decommissioning trust fund for which the market value is below book value, the decline in fair value is considered other than temporary and we write them down to fair value. We discuss our impairment policy for our nuclear decommissioning trust fund assets and other marketable securities in more detail in *Note 1* to our 2008 Annual Report on Form 10-K.

The fair values of certain of our marketable securities and certain of the securities held in our nuclear decommissioning trust fund declined below book value. As a result, we recorded a $0.2 million pre-tax impairment charge for the quarter ended September 30, 2009 and a $62.6 million pre-tax impairment charge for the nine months ended September 30, 2009 for our nuclear decommissioning trust fund assets in the "Other income (expense)" line in our Consolidated Statements of Income (Loss). In addition, we recorded all other changes in the fair value of our nuclear decommissioning trust fund assets that are not impaired in other comprehensive (loss) income. We also recorded an impairment charge of $0.5 million for other marketable securities during the nine months ended September 30, 2009.

The estimates we utilize in evaluating impairment of our available for sale securities require judgment and the evaluation of economic and other factors that are subject to variation, and the impact of such variations could be material.

Equity Method Investments

Shipping Joint Venture

We record an impairment if an equity method investment has experienced a decline in fair value to a level less than our carrying value and the decline is "other than temporary." During the quarter ended June 30, 2009, we contemplated several potential courses of action together with our partner relating to the strategic direction of our shipping joint venture and our continuing involvement. This led to a decision to explore a plan to sell our 50% interest to a party related to our joint venture partner for negligible proceeds. During July 2009, a definitive purchase and sale agreement was executed between the parties and the transaction closed in the third quarter of 2009. We have no further involvement in the activities of the joint venture.

As a result of the events that occurred during the second quarter of 2009, we concluded that the fair value of our investment had declined to a level below the carrying value at June 30, 2009 and that this decline was "other than temporary." As such, we recorded a pre-tax impairment charge at June 30, 2009 of $59.0 million associated with our equity investment in our shipping joint

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venture within the "Impairment losses and other costs" line in our Consolidated Statements of Income (Loss), and reported the charge in our merchant energy business results for the second quarter of 2009.

Constellation Energy Partners LLC

As of March 31, 2009, the fair value of our investment in Constellation Energy Partners LLC (CEP) based upon its closing unit price was $10.0 million, which was lower than its carrying value of $24.0 million.

The decline in fair value of our investment in CEP reflected a number of other factors, including:

- continuing difficulties in the financial and credit markets in the United States,
- decreases in the market price of natural gas and oil,
- the effect of these factors on market perceptions of gas exploration and production master limited partnerships, and
- factors related to Constellation Energy's financial condition and possible sale of its investment in CEP.

As a result of evaluating these factors, we determined that the decline in the value of our investment was other than temporary. Therefore, we recorded a $14.0 million pre-tax impairment charge at March 31, 2009 to write-down our investment to fair value. We recorded this charge in "Impairment losses and other costs" in our Consolidated Statements of Income (Loss). We did not record an impairment charge in the second or third quarters of 2009.

Other Costs

During the quarter and nine months ended September 30, 2009, we recorded $7.5 million and $29.8 million pre-tax charges, respectively, in the "Impairment losses and other costs" line in our Consolidated Statements of Income (Loss) primarily related to:

- divested operations long-lived assets no longer used and lease terminations, and
- the write-off of an uncollectible advance to an affiliate.

Workforce Reduction Costs

We incurred workforce reduction costs during the fourth quarter of 2008, primarily related to workforce reduction efforts across all of our operations (Q4 2008 Program), and during the first quarter of 2009, primarily related to the divestiture of a majority of our international commodities operation as well as some smaller restructurings elsewhere in our organization (Q1 2009 Program). For the Q1 2009 Program, we recognized an $11.6 million pre-tax charge during the nine months ended September 30, 2009 related to the elimination of approximately 180 positions. We expect both of these restructurings will be completed within 12 months of their initiation. The following table summarizes the status of the involuntary severance liabilities at September 30, 2009:

	Q1 2009 Program	Q4 2008 Program
Initial severance liability balance	$ 10.8	$ 19.7
Additional expense recorded in the second quarter of 2009	0.4	
Additional expense recorded in the third quarter of 2009	0.4	
Amounts recorded as pension and postretirement liabilities		(3.0)
Net cash severance liability	11.6	16.7
Cash severance payments	(11.4)	(12.5)
Severance liability balance at September 30, 2009	$ 0.2	$ 4.2

We discuss our 2008 workforce reduction costs in more detail in *Note 2* of our 2008 Annual Report on Form 10-K.

Earnings Per Share

Basic earnings 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 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 September 30,		**Nine Months Ended September 30,**	
	2009	**2008**	**2009**	**2008**
	(In millions)			
Non-dilutive stock options	**4.7**	2.6	**5.2**	1.5
Dilutive common stock equivalent shares	**1.2**	1.1	**0.8**	1.7

As a result of the Company incurring a loss for the three months ended September 30, 2008, dilutive common stock equivalent shares were not included in calculating diluted EPS.

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We issued to MidAmerican 19,897,322 shares of Constellation Energy's common stock upon the conversion of the Series A Preferred Stock, which occurred upon the termination of the merger agreement with MidAmerican on December 17, 2008. We discuss the conversion feature of the Series A Preferred Stock in more detail in *Note 9* of our 2008 Annual Report on Form 10-K. These additional shares impacted our earnings per share for the quarter and nine months ended September 30, 2009.

