

CONSTELLATION ENERGY GROUP INC  
Form 10-Q  
August 08, 2006

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

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

For The Quarterly Period Ended **June 30, 2006**

| Commission<br>File Number | Exact name of registrant as specified in its charter | IRS Employer<br>Identification No. |
|---------------------------|------------------------------------------------------|------------------------------------|
|---------------------------|------------------------------------------------------|------------------------------------|

|                |                                         |                   |
|----------------|-----------------------------------------|-------------------|
| <b>1-12869</b> | <b>CONSTELLATION ENERGY GROUP, INC.</b> | <b>52-1964611</b> |
|----------------|-----------------------------------------|-------------------|

|               |                                               |                   |
|---------------|-----------------------------------------------|-------------------|
| <b>1-1910</b> | <b>BALTIMORE GAS AND ELECTRIC<br/>COMPANY</b> | <b>52-0280210</b> |
|---------------|-----------------------------------------------|-------------------|

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):

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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

**Common Stock, without par value 179,659,653 shares outstanding of  
Constellation Energy Group, Inc. on July 31, 2006.**

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 (UNAUDITED)***Constellation Energy Group, Inc. and Subsidiaries*

|  | <i>Three Months Ended</i> |             | <i>Six Months Ended</i> |             |
|--|---------------------------|-------------|-------------------------|-------------|
|  | <i>June 30,</i>           |             | <i>June 30,</i>         |             |
|  | <b>2006</b>               | <b>2005</b> | <b>2006</b>             | <b>2005</b> |

*(In millions, except per share amounts)*

|                                                                                                   |                |                 |                 |                 |
|---------------------------------------------------------------------------------------------------|----------------|-----------------|-----------------|-----------------|
| <b>Revenues</b>                                                                                   |                |                 |                 |                 |
| Nonregulated revenues                                                                             | \$ 3,781.4     | \$ 2,871.7      | \$ 7,756.6      | \$ 5,587.6      |
| Regulated electric revenues                                                                       | 498.7          | 465.1           | 1,002.7         | 956.6           |
| Regulated gas revenues                                                                            | 141.8          | 141.7           | 560.1           | 506.3           |
| <b>Total revenues</b>                                                                             | <b>4,421.9</b> | <b>3,478.5</b>  | <b>9,319.4</b>  | <b>7,050.5</b>  |
| <b>Expenses</b>                                                                                   |                |                 |                 |                 |
| Fuel and purchased energy expenses                                                                | 3,395.7        | 2,587.2         | 7,319.9         | 5,264.8         |
| Operating expenses                                                                                | 582.0          | 465.6           | 1,103.0         | 923.9           |
| Merger-related costs                                                                              | 7.1            |                 | 9.0             |                 |
| Workforce reduction costs                                                                         |                |                 | 2.2             |                 |
| Depreciation, depletion, and amortization                                                         | 138.8          | 133.5           | 273.1           | 264.1           |
| Accretion of asset retirement obligations                                                         | 16.7           | 15.3            | 33.2            | 30.4            |
| Taxes other than income taxes                                                                     | 72.9           | 67.1            | 147.8           | 135.6           |
| <b>Total expenses</b>                                                                             | <b>4,213.2</b> | <b>3,268.7</b>  | <b>8,888.2</b>  | <b>6,618.8</b>  |
| <b>Income from Operations</b>                                                                     | <b>208.7</b>   | <b>209.8</b>    | <b>431.2</b>    | <b>431.7</b>    |
| <b>Other Income</b>                                                                               | <b>13.6</b>    | <b>14.1</b>     | <b>27.8</b>     | <b>27.0</b>     |
| <b>Fixed Charges</b>                                                                              |                |                 |                 |                 |
| Interest expense                                                                                  | 79.3           | 74.8            | 156.3           | 154.5           |
| Interest capitalized and allowance for borrowed funds used during construction                    | (3.8)          | (2.5)           | (6.6)           | (5.4)           |
| BGE preference stock dividends                                                                    | 3.3            | 3.3             | 6.6             | 6.6             |
| <b>Total fixed charges</b>                                                                        | <b>78.8</b>    | <b>75.6</b>     | <b>156.3</b>    | <b>155.7</b>    |
| <b>Income from Continuing Operations Before Income Taxes</b>                                      | <b>143.5</b>   | <b>148.3</b>    | <b>302.7</b>    | <b>303.0</b>    |
| <b>Income Tax Expense</b>                                                                         | <b>50.4</b>    | <b>30.5</b>     | <b>96.6</b>     | <b>66.6</b>     |
| <b>Income from Continuing Operations</b>                                                          | <b>93.1</b>    | <b>117.8</b>    | <b>206.1</b>    | <b>236.4</b>    |
| Income from discontinued operations, net of income taxes of \$4.5, \$0.5, and \$7.8, respectively |                | 3.9             | 0.9             | 6.0             |
| <b>Net Income</b>                                                                                 | <b>\$ 93.1</b> | <b>\$ 121.7</b> | <b>\$ 207.0</b> | <b>\$ 242.4</b> |
| <b>Earnings Applicable to Common Stock</b>                                                        | <b>\$ 93.1</b> | <b>\$ 121.7</b> | <b>\$ 207.0</b> | <b>\$ 242.4</b> |
| <b>Average Shares of Common Stock Outstanding Basic</b>                                           | <b>179.1</b>   | <b>177.6</b>    | <b>178.8</b>    | <b>177.2</b>    |

