

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

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

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

Commission
File Number
1-12869
1-1910

Exact name of registrant as specified in its charter

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

IRS Employer
Identification No.
52-1964611
52-0280210

MARYLAND

(State of Incorporation of both registrants)

750 E. PRATT STREET, BALTIMORE, MARYLAND 21202

(Address of principal executive offices) (Zip Code)

410-783-2800

(Registrants telephone number, including area code)

NOT APPLICABLE

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

Edgar Filing: CONSTELLATION ENERGY GROUP INC - Form 10-Q

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

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

TABLE OF CONTENTS

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

PART 1 FINANCIAL INFORMATION

Item 1 Financial Statements

Constellation Energy Group, Inc. and Subsidiaries

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

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

Edgar Filing: CONSTELLATION ENERGY GROUP INC - Form 10-Q

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

See Notes to Consolidated Financial Statements.

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

3

Constellation Energy Group, Inc. and Subsidiaries

June 30,
2007*

December 31,
2006

(In millions)

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

* Unaudited

See Notes to Consolidated Financial Statements.

Edgar Filing: CONSTELLATION ENERGY GROUP INC - Form 10-Q

Constellation Energy Group, Inc. and Subsidiaries

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

* Unaudited

See Notes to Consolidated Financial Statements.

Edgar Filing: CONSTELLATION ENERGY GROUP INC - Form 10-Q

Constellation Energy Group, Inc. and Subsidiaries

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

See Notes to Consolidated Financial Statements.

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

Baltimore Gas and Electric Company and Subsidiaries

	<i>Three Months Ended</i>		<i>Six Months Ended</i>	
	<i>June 30,</i>		<i>June 30,</i>	
	2007	2006	2007	2006
	<i>(In millions)</i>			
Revenues				
Electric revenues	\$ 544.3	\$ 498.7	\$ 1,059.1	\$ 1,002.7
Gas revenues	162.8	143.6	570.1	563.8
Total revenues	707.1	642.3	1,629.2	1,566.5
Expenses				