Accretion of Asset Retirement Obligations

We discuss our asset retirement obligations in more detail in *Note 1* of our 2008 Annual Report on Form 10-K. The change in our "Asset retirement obligations" liability during 2009 was as follows:

	(In millions)
Liability at January 1, 2009	$ 987.3
Accretion expense	54.6
Liabilities incurred	0.1
Liabilities settled	(0.7)
Revisions to cash flows	(0.4)
Other	(0.1)
Liability at September 30, 2009	$ 1,040.8

Acquisition

CLT Efficient Technologies Group

On July 1, 2009, we acquired CLT Efficient Technologies Group (CLT). We include CLT as part of our other nonregulated businesses and have reported its results of operations in our consolidated financial statements since the date of acquisition. CLT is an energy services company that provides energy performance contracting and energy efficiency engineering services.

We acquired 100% ownership of CLT for $21.8 million, including direct costs, of which $20.8 million was paid in cash at closing.

The total consideration was allocated to the net assets acquired as follows:

At July 1, 2009

	(In millions)
Current assets	$ 5.7
Goodwill[1]	18.5
Other assets	2.3
Total assets acquired	26.5
Current liabilities	(4.7)
Net assets acquired	$ 21.8

1 Goodwill is 100% deductible for tax purposes.

Our initial purchase price allocation is based on preliminary estimates, and the purchase price is subject to adjustments, which could impact our purchase price allocation.

The pro-forma impact of the CLT acquisition would not have been material to our results of operations for the quarter and nine months ended September 30, 2009 and 2008.

Divestitures

In 2009, we continued to implement many of the strategic initiatives we identified in 2008 to improve liquidity and reduce our business risk. We discuss these initiatives in the *Strategy* section of our 2008 Annual Report on Form 10-K.

The transactions to sell a majority of our international commodities, our Houston-based gas trading and other operations were structured in two parts:

- the assignment and transfer of a majority of the portfolio, and
- the execution of a Total Return Swap (TRS) mechanism for the remainder of the portfolio.

Under the TRS, we entered into offsetting trades with the buyers that matched the terms of the remaining third party contracts for which we were unable to complete assignment to the buyers as of the transaction dates. This structure transferred the risks associated with changes in commodity prices as of the transaction dates to the buyers in all instances. However, the trades under the TRS are newly executed transactions, and we remain the principal under both the unassigned third party trades and the matching trades with the buyers under the TRS with no right of either financial or legal offset. We continue to pursue the assignment of these remaining contracts to the buyers.

The matching contracts under the TRS include both derivatives and non-derivatives and were executed at prices that differed from market prices at closing, which resulted in a net cash payment to/from the buyers. We recorded the underlying contracts at fair value on a gross basis as assets or liabilities in our Consolidated Balance Sheets depending on whether the contract prices were above- or below-market prices at closing. As a result, the derivative contracts have been included in "Derivative Assets and Liabilities" and the nonderivative contracts have been included in "Unamortized Energy Contract Assets and Liabilities." The derivative contracts are subject to mark-to-market accounting until they are realized or assigned. The nonderivative contracts will be amortized into earnings as the underlying contracts are realized, or sooner if those contracts are assigned.

We record the cash proceeds we pay or receive at the inception of energy purchase and sale contracts based upon

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whether the contracts are in-the-money or out-of-the-money as follows:

In-the-money contracts proceeds paid	Investing Outflow
Out-of-the-money contracts proceeds received	Financing Inflow

After inception, we record the cash flows from all energy purchase and sale contracts as operating activities, except for out-of-the-money derivative contracts that were liabilities at inception. We record the ongoing cash flows from these out-of-the-money derivative contracts as financing activities, regardless of whether they are purchase or sale contracts.

International Commodities Operation

In January 2009, we entered into a definitive agreement to sell a majority of our international commodities operation. We completed this transaction on March 23, 2009 and recognized the following impacts during the nine months ended September 30, 2009:

- a pre-tax loss of approximately $334.5 million representing net consideration paid to the buyer, the book value of net assets sold, and transaction costs,
- a reclassification of $165.7 million in losses on previously designated cash-flow hedge contracts, for which the forecasted transactions are now deemed probable of not occurring, from "Accumulated Other Comprehensive Loss" to "Nonregulated revenues" in the Consolidated Statements of Income (Loss),
- workforce reduction costs of $10.2 million, recorded as part of "Workforce reduction costs" in the Consolidated Statements of Income (Loss), and
- other costs of $17.6 million related to leasehold improvements, furniture and computer hardware and software, recorded as part of "Impairment losses and other costs" in the Consolidated Statements of Income (Loss).

We removed the contracts that were assigned from our Consolidated Balance Sheet, paid the buyer approximately $90 million, and reflected the impact of this payment on our working capital in the operating activities section of our Consolidated Statements of Cash Flows.

The net cash payment to the buyer upon completion of the TRS was $2.5 million. As part of the consideration, we acquired matching nonderivative contracts that resulted in a net liability of approximately $75 million, which will be amortized into earnings as the underlying contracts are realized, or sooner if the original nonderivative contracts are assigned.

We have reflected the contracts under the TRS on a gross basis in cash flows from investing and financing activities in our Consolidated Statements of Cash Flows as follows:

Nine Months Ended September 30, 2009

	(In millions)
Investing activities Contract and portfolio acquisitions	**$ (866.3)**
Financing activities Proceeds from contract and portfolio acquisitions	**863.8**
Net cash flows from contract and portfolio acquisitions	**$ (2.5)**

In addition to the March 23, 2009 transaction for a majority of our international commodities operation, on June 30, 2009 we completed the sale of a uranium market participant that we owned. We received cash proceeds of approximately $43 million and recorded a $27.2 million loss on this sale. This loss from our merchant energy segment is included in the "Net (loss) gain on divestitures" line in our Consolidated Statements of Income (Loss) for the nine months ended September 30, 2009.