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|                                                                     | <i>Three Months Ended</i> |          | <i>Six Months Ended</i> |          |
|---------------------------------------------------------------------|---------------------------|----------|-------------------------|----------|
|                                                                     | <i>June 30,</i>           |          | <i>June 30,</i>         |          |
| <b>Average Shares of Common Stock Outstanding Diluted</b>           | <b>180.7</b>              | 179.7    | <b>180.6</b>            | 179.2    |
| <b>Earnings Per Common Share from Continuing Operations Basic</b>   | <b>\$ 0.52</b>            | \$ 0.67  | <b>\$ 1.15</b>          | \$ 1.34  |
| Income from discontinued operations                                 |                           | 0.02     | <b>0.01</b>             | 0.03     |
| <b>Earnings Per Common Share Basic</b>                              | <b>\$ 0.52</b>            | \$ 0.69  | <b>\$ 1.16</b>          | \$ 1.37  |
| <b>Earnings Per Common Share from Continuing Operations Diluted</b> | <b>\$ 0.52</b>            | \$ 0.66  | <b>\$ 1.14</b>          | \$ 1.32  |
| Income from discontinued operations                                 |                           | 0.02     | <b>0.01</b>             | 0.03     |
| <b>Earnings Per Common Share Diluted</b>                            | <b>\$ 0.52</b>            | \$ 0.68  | <b>\$ 1.15</b>          | \$ 1.35  |
| <b>Dividends Declared Per Common Share</b>                          | <b>\$ 0.3775</b>          | \$ 0.335 | <b>\$ 0.755</b>         | \$ 0.670 |

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

*Constellation Energy Group, Inc. and Subsidiaries*

|                                                                                                 | <i>Three Months Ended</i> |             | <i>Six Months Ended</i> |             |
|-------------------------------------------------------------------------------------------------|---------------------------|-------------|-------------------------|-------------|
|                                                                                                 | <i>June 30,</i>           |             | <i>June 30,</i>         |             |
|                                                                                                 | <b>2006</b>               | <b>2005</b> | <b>2006</b>             | <b>2005</b> |
|                                                                                                 | <i>(In millions)</i>      |             |                         |             |
| <b>Net Income</b>                                                                               | <b>\$ 93.1</b>            | \$ 121.7    | <b>\$ 207.0</b>         | \$ 242.4    |
| Other comprehensive income (OCI)                                                                |                           |             |                         |             |
| Reclassification of net (gain) on sales of securities from OCI to net income, net of taxes      |                           | (0.1)       | <b>(0.3)</b>            | (0.1)       |
| Reclassification of net loss (gain) on hedging instruments from OCI to net income, net of taxes | <b>133.1</b>              | (60.5)      | <b>214.1</b>            | (98.2)      |
| Net unrealized (loss) gain on hedging instruments, net of taxes                                 | <b>(294.0)</b>            | (132.3)     | <b>(1,049.0)</b>        | 86.2        |
| Net unrealized (loss) gain on securities, net of taxes                                          | <b>(8.5)</b>              | (2.3)       | <b>3.3</b>              | 8.6         |
| Net unrealized gain on foreign currency, net of taxes                                           | <b>1.1</b>                | 0.4         | <b>1.1</b>              | 0.3         |
| <b>Comprehensive (Loss) Income</b>                                                              | <b>\$ (75.2)</b>          | \$ (73.1)   | <b>\$ (623.8)</b>       | \$ 239.2    |

*See Notes to Consolidated Financial Statements.*

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

## CONSOLIDATED BALANCE SHEETS

Constellation Energy Group, Inc. and Subsidiaries

|                                                                                              | June 30,<br>2006*  | December 31,<br>2005 |
|----------------------------------------------------------------------------------------------|--------------------|----------------------|
| <i>(In millions)</i>                                                                         |                    |                      |
| <b>Assets</b>                                                                                |                    |                      |
| <b>Current Assets</b>                                                                        |                    |                      |
| Cash and cash equivalents                                                                    | \$ 228.1           | \$ 813.0             |
| Accounts receivable (net of allowance for uncollectibles of \$53.9 and \$47.4, respectively) | 2,527.0            | 2,727.9              |
| Fuel stocks                                                                                  | 531.3              | 489.5                |
| Materials and supplies                                                                       | 200.3              | 197.0                |
| Mark-to-market energy assets                                                                 | 867.1              | 1,339.2              |
| Risk management assets                                                                       | 282.6              | 1,244.3              |
| Unamortized energy contract assets                                                           | 46.0               | 55.6                 |
| Deferred income taxes                                                                        | 337.1              |                      |
| Other                                                                                        | 544.1              | 555.3                |
| <b>Total current assets</b>                                                                  | <b>5,563.6</b>     | <b>7,421.8</b>       |
| <b>Investments and Other Assets</b>                                                          |                    |                      |
| Nuclear decommissioning trust funds                                                          | 1,137.9            | 1,110.7              |
| Investments in qualifying facilities and power projects                                      | 302.4              | 306.2                |
| Regulatory assets (net)                                                                      | 103.7              | 154.3                |
| Goodwill                                                                                     | 151.8              | 147.1                |
| Mark-to-market energy assets                                                                 | 766.5              | 1,089.3              |
| Risk management assets                                                                       | 437.4              | 626.0                |
| Unamortized energy contract assets                                                           | 125.6              | 141.2                |
| Other                                                                                        | 340.7              | 410.6                |
| <b>Total investments and other assets</b>                                                    | <b>3,366.0</b>     | <b>3,985.4</b>       |
| <b>Property, Plant and Equipment</b>                                                         |                    |                      |
| Nonregulated property, plant and equipment                                                   | 8,832.2            | 8,580.8              |
| Regulated property, plant and equipment                                                      | 5,617.7            | 5,520.5              |
| Nuclear fuel (net of amortization)                                                           | 319.8              | 302.0                |
| Accumulated depreciation                                                                     | (4,485.2)          | (4,336.6)            |
| <b>Net property, plant and equipment</b>                                                     | <b>10,284.5</b>    | <b>10,066.7</b>      |
| <b>Total Assets</b>                                                                          | <b>\$ 19,214.1</b> | <b>\$ 21,473.9</b>   |

\* Unaudited

See Notes to Consolidated Financial Statements.