Houston-Based Gas and Other Trading Operations

On February 3, 2009, we entered into a definitive agreement to sell our Houston-based gas trading operation. We transferred control of this operation on April 1, 2009. In addition, in the second quarter of 2009 we also sold certain other trading operations. In total, we received proceeds of approximately $61 million, and recorded a $102.7 million net loss on these sales in the nine months ended September 30, 2009. The net loss on sale primarily relates to nonderivative accrual contracts, which were not recorded on our Consolidated Balance Sheet, the cost associated with disposing of an entire portfolio and not merely individual contracts, and the cost of capital, including contingent capital, to support the operation.

The matching derivative and nonderivative transactions under the TRS discussed above were executed at prices that differed from market prices at closing. As a result, we record the ongoing cash flows related to the out-of-the-money derivative contracts that were liabilities at inception as financing cash flows. This resulted in cash outflows related to financing activities of $818.7 million in our Consolidated Statements of Cash Flows for the nine months ended September 30, 2009 associated with derivative liabilities that were out-of-the-money.

The net cash receipt from the buyers upon completion of the TRS was $91.9 million in the second quarter of 2009. We have reflected these contracts on a gross basis in

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cash flows from investing and financing activities in our Consolidated Statements of Cash Flows as follows:

Nine Months Ended September 30, 2009

			(In millions)
Investing activities	Contract and portfolio acquisitions	**$**	**(1,287.4)**
Financing activities	Proceeds from contract and portfolio acquisitions		**1,379.3**
Net cash flows from contract and portfolio acquisitions		**$**	**91.9**

In addition, we incurred other costs of $5.5 million for the nine months ended September 30, 2009, respectively, related to leasehold improvements, furniture, computer hardware and software costs, which are recorded as part of "Impairment losses and other costs" on our Consolidated Statements of Income (Loss).

On April 1, 2009, we executed an agreement with the buyer of our Houston-based gas trading operation under which the buyer will provide us with the gas supply needed to support our retail gas customer supply business through March 31, 2011. This agreement was structured such that our requirements to post collateral are reduced. The supplier has liens on the assets of the retail gas supply business as well as our investment in the stock of these entities to secure our obligations under the gas supply agreement. In connection with this agreement, we posted approximately $160 million of collateral. This was subsequently reduced to $100 million. The initial $160 million posted represents approximately 25 percent of the previous collateral requirements to support this operation. We discuss the impact of the gas supply agreement on our retail gas customer supply business in more detail on page 13.

Shipping Joint Venture

As previously discussed in the *Impairment Losses and Other Costs* footnote, we completed the sale of our equity investment in a shipping joint venture during the third quarter of 2009. No gain or loss was recognized on the sale.

Investments Classified as Available-for-Sale

We classify the following investments as available-for-sale:

- nuclear decommissioning trust funds,
- marketable equity securities, and
- trust assets securing certain executive benefits.

This means we do not expect to hold these investments to maturity, and we do not consider them trading securities. We record these investments at fair value on our Consolidated Balance Sheets.

We show the fair values, gross unrealized gains and losses, and adjusted cost basis for all of our available-for-sale securities in the following tables. We use specific identification to determine cost in computing realized gains and losses.

At September 30, 2009	***Adjusted Cost***	***Unrealized Gains***	***Unrealized Losses***	***Fair Value***
		(In millions)		
Money market funds	**$ 20.2**	**$**	**$**	**$ 20.2**
Marketable equity securities	**214.7**	**109.9**		**324.6**
Mutual fund / common collective trusts	**479.6**	**109.1**		**588.7**
Corporate debt securities	**144.9**	**24.3**		**169.2**
U.S. Government agencies	**42.5**	**2.5**		**45.0**
U.S. Treasuries	**18.9**	**1.1**		**20.0**
State municipal bonds	**46.4**	**5.2**		**51.6**

Totals	**$**	**967.2**	**$**	**252.1**	**$**	**$**	**1,219.3**

The unrealized gains in the preceding table consist primarily of $249.4 million associated with the nuclear decommissioning trust funds.

The investments in our nuclear decommissioning trust funds are managed by third parties who have independent discretion over the purchases and sales of securities. We recognize impairments for any of these investments for which the fair value declines below our book value. We recognized $0.2 million and $62.6 million in pre-tax impairment losses on our nuclear decommissioning trust investments during the quarter and nine months ended September 30, 2009, respectively. These impairments are included as part of gross realized losses in the following table.

Gross and net realized gains and losses on available-for-sale securities were as follows:

	Quarter Ended September 30, 2009		Nine Months Ended September 30, 2009	
	(In millions)			
Gross realized gains	**$**	**10.0**	$	25.2
Gross realized losses		**(3.5)**		(75.5)
Net realized gains	**$**	**6.5**	$	(50.3)

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The corporate debt securities, U.S. Government agency obligations, U.S. Treasuries, and state municipal bonds mature on the following schedule:

At September 30, 2009

	(In millions)
Less than 1 year	$ 9.6
1-5 years	87.5
5-10 years	86.0
More than 10 years	102.7
Total maturities of debt securities	$ 285.8

Information by Operating Segment

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

Our merchant energy business is nonregulated and includes:

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

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

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

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

upstream (exploration and production) natural gas operations, and

generation operations and maintenance.

Our regulated electric business purchases, transmits, distributes, and sells electricity in Central Maryland.

Our regulated gas business purchases, transports, and sells natural gas in Central Maryland.

Our remaining nonregulated businesses:

design, construct, and operate renewable energy, heating, cooling, and cogeneration facilities for commercial, industrial, and governmental customers throughout North America,

provide energy performance contracting and energy efficiency engineering services,

provide home improvements, service electric and gas appliances, service heating, air conditioning, plumbing, electrical, and indoor air quality systems, and provide natural gas marketing to residential customers in Central Maryland, and

develop and deploy new nuclear plants in North America.