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CONSOLIDATED BALANCE SHEETS

Constellation Energy Group, Inc. and Subsidiaries

|                                                                                                                                                        | June 30,<br>2006* | December 31,<br>2005 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|----------------------|
| <i>(In millions)</i>                                                                                                                                   |                   |                      |
| <b>Liabilities and Equity</b>                                                                                                                          |                   |                      |
| <b>Current Liabilities</b>                                                                                                                             |                   |                      |
| Short-term borrowings                                                                                                                                  | \$ 155.0          | \$ 0.7               |
| Current portion of long-term debt                                                                                                                      | 1,344.0           | 491.3                |
| Accounts payable and accrued liabilities                                                                                                               | 1,380.9           | 1,667.9              |
| Customer deposits and collateral                                                                                                                       | 245.4             | 458.9                |
| Mark-to-market energy liabilities                                                                                                                      | 732.7             | 1,348.7              |
| Risk management liabilities                                                                                                                            | 808.8             | 483.5                |
| Unamortized energy contract liabilities                                                                                                                | 461.9             | 489.5                |
| Deferred income taxes                                                                                                                                  |                   | 151.4                |
| Accrued expenses and other                                                                                                                             | 575.8             | 780.4                |
| <b>Total current liabilities</b>                                                                                                                       | <b>5,704.5</b>    | <b>5,872.3</b>       |
| <b>Deferred Credits and Other Liabilities</b>                                                                                                          |                   |                      |
| Deferred income taxes                                                                                                                                  | 1,129.2           | 1,180.8              |
| Asset retirement obligations                                                                                                                           | 939.0             | 908.0                |
| Mark-to-market energy liabilities                                                                                                                      | 547.2             | 912.3                |
| Risk management liabilities                                                                                                                            | 926.9             | 1,035.5              |
| Unamortized energy contract liabilities                                                                                                                | 1,111.1           | 1,118.7              |
| Postretirement and postemployment benefits                                                                                                             | 389.0             | 382.6                |
| Net pension liability                                                                                                                                  | 390.0             | 401.4                |
| Deferred investment tax credits                                                                                                                        | 60.6              | 64.1                 |
| Other                                                                                                                                                  | 97.9              | 101.0                |
| <b>Total deferred credits and other liabilities</b>                                                                                                    | <b>5,590.9</b>    | <b>6,104.4</b>       |
| <b>Long-term Debt</b>                                                                                                                                  |                   |                      |
| Long-term debt of Constellation Energy                                                                                                                 | 3,029.2           | 3,049.1              |
| Long-term debt of nonregulated businesses                                                                                                              | 382.4             | 357.5                |
| First refunding mortgage bonds of BGE                                                                                                                  | 342.8             | 342.8                |
| Other long-term debt of BGE                                                                                                                            | 836.5             | 861.5                |
| 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                                                                                                                       | (6.0)             | (8.0)                |
| Current portion of long-term debt                                                                                                                      | (1,344.0)         | (491.3)              |
| <b>Total long-term debt</b>                                                                                                                            | <b>3,498.6</b>    | <b>4,369.3</b>       |
| <b>Minority Interests</b>                                                                                                                              | <b>21.6</b>       | <b>22.4</b>          |
| <b>BGE Preference Stock Not Subject to Mandatory Redemption</b>                                                                                        | <b>190.0</b>      | <b>190.0</b>         |
| <b>Common Shareholders' Equity</b>                                                                                                                     |                   |                      |
| Common stock                                                                                                                                           | 2,672.9           | 2,620.8              |



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|                                                               | <i>June 30,</i><br><b>2006*</b> | <i>December 31,</i><br><b>2005</b> |
|---------------------------------------------------------------|---------------------------------|------------------------------------|
| Retained earnings                                             | 2,881.9                         | 2,810.2                            |
| Accumulated other comprehensive loss                          | (1,346.3)                       | (515.5)                            |
| <hr/>                                                         |                                 |                                    |
| Total common shareholders' equity                             | 4,208.5                         | 4,915.5                            |
| <hr/>                                                         |                                 |                                    |
| <b>Commitments, Guarantees, and Contingencies (see Notes)</b> |                                 |                                    |
| <hr/>                                                         |                                 |                                    |
| <b>Total Liabilities and Equity</b>                           | <b>\$ 19,214.1</b>              | <b>\$ 21,473.9</b>                 |
| <hr/>                                                         |                                 |                                    |

\* Unaudited

See Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Constellation Energy Group, Inc. and Subsidiaries

Six Months Ended June 30,

|                                                                                                      | 2006     | 2005     |
|------------------------------------------------------------------------------------------------------|----------|----------|
| <i>(In millions)</i>                                                                                 |          |          |
| <b>Cash Flows From Operating Activities</b>                                                          |          |          |
| Net income                                                                                           | \$ 207.0 | \$ 242.4 |
| Adjustments to reconcile to net cash (used in) provided by operating activities                      |          |          |
| (Gain) loss on sales of discontinued operations                                                      | (0.9)    | 2.2      |
| Depreciation, depletion, and amortization                                                            | 285.9    | 321.6    |
| Accretion of asset retirement obligations                                                            | 33.2     | 30.4     |
| Deferred income taxes                                                                                | (26.9)   | 8.5      |
| Investment tax credit adjustments                                                                    | (3.5)    | (3.6)    |
| Deferred fuel costs                                                                                  | 17.8     | 12.8     |
| Pension and postemployment benefits                                                                  | (3.4)    | (21.5)   |
| Workforce reduction costs                                                                            | 2.2      |          |
| Merger-related costs                                                                                 | 9.0      |          |
| Equity in earnings of affiliates less than dividends received                                        | 16.1     | 21.6     |
| Proceeds from derivative power sales contracts classified as financing activities under SFAS No. 149 | (44.1)   | (22.8)   |
| Changes in                                                                                           |          |          |
| Accounts receivable                                                                                  | 38.2     | (153.0)  |
| Mark-to-market energy assets and liabilities                                                         | (181.7)  | (40.9)   |
| Risk management assets and liabilities                                                               | (2.0)    | (59.0)   |
| Materials, supplies, and fuel stocks                                                                 | (188.2)  | (85.2)   |
| Other current assets                                                                                 | 11.6     | 13.7     |
| Accounts payable and accrued liabilities                                                             | (303.0)  | 169.7    |
| Other current liabilities                                                                            | (286.8)  | 40.6     |
| Other                                                                                                | 0.2      | 1.3      |
| Net cash (used in) provided by operating activities                                                  | (419.3)  | 478.8    |
| <b>Cash Flows From Investing Activities</b>                                                          |          |          |
| Investments in property, plant and equipment                                                         | (414.4)  | (303.7)  |
| Acquisitions, net of cash acquired                                                                   | (126.2)  | (237.9)  |
| Investments in nuclear decommissioning trust fund securities                                         | (180.8)  | (186.4)  |
| Proceeds from nuclear decommissioning trust fund securities                                          | 172.0    | 177.6    |
| Sales of investments and other assets                                                                | 43.1     | 1.1      |
| Contract and portfolio acquisitions                                                                  | (2.3)    |          |
| Proceeds from sale of discontinued operations                                                        |          | 217.6    |
| Issuances of loans receivable                                                                        |          | (82.8)   |
| Other investments                                                                                    | 8.3      | (26.0)   |
| Net cash used in investing activities                                                                | (500.3)  | (440.5)  |
| <b>Cash Flows From Financing Activities</b>                                                          |          |          |
| Net issuance of short-term borrowings                                                                | 154.3    | 1.6      |
| Proceeds from issuance of                                                                            |          |          |
| Common Stock                                                                                         | 40.8     | 45.2     |
| Long-term debt                                                                                       | 122.0    |          |
| Repayment of long-term debt                                                                          | (123.0)  | (327.9)  |
| Common stock dividends paid                                                                          | (127.7)  | (109.6)  |
| Proceeds from contract and portfolio acquisitions contracts                                          | 221.3    | 381.5    |
|                                                                                                      | 44.1     | 22.8     |

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*Six Months Ended June 30,*

|                                                                                                      | 2006            | 2005            |
|------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| Proceeds from derivative power sales contracts classified as financing activities under SFAS No. 149 |                 |                 |
| Other                                                                                                | 2.9             | (33.6)          |
| <hr/>                                                                                                |                 |                 |
| Net cash provided by (used in) financing activities                                                  | 334.7           | (20.0)          |
| <hr/>                                                                                                |                 |                 |
| <b>Net (Decrease) Increase in Cash and Cash Equivalents</b>                                          | <b>(584.9)</b>  | <b>18.3</b>     |
| <b>Cash and Cash Equivalents at Beginning of Period</b>                                              | <b>813.0</b>    | <b>706.3</b>    |
| <hr/>                                                                                                |                 |                 |
| <b>Cash and Cash Equivalents at End of Period</b>                                                    | <b>\$ 228.1</b> | <b>\$ 724.6</b> |
| <hr/>                                                                                                |                 |                 |