Prior to June 30, 2009, our merchant energy business segment included additional activities that have been divested as part of our strategy to improve our liquidity and reduce our business risk. The divested activities include:

our international commodities operation, which was divested in March 2009,

our gas trading operation, which was divested on April 1, 2009,

our ownership of a uranium market participant, which was divested on June 30, 2009, and

our investment in a shipping joint venture, which was divested in the third quarter of 2009.

See page 11 for discussion of our transaction with EDF.

We believe that the successful execution of these divestitures, as well as our other initiatives that we have undertaken to reduce risk in our merchant energy business, have reduced our exposure to activities that require contingent capital support and improved our liquidity. As a result of these divestitures and other initiatives, as well as the closing of our transaction with EDF, the results for our merchant energy business segment will be materially different from prior periods. We discuss these strategies and their effect on liquidity in *Note 8* of our 2008 Annual Report on Form 10-K.

Our Merchant Energy, Regulated Electric, and Regulated Gas 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 Other Nonregulated Businesses		
	Merchant Energy Business	Regulated Electric Business	Regulated Gas Business		Eliminations	Consolidated
			(In millions)			
For the quarter ended September 30,						
2009						
Unaffiliated revenues	**$ 3,101.6**	**$ 788.3**	**$ 77.7**	**$ 60.1**	**$**	**$ 4,027.7**
Intersegment revenues	**156.4**		**0.5**	**0.1**	**(157.0)**	
Total revenues	**3,258.0**	**788.3**	**78.2**	**60.2**	**(157.0)**	**4,027.7**
Net income (loss)	**142.1**	**42.3**	**(10.5)**	**(6.5)**		**167.4**
Net income (loss) attributable to common stock	**116.0**	**39.8**	**(11.3)**	**(6.9)**		**137.6**
2008						
Unaffiliated revenues	$ 4,300.8	$ 822.3	$ 150.3	$ 50.2	$	$ 5,323.6
Intersegment revenues	191.8	0.1	5.2		(197.1)	
Total revenues	4,492.6	822.4	155.5	50.2	(197.1)	5,323.6
Net (loss) income	(246.0)	34.3	(11.5)	1.1		(222.1)
Net (loss) income attributable to common stock	(246.0)	31.7	(12.2)	0.8		(225.7)
For the nine months ended September 30,						
2009						
Unaffiliated revenues	**$ 9,202.3**	**$ 2,250.8**	**$ 573.1**	**$ 169.0**	**$**	**$ 12,195.2**
Intersegment revenues	**536.2**		**3.7**	**0.1**	**(540.0)**	
Total revenues	**9,738.5**	**2,250.8**	**576.8**	**169.1**	**(540.0)**	**12,195.2**
Net (loss) income	**(39.7)**	**109.8**	**22.9**	**(17.0)**		**76.0**
Net (loss) income attributable to common stock	**(83.1)**	**102.2**	**20.6**	**(17.5)**		**22.2**
2008						
Unaffiliated revenues	$ 12,011.9	$ 1,980.3	$ 724.4	$ 175.3	$	$ 14,891.9
Intersegment revenues	707.8	0.2	15.6	0.2	(723.8)	
Total revenues	12,719.7	1,980.5	740.0	175.5	(723.8)	14,891.9
Net income (loss)	106.7	(31.2)	26.4	0.4		102.3
Net income (loss) attributable to common stock	105.9	(38.8)	24.1	0.3		91.5

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

Our merchant energy business operating results for the quarter and nine months ended September 30, 2009 include the following after-tax charges. Amounts for the quarter ended September 30, 2009 include income tax adjustments relating to activity during the quarters ended March 31, 2009 and June 30, 2009 based on updated estimates of our 2009 annual effective tax rate.

impairment losses and other costs of $8.2 million and $81.5 million, respectively,

merger termination and strategic alternatives costs of $4.9 million and $51.2 million, respectively,

net loss on sale of a majority of our international commodities operation, our Houston-based gas trading operation, certain other trading operations, and a uranium market participant, the reclassification of losses on previously designated cash-flow hedges from Accumulated Other Comprehensive Loss, and earnings that are no longer part of our core business totaling $62.9 million (primarily related to income tax adjustments) and $370.9 million, respectively,

impairment charge related to our nuclear decommissioning trust fund assets of $19.7 million (primarily related to income tax adjustments) and $49.5 million, respectively,

workforce reduction costs of $1.6 million and $7.0 million, respectively, and

amortization of credit facility amendment fees in connection with the EDF transaction of $8.2 million and $17.1 million, respectively.

Our Holding Company and Other Nonregulated businesses operating results for the quarter and nine months ended September 30, 2009 reflect impairment losses and other costs of $0.8 million and $3.9 million after-tax, respectively.

Total assets decreased approximately $2.6 billion during the nine months ended September 30, 2009. The decrease primarily relates to:

our Holding Company and Other Nonregulated Businesses and is primarily related to the approximately $1 billion decline in restricted cash as a result of the repayment of the 14% Senior Notes to MidAmerican in January 2009, and

our Merchant Energy Business and is primarily related to the decrease in derivative assets, net of fair value collateral, of $816.3 million and a decrease in other net collateral and margin posted of $1.0 billion, primarily associated with the divestitures and the activities to reduce risk in our Global Commodities portfolio.

These decreases were offset by a $194.1 million increase in the value of our nuclear decommissioning trust fund assets.

Our allowance for uncollectible accounts receivable decreased $59.7 million from December 31, 2008 to September 30, 2009. This decrease is primarily attributable to a decrease of $80.3 million at our merchant energy business, partially offset by an increase of $18.7 million at our regulated electric and gas businesses. The decrease in the allowance for uncollectibles at our merchant energy business is primarily driven by a write-off of accounts receivable balances of certain customers and the related allowance balance that were established primarily during 2008 for certain counterparties that encountered financial difficulty. This decrease is partially offset by an increase at our regulated electric and gas businesses primarily due to a second quarter 2009 Maryland PSC ruling and the economic downturn which continues to cause a decreased ability of customers to pay their utility bills. The Maryland PSC ruling in the second quarter of 2009 delayed BGE's ability to terminate service to customers with arrearages and required BGE to offer those customers the option to enter into extended payment plans.