*See Notes to Consolidated Financial Statements.*

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

## CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

*Baltimore Gas and Electric Company and Subsidiaries*

|                                                       | <i>Three Months Ended<br/>June 30,</i> |                | <i>Six Months Ended<br/>June 30,</i> |                |
|-------------------------------------------------------|----------------------------------------|----------------|--------------------------------------|----------------|
|                                                       | <b>2006</b>                            | <b>2005</b>    | <b>2006</b>                          | <b>2005</b>    |
| <i>(In millions)</i>                                  |                                        |                |                                      |                |
| <b>Revenues</b>                                       |                                        |                |                                      |                |
| Electric revenues                                     | \$ 498.7                               | \$ 465.1       | \$ 1,002.7                           | \$ 956.6       |
| Gas revenues                                          | 143.6                                  | 145.2          | 563.8                                | 511.0          |
| <b>Total revenues</b>                                 | <b>642.3</b>                           | <b>610.3</b>   | <b>1,566.5</b>                       | <b>1,467.6</b> |
| <b>Expenses</b>                                       |                                        |                |                                      |                |
| Operating expenses                                    |                                        |                |                                      |                |
| Electricity purchased for resale                      | 279.8                                  | 244.4          | 542.7                                | 486.5          |
| Gas purchased for resale                              | 83.8                                   | 90.1           | 382.2                                | 350.4          |
| Operations and maintenance                            | 120.3                                  | 112.0          | 240.3                                | 219.8          |
| Merger-related costs                                  | 1.9                                    |                | 2.5                                  |                |
| Depreciation and amortization                         | 57.2                                   | 58.4           | 114.9                                | 118.0          |
| Taxes other than income taxes                         | 40.8                                   | 41.0           | 84.3                                 | 84.8           |
| <b>Total expenses</b>                                 | <b>583.8</b>                           | <b>545.9</b>   | <b>1,366.9</b>                       | <b>1,259.5</b> |
| <b>Income from Operations</b>                         | <b>58.5</b>                            | <b>64.4</b>    | <b>199.6</b>                         | <b>208.1</b>   |
| <b>Other Income</b>                                   | <b>0.9</b>                             | <b>2.5</b>     | <b>1.0</b>                           | <b>3.5</b>     |
| <b>Fixed Charges</b>                                  |                                        |                |                                      |                |
| Interest expense                                      | 24.3                                   | 23.8           | 48.5                                 | 47.5           |
| Allowance for borrowed funds used during construction | (0.5)                                  | (0.6)          | (0.9)                                | (1.0)          |
| <b>Total fixed charges</b>                            | <b>23.8</b>                            | <b>23.2</b>    | <b>47.6</b>                          | <b>46.5</b>    |
| <b>Income Before Income Taxes</b>                     | <b>35.6</b>                            | <b>43.7</b>    | <b>153.0</b>                         | <b>165.1</b>   |
| <b>Income Taxes</b>                                   | <b>13.9</b>                            | <b>16.8</b>    | <b>59.6</b>                          | <b>63.9</b>    |
| <b>Net Income</b>                                     | <b>21.7</b>                            | <b>26.9</b>    | <b>93.4</b>                          | <b>101.2</b>   |
| <b>Preference Stock Dividends</b>                     | <b>3.3</b>                             | <b>3.3</b>     | <b>6.6</b>                           | <b>6.6</b>     |
| <b>Earnings Applicable to Common Stock</b>            | <b>\$ 18.4</b>                         | <b>\$ 23.6</b> | <b>\$ 86.8</b>                       | <b>\$ 94.6</b> |