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Pension and Postretirement Benefits

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
	(In millions)			
Components of net periodic pension benefit cost				
Service cost	**$ 12.2**	$ 14.6	**$ 41.8**	$ 42.4
Interest cost	**26.3**	26.6	**84.6**	76.8
Expected return on plan assets	**(28.6)**	(29.6)	**(97.1)**	(85.5)
Recognized net actuarial loss	**7.5**	6.6	**29.2**	19.0
Amortization of prior service cost	**2.8**	2.8	**8.6**	8.3
Amount capitalized as construction cost	**(2.5)**	(2.3)	**(7.9)**	(7.1)
Net periodic pension benefit cost[1]	**$ 17.7**	$ 18.7	**$ 59.2**	$ 53.9

1 BGE's portion of our net periodic pension benefit cost, excluding amounts capitalized, was $4.7 million for the quarter ended September 30, 2009 and $4.5 million for the quarter ended September 30, 2008. BGE's portion of our net periodic pension benefit cost, excluding amounts capitalized, was $14.6 million for the nine months ended September 30, 2009 and $13.2 million for the nine months ended September 30, 2008. Net periodic pension benefit costs exclude settlement charges of $1.0 million and $8.7 million in the quarter and nine months ended September 30, 2009, respectively.

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
	(In millions)			
Components of net periodic postretirement benefit cost				
Service cost	**$ 1.8**	$ 1.3	**$ 5.4**	$ 4.9
Interest cost	**6.0**	5.4	**18.1**	19.3
Amortization of transition obligation	**0.6**	0.5	**1.7**	1.7
Recognized net actuarial loss	**0.6**	0.5	**1.7**	1.6
Amortization of prior service cost	**(0.9)**	(0.8)	**(2.7)**	(2.8)
Amount capitalized as construction cost	**(1.6)**	(1.5)	**(4.9)**	(5.5)
Net periodic postretirement benefit cost[1]	**$ 6.5**	$ 5.4	**$ 19.3**	$ 19.2

1 BGE's portion of our net periodic postretirement benefit cost, excluding amounts capitalized, was $3.1 million for the quarter ended September 30, 2009 and $3.3 million for the quarter ended September 30, 2008. BGE's portion of our net periodic postretirement benefit costs, excluding amounts capitalized, was $9.8 million for the nine months ended September 30, 2009 and $11.0 million for the nine months ended September 30, 2008.

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 $22 million in pension benefit payments for our non-qualified pension plans and approximately $29.5 million for retiree health and life insurance benefit payments during 2009. As of September 30, 2009, we contributed $317 million to our qualified pension plans. We contributed an additional $2.5 million in October 2009.

Financing Activities

Credit Facilities and Short-term Borrowings

Our short-term borrowings may include bank loans, commercial paper, and bank lines of credit. Short-term borrowings mature within one year from the date of issuance. We pay commitment fees to banks for providing us lines of credit. When we borrow under the lines of credit, we pay market interest rates.

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Constellation Energy

Constellation Energy had bank and other lines of credit under committed unsecured credit facilities totaling $5.8 billion at September 30, 2009 for short-term financial needs. We enter into these facilities to ensure adequate liquidity to support our operations.

Our liquidity requirements are funded with credit facilities and cash. We fund our short-term working capital needs with existing cash and with our credit facilities, many of which support direct cash borrowings and the issuance of commercial paper, if available. We also use our credit facilities to support the issuance of letters of credit, primarily for our merchant energy business.

We have included in the table below our credit facilities as of September 30, 2009 and pro forma following the completion of the transaction with EDF:

Facility Expiration	**Facility Size as of September 30, 2009**[2]	**Facility Size Pro Forma upon Completion of the EDF Transaction**[2]
	(In billions)	
July 2012	$ 3.85	$ 2.32
November 2009[1]	1.23	
September 2013	0.35	
December 2009	0.15	
September 2014	0.25	0.50
Total	$ 5.83	$ 2.82

1 Size of facility may be reduced by proceeds received from certain securities offerings or asset sales.

2 Excludes commodity-linked credit facility discussed below due to its contingent nature.

During the third quarter of 2009, we executed a committed five year bilateral credit facility that allows for a maximum capacity of $500 million. This facility can be used to issue letters of credit in support of our collateral obligations. At September 30, 2009 and November 3, 2009, this facility had committed capacity of $250 million and $500 million, respectively. The facility partially replaces a portion of our credit facilities that terminate upon closing of the transaction with EDF.

During the third quarter of 2009, we also entered into a five year commodity-linked credit facility that allows for the issuance of letters of credit up to a maximum capacity of $500 million. We could increase the maximum facility size to $750 million or alternatively enter into an additional $250 million bilateral facility if certain conditions are met, including the closing of the transaction with EDF. This commodity-linked facility is designed to help manage our contingent collateral requirements associated with the hedging of our Customer Supply operations because its capacity increases as natural gas price levels decrease compared to a reference price that is adjusted periodically. As of September 30, 2009, there were no letters of credit outstanding under this facility.

BGE

As of September 30, 2009, BGE has a $400.0 million five-year revolving credit facility expiring in 2011. BGE can borrow directly from the banks, use the facility to allow commercial paper to be issued, if available, or issue letters of credit. On October 29, 2009, BGE expanded its borrowing capacity to $575 million. The size of the facility may be increased up to $600 million with additional commitments by lenders. As of September 30, 2009, BGE had $0.5 million in letters of credit issued under this facility.

In addition, at September 30, 2009, BGE had $334.9 million in commercial paper outstanding.

Debt

Constellation Energy

In July 2009, we entered into a three year asset-based lending agreement associated with certain upstream gas properties that we own. At September 30, 2009, the borrowing base committed under the facility was $30 million, of which $12.1 million has been utilized and reflected in "Long-term debt" in our Consolidated Balance Sheets. The size of the facility may be increased up to $200 million with additional commitments by the lenders. At October 30, 2009, the borrowing base of the facility increased to $100 million with the commitments of additional lenders. Any debt issued under this facility is secured by the upstream gas properties, and the lenders do not have recourse against Constellation Energy in the event of a default. Interest is payable quarterly in March, June, September, and December.

This asset-based lending agreement contains a provision that requires certain of our entities that own our upstream gas properties to maintain a current ratio of one-to-one. As of September 30, 2009, these entities were in compliance with this provision.

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Net Available Liquidity

The following table provides a summary of our net available liquidity at September 30, 2009:

	As of September 30, 2009		
	Constellation Energy	BGE	Total Consolidated
	(In billions)		
Credit facilities[1]	$ 5.8	$ 0.4	$ 6.2
Less: Letters of credit issued	(2.0)		(2.0)
Less: Cash drawn on credit facilities			
Undrawn facilities	3.8	0.4	4.2
Less: Commercial paper outstanding		(0.3)	(0.3)
Net available facilities	3.8	0.1	3.9
Add: Cash	0.7		0.7
Add: EDF put arrangement	1.1		1.1
Net available liquidity	$ 5.6	$ 0.1	$ 5.7

1 Excludes commodity-linked credit facility due to its contingent nature.

Upon the close of the EDF transaction, the amount and composition of our liquidity will change due to the reduction in credit facilities discussed on the previous page, as well as the receipt of net cash proceeds from the transaction.

The net proceeds from this transaction are expected to be approximately $2.2 billion after repayment of the EDF preferred stock and the payment of taxes. We anticipate using these proceeds to reduce up to $850 million of our long-term debt, as well as for other general corporate purposes, including payments related to BGE under the Maryland PSC order dated October 30, 2009. These net proceeds will partially offset the reduction in credit facilities, although our net available liquidity will be reduced.

Other Sources of Liquidity

In December 2008, we executed an Investment Agreement with EDF that includes an asset put arrangement that provides us with an option at any time through December 31, 2010 (or the termination of the Investment Agreement by EDF if we breach that agreement) to sell certain non-nuclear generation assets, at pre-agreed prices, to EDF for aggregate proceeds of no more than $2 billion pre-tax, or approximately $1.4 billion after-tax. The amount of after-tax proceeds will be impacted by the assets actually sold and the related tax impacts at that time.

Exercise of the put arrangement is conditioned upon the receipt of regulatory approvals and third-party consents, the absence of any material liens on such assets, and the absence of a material adverse effect, as defined in the Investment Agreement. During April 2009, we received regulatory approvals and consents for the majority of the assets covered by the put arrangement. As of September 30, 2009, we have approximately $1.1 billion after-tax of liquidity available through the put arrangement. We expect to receive regulatory approval for an additional asset in the first quarter of 2010, which will increase the net after-tax liquidity from the put arrangement to approximately $1.4 billion.

We continue to increase available liquidity and to reduce our business risk. Specifically, we are reducing capital spending and ongoing expenses, scaling down the expected variability in long-term earnings and short-term collateral usage, and limiting our exposure to business activities that require contingent capital support. During 2009, we made progress on several of these initiatives as discussed in more detail in the *Divestitures* section beginning on page 16 and the *Variable Interest Entities* section on page 13. As of September 30, 2009, we have realized substantially all of the $1 billion of the net reduction in collateral that was expected from the divestiture of these operations.

We believe that the actions that we have taken and our current net available liquidity will be sufficient to support the ongoing liquidity requirements over the next 12 months. Our liquidity projections include assumptions for commodity price changes, which are subject to significant volatility, and we are exposed to certain operational risks that could have a significant impact on our liquidity.

Credit Facility Compliance and Covenants

The credit facilities of Constellation Energy and BGE have limited material adverse change clauses, none of which would prohibit draws under the existing facilities.

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, 2009, the debt to capitalization ratio as defined in the credit agreements was 46%.

Upon the closing of our transaction with EDF, under our $3.85 billion credit facility (which reduces to $2.32 billion), we will grant a lien on certain of our generating facilities and pledge our ownership interests in our nuclear business to the lenders.

Our $1.23 billion credit facility requires us to maintain consolidated earnings before interest, taxes, depreciation, and amortization to consolidated interest expense ratio of at least 2.75 when our S&P senior

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unsecured debt rating is BBB- or lower and our Moody's senior unsecured debt rating is Baa3 or lower. Compliance with the covenant was not required as of September 30, 2009 as S&P's senior unsecured debt rating was above BBB-. Since the $1.23 billion credit facility expires upon the earlier of the closing of the EDF transaction or November 12, 2009, the recent change in rating by S&P to BBB- will not require compliance with this covenant.

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, 2009, the debt to capitalization ratio for BGE as defined in this credit agreement was 52%.

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 or exercise the put option with EDF 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 (benefit) for each quarter based on the estimated annual effective tax rate for the year. The effective tax rate was 64.1% and 67.7% for the quarter and nine months ended September 30, 2009, respectively, compared to 33.4% and 41.1% for the same periods of 2008. The higher effective tax rate for the quarter and nine months ended September 30, 2009 reflects the impact of unfavorable nondeductible adjustments (primarily related to nondeductible dividends on the Series B Preferred Stock and the write-off of the unamortized debt discount on the Senior Notes) in relation to the lower estimated 2009 taxable income (primarily attributable to losses on the divestiture of a majority of our international commodities and our Houston-based gas trading operations).