*See Notes to Consolidated Financial Statements.*

## CONSOLIDATED BALANCE SHEETS

*Baltimore Gas and Electric Company and Subsidiaries*

|                                                                                              | <i>June 30,<br/>2006*</i> | <i>December 31,<br/>2005</i> |
|----------------------------------------------------------------------------------------------|---------------------------|------------------------------|
| <i>(In millions)</i>                                                                         |                           |                              |
| <b>Assets</b>                                                                                |                           |                              |
| <b>Current Assets</b>                                                                        |                           |                              |
| Cash and cash equivalents                                                                    | \$ 12.4                   | \$ 15.1                      |
| Accounts receivable (net of allowance for uncollectibles of \$14.6 and \$13.0, respectively) | 319.1                     | 480.5                        |
| Investment in cash pool, affiliated company                                                  | 238.5                     |                              |
| Accounts receivable, affiliated companies                                                    | 1.7                       | 1.8                          |
| Fuel stocks                                                                                  | 77.3                      | 102.7                        |
| Materials and supplies                                                                       | 40.2                      | 40.1                         |
| Prepaid taxes other than income taxes                                                        | 0.2                       | 45.7                         |
| Other                                                                                        | 5.7                       | 6.5                          |
| <b>Total current assets</b>                                                                  | <b>695.1</b>              | <b>692.4</b>                 |
| <b>Investments and Other Assets</b>                                                          |                           |                              |
| Regulatory assets (net)                                                                      | 103.7                     | 154.3                        |
| Receivable, affiliated company                                                               | 169.1                     | 154.7                        |
| Other                                                                                        | 121.4                     | 144.0                        |
| <b>Total investments and other assets</b>                                                    | <b>394.2</b>              | <b>453.0</b>                 |
| <b>Utility Plant</b>                                                                         |                           |                              |
| Plant in service                                                                             |                           |                              |
| Electric                                                                                     | 3,969.7                   | 3,891.1                      |
| Gas                                                                                          | 1,129.9                   | 1,116.7                      |
| Common                                                                                       | 433.8                     | 416.0                        |
| <b>Total plant in service</b>                                                                | <b>5,533.4</b>            | <b>5,423.8</b>               |
| Accumulated depreciation                                                                     | (1,954.2)                 | (1,923.8)                    |
| <b>Net plant in service</b>                                                                  | <b>3,579.2</b>            | <b>3,500.0</b>               |
| Construction work in progress                                                                | 81.5                      | 93.9                         |
| Plant held for future use                                                                    | 2.8                       | 2.8                          |
| <b>Net utility plant</b>                                                                     | <b>3,663.5</b>            | <b>3,596.7</b>               |
| <b>Total Assets</b>                                                                          | <b>\$ 4,752.8</b>         | <b>\$ 4,742.1</b>            |

\* Unaudited

*See Notes to Consolidated Financial Statements.*

## CONSOLIDATED BALANCE SHEETS

*Baltimore Gas and Electric Company and Subsidiaries*

|                                                                                                                                                    | <i>June 30,</i><br><b>2006*</b> | <i>December 31,</i><br><b>2005</b> |
|----------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|------------------------------------|
| <i>(In millions)</i>                                                                                                                               |                                 |                                    |
| <b>Liabilities and Equity</b>                                                                                                                      |                                 |                                    |
| <b>Current Liabilities</b>                                                                                                                         |                                 |                                    |
| Current portion of long-term debt                                                                                                                  | \$ 676.0                        | \$ 469.6                           |
| Accounts payable and accrued liabilities                                                                                                           | 88.3                            | 169.7                              |
| Accounts payable and accrued liabilities, affiliated companies                                                                                     | 213.0                           | 152.8                              |
| Borrowing from cash pool, affiliated company                                                                                                       |                                 | 3.2                                |
| Customer deposits                                                                                                                                  | 68.5                            | 65.1                               |
| Accrued taxes                                                                                                                                      | 85.3                            | 35.5                               |
| Accrued expenses and other                                                                                                                         | 78.8                            | 79.6                               |
| Total current liabilities                                                                                                                          | <b>1,209.9</b>                  | 975.5                              |
| <b>Deferred Credits and Other Liabilities</b>                                                                                                      |                                 |                                    |
| Deferred income taxes                                                                                                                              | 594.0                           | 608.9                              |
| Postretirement and postemployment benefits                                                                                                         | 277.5                           | 277.7                              |
| Deferred investment tax credits                                                                                                                    | 14.3                            | 15.1                               |
| Other                                                                                                                                              | 15.5                            | 19.0                               |
| Total deferred credits and other liabilities                                                                                                       | <b>901.3</b>                    | 920.7                              |
| <b>Long-term Debt</b>                                                                                                                              |                                 |                                    |
| First refunding mortgage bonds of BGE                                                                                                              | 342.8                           | 342.8                              |
| Other long-term debt of BGE                                                                                                                        | 836.5                           | 861.5                              |
| 6.20% deferrable interest subordinated debentures due October 15, 2043 to wholly owned BGE Capital Trust II relating to trust preferred securities | 257.7                           | 257.7                              |
| Long-term debt of nonregulated businesses                                                                                                          | 25.0                            | 25.0                               |
| Unamortized discount and premium                                                                                                                   | (1.9)                           | (2.3)                              |
| Current portion of long-term debt                                                                                                                  | (676.0)                         | (469.6)                            |
| Total long-term debt                                                                                                                               | <b>784.1</b>                    | 1,015.1                            |
| <b>Minority Interest</b>                                                                                                                           | <b>18.0</b>                     | 18.3                               |
| <b>Preference Stock Not Subject to Mandatory Redemption</b>                                                                                        | <b>190.0</b>                    | 190.0                              |
| <b>Common Shareholder's Equity</b>                                                                                                                 |                                 |                                    |
| Common stock                                                                                                                                       | 912.2                           | 912.2                              |
| Retained earnings                                                                                                                                  | 736.6                           | 709.6                              |
| Accumulated other comprehensive income                                                                                                             | 0.7                             | 0.7                                |
| Total common shareholder's equity                                                                                                                  | <b>1,649.5</b>                  | 1,622.5                            |