The BGE effective tax rate was 36.5% and 38.9% for the quarter and nine months ended September 30, 2009, respectively, compared to 43.4% and (73.1)% for the same periods of 2008. This reflects the impact of the lower 2008 taxable income related to the Maryland settlement agreement, which increased the relative impact of favorable permanent tax adjustments on BGE's 2008 effective tax rate.

Unrecognized Tax Benefits

The following table summarizes the change in unrecognized tax benefits during 2009 and our total unrecognized tax benefits at September 30, 2009:

At September 30, 2009

		(In millions)
Total unrecognized tax benefits, January 1, 2009	$	189.7
Increases in tax positions related to the current year		6.1
Increases in tax positions related to prior years		118.4
Reductions in tax positions related to prior years		(16.2)
Reductions in tax positions as a result of a lapse of the applicable statute of limitations		(0.8)
Total unrecognized tax benefits, September 30, 2009[1]	$	297.2

1 BGE's portion of our total unrecognized tax benefits at September 30, 2009 was $90.6 million.

Increases in current year tax positions are primarily due to unrecognized tax benefits for repair and depreciation deductions measured at amounts consistent with prior Internal Revenue Service (IRS) examination results and state income tax accruals. Increases in prior year tax positions are primarily due to BGE repair and depreciation deductions, which have not been the subject of an IRS examination.

If the total amount of unrecognized tax benefits of $297.2 million were ultimately realized, our income tax expense would decrease by approximately $173 million. However, the $173 million includes state tax refund claims of approximately $51 million that have been disallowed by tax authorities and we believe that there is a remote likelihood of ultimately realizing any benefit from these refund claim amounts. These state refund claims may be resolved by December 31, 2009. For this reason, we believe it is reasonably possible that reductions to our total unrecognized tax benefits in the range of $40 to $50 million may occur by March 31, 2010, although these reductions are not expected to materially impact income tax expense.

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
	(In millions)			
Interest and penalties recorded as tax expense	**$ 8.5**	$ 0.2	**$ 9.2**	$ 1.9

Accrued interest and penalties recognized in our Consolidated Balance Sheets were $19.5 million, of which BGE's portion was $0.9 million at September 30, 2009, and $10.3 million, of which BGE's portion was $0.7 million at December 31, 2008.

Taxes Other Than Income Taxes

BGE collects from certain customers franchise and other taxes that are levied by state or local governments on the sale or distribution of gas and electricity. We include these types of taxes in "Taxes other than income taxes" in our Consolidated Statements of Income (Loss). Some of these taxes are imposed on the customer and others are imposed on BGE. We account for the taxes imposed on the customer on a net basis, which means we do not recognize revenue and an offsetting tax expense for the taxes collected from customers. We account for the taxes imposed on BGE on a gross basis, which means we recognize revenue for the taxes collected from customers. Accordingly, we record the taxes accounted for on a gross basis as revenues in the accompanying Consolidated Statements of Income (Loss) for BGE as follows:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
	(In millions)			
Taxes other than income taxes included in revenues BGE	**$ 19.3**	$ 19.1	**$ 59.4**	$ 54.3

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, 2009	**Stated Limit**
	(In billions)
Constellation Energy guarantees	$ 11.5
Merchant energy business guarantees	0.1
BGE guarantees	0.3
Total guarantees	$ 11.9

At September 30, 2009, Constellation Energy had a total of $11.9 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 $11.5 billion as follows:

$10.5 billion on behalf of our merchant energy subsidiaries to allow those subsidiaries 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 $2 billion at September 30, 2009, which represents the total amount the parent company could be required to fund based on

September 30, 2009 market prices. For those guarantees related to our derivative liabilities, the fair value of the obligation is recorded in our Consolidated Balance Sheets.

$0.9 billion primarily on behalf of our 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.

$0.1 billion to its other nonregulated businesses.

Our merchant energy business guaranteed $73.0 million for loans, performance guarantees and other payment obligations primarily related to certain power projects in which we have an investment.

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

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Commitments and Contingencies

We have made substantial commitments in connection with our merchant energy, regulated electric and gas, and other nonregulated businesses. These commitments relate to:

- purchase of electric generating capacity and energy,
- procurement and delivery of fuels,
- the capacity and transmission and transportation rights for the physical delivery of energy to meet our obligations to our customers, and
- long-term service agreements, capital for construction programs, and other.

Our merchant energy business enters into various long-term contracts for the procurement and delivery of fuels to supply 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 2009 and 2028. In addition, our merchant energy business enters into long-term contracts for the capacity and transmission rights for the delivery of energy to meet our physical obligations to our customers. These contracts expire in various years between 2009 and 2030.

Our merchant energy business also has committed to long-term service agreements and other purchase commitments for our plants.

Our regulated electric business enters into various long-term contracts for the procurement of electricity. As of September 30, 2009, these contracts expire between 2010 and 2012 and represent BGE's estimated requirements for residential customers as follows:

Contract Duration	*Percentage of Estimated Requirements*
From September 30, 2009 to September 2010	100%
From October 2010 to May 2011	75
From June 2011 to September 2011	50
From October 2011 to May 2012	25

The cost of power under these contracts is recoverable under the Provider of Last Resort settlement approved by the Maryland PSC and in accordance with Maryland law.

Our regulated gas business enters into various long-term contracts for the procurement, transportation, and storage of gas. Our regulated gas business has gas procurement contracts that expire between 2009 and 2011, and transportation and storage contracts that expire between 2010 and 2027. The cost of gas under these contracts is recoverable under BGE's gas cost adjustment clause discussed in *Note 1* of our 2008 Annual Report on Form 10-K.

Our other nonregulated businesses have committed to gas purchases, as well as to contribute additional capital for construction programs and joint ventures in which they have an interest.

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

At September 30, 2009, the total amount of commitments was $5,371.9 million. These commitments are primarily related to our merchant energy business.

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 2019 and provide for the sale of

energy to electricity distribution utilities and certain retail customers. Our power sales contracts associated with power plants we own extend for terms into 2017 and provide for the sale of all or a portion of the actual output of certain of our power plants. 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 MidAmerican

Beginning September 18, 2008, seven shareholders of Constellation Energy filed lawsuits in the Circuit Court for Baltimore City, Maryland challenging the then-pending merger with MidAmerican. Four similar suits were filed by other shareholders of Constellation Energy in the United States District Court for the District of Maryland.

The lawsuits claim that the merger consideration was inadequate and did not maximize value for shareholders, that the sales process leading up to the merger was unreasonably short and procedurally flawed, and that unreasonable deal protection devices were agreed to in order to ward off competing bids and coerce shareholders into accepting the merger. The federal lawsuits also assert that the conversion of the Preferred Stock issued to MidAmerican into debt is not permitted under Maryland law. The lawsuits seek declaratory judgments establishing the unenforceability of the merger based on the alleged breaches of duty, injunctive relief to enjoin the merger, rescission of the merger or rescissory damages, the imposition of a constructive trust in favor of shareholders of any benefits received by the individual members of the

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Board of Directors of Constellation Energy, and reasonable costs and expenses, including attorney's fees.

The termination of the MidAmerican merger renders moot the claims attempting to enjoin the merger with MidAmerican. One of the federal merger cases was voluntarily dismissed on December 31, 2008. The other federal merger cases filed in the United States District Court for the District of Maryland were dismissed as moot on May 27, 2009. Plaintiffs' counsel in six of the seven state merger cases have indicated that in light of the termination of the MidAmerican merger they will be filing dismissals without prejudice to their MidAmerican merger claims. In addition, on October 27, 2009 certain counsel in the state merger cases jointly moved for approval of a settlement regarding claims for attorneys' fees, which is pending and subject to court approval. We believe there are meritorious defenses to any claims or requests for relief that might possibly remain regarding this matter. However, we are unable at this time to determine the ultimate outcome of these lawsuits or their possible effect on our financial results.

Securities Class Action

Three federal securities class action lawsuits have been 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 there 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. We are unable at this time to determine the ultimate outcome of the securities class actions or their possible effect on our, or BGE's financial results.

ERISA Actions

In the fall of 2008, multiple class action lawsuits were filed in the United States District Courts for the District of Maryland and the Southern District of New York against Constellation Energy; Mayo A. Shattuck III, Constellation Energy's Chairman of the Board, President and Chief Executive Officer; and others in their roles as fiduciaries of the Constellation Energy Employee Savings Plan. The actions, which have been consolidated into one action in Maryland (the Consolidated Action), allege that the defendants, in violation of various sections of ERISA, breached their fiduciary duties to prudently and loyally manage Constellation Energy Savings Plan's assets by designating Constellation Energy common stock as an investment, by failing to properly provide accurate information about the investment, by failing to avoid conflicts of interest, by failing to properly monitor the investment and by failing to properly monitor other fiduciaries. The plaintiffs seek to compel the defendants to reimburse the plaintiffs and the Constellation Energy Savings Plan for all losses resulting from the defendants' breaches of fiduciary duty, to impose a constructive trust on any unjust enrichment, to award actual damages with pre- and post-judgment interest, to award appropriate equitable relief including injunction and restitution and to award costs and expenses, including attorneys' fees. We are unable at this time to determine the ultimate outcome of the Consolidated Action or its possible effects 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.

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The claims against BGE and Constellation Energy have 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. Plaintiffs may attempt to pursue appeals of the rulings in favor of BGE and Constellation Energy once the cases are finally concluded as to all defendants. We believe that we have meritorious defenses and intend to defend the actions vigorously. However, we cannot predict the timing, or outcome, of these cases, or their possible effect on our, or BGE's, financial results.

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 499 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 and a small minority have been resolved for amounts that were not material to our financial results.

BGE and Constellation Energy do not know the specific facts necessary to estimate their potential liability for 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.

Until the relevant facts are determined, we are unable to estimate what our, or BGE's, liability might be. Although insurance and hold harmless agreements from contractors who employed the plaintiffs may cover a portion of any awards in the actions, the potential effect on our, or BGE's, financial results could be material.

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 liable 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 fully indemnified by a wholly owned subsidiary of Constellation Energy for costs related to this settlement, as well as any clean-up costs. The clean-up costs will not be known until the investigation is closer to completion, which is expected by mid-2010. The completed investigation will provide a range of remediation alternatives to the EPA, and the EPA is expected to select one of the alternatives by the end of the first quarter of 2011. The clean-up costs we incur could have a material effect on our financial results.

Air Quality

In May 2007, a subsidiary of Constellation Energy entered into a consent decree with the Maryland Department of the Environment to resolve alleged violations of air quality opacity standards at three fossil fuel plants in Maryland. The consent decree requires the subsidiary to pay a $100,000 penalty, provide $100,000 to a supplemental environmental project, and install technology to control emissions from those plants.

In January 2009, the EPA issued a notice of violation (NOV) to a subsidiary of Constellation Energy, as well as the other owners and the operator of the Keystone coal-fired power plant in Shelocta, Pennsylvania. We hold an approximately 21% interest in the Keystone plant. The NOV alleges that the plant performed various capital projects beginning 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 are investigating the allegations and have entered into discussions with the EPA. We believe there are meritorious defenses to the allegations contained in the NOV. However, we cannot predict the outcome of this proceeding and it is not possible to determine our actual liability, if any, at this time.