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*June 30,*  
**2006\***

*December 31,*  
**2005**

**Commitments, Guarantees, and Contingencies (see Notes)**

|                                     |                   |                   |
|-------------------------------------|-------------------|-------------------|
| <b>Total Liabilities and Equity</b> | <b>\$ 4,752.8</b> | <b>\$ 4,742.1</b> |
|-------------------------------------|-------------------|-------------------|

*\* Unaudited*

*See Notes to Consolidated Financial Statements.*



## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

*Baltimore Gas and Electric Company and Subsidiaries**Six Months Ended June 30,***2006****2005**

|                                                                                                              | <i>(In millions)</i> |                |
|--------------------------------------------------------------------------------------------------------------|----------------------|----------------|
| <b>Cash Flows From Operating Activities</b>                                                                  |                      |                |
| Net income                                                                                                   | \$ 93.4              | \$ 101.2       |
| Adjustments to reconcile to net cash provided by operating activities                                        |                      |                |
| Depreciation and amortization                                                                                | 120.3                | 125.3          |
| Deferred income taxes                                                                                        | (15.5)               | (18.0)         |
| Investment tax credit adjustments                                                                            | (0.8)                | (0.9)          |
| Deferred fuel costs                                                                                          | 17.8                 | 12.8           |
| Pension and postemployment benefits                                                                          | (13.0)               | (14.5)         |
| Merger-related costs                                                                                         | 2.5                  |                |
| Allowance for equity funds used during construction                                                          | (1.6)                | (1.8)          |
| Changes in                                                                                                   |                      |                |
| Accounts receivable                                                                                          | 161.4                | 56.8           |
| Receivables, affiliated companies                                                                            | 0.1                  | (1.4)          |
| Materials, supplies, and fuel stocks                                                                         | 25.3                 | 26.9           |
| Other current assets                                                                                         | 46.3                 | 21.8           |
| Accounts payable and accrued liabilities                                                                     | (83.9)               | (8.8)          |
| Accounts payable and accrued liabilities, affiliated companies                                               | 60.2                 | 81.6           |
| Other current liabilities                                                                                    | 52.4                 | (24.0)         |
| Other                                                                                                        | 2.7                  | 1.7            |
| Net cash provided by operating activities                                                                    | <b>467.6</b>         | <b>358.7</b>   |
| <b>Cash Flows From Investing Activities</b>                                                                  |                      |                |
| Utility construction expenditures (excluding equity portion of allowance for funds used during construction) | (147.5)              | (128.8)        |
| Change in cash pool at parent                                                                                | (241.7)              | (189.4)        |
| Other                                                                                                        | 10.3                 | (11.7)         |
| Net cash used in investing activities                                                                        | <b>(378.9)</b>       | <b>(329.9)</b> |
| <b>Cash Flows From Financing Activities</b>                                                                  |                      |                |
| Distribution to parent                                                                                       | (59.8)               |                |
| Repayment of long-term debt                                                                                  | (25.0)               | (20.0)         |
| Preference stock dividends paid                                                                              | (6.6)                | (6.6)          |
| Net cash used in financing activities                                                                        | <b>(91.4)</b>        | <b>(26.6)</b>  |
| <b>Net (Decrease) Increase in Cash and Cash Equivalents</b>                                                  | <b>(2.7)</b>         | <b>2.2</b>     |
| <b>Cash and Cash Equivalents at Beginning of Period</b>                                                      | <b>15.1</b>          | <b>8.2</b>     |
| <b>Cash and Cash Equivalents at End of Period</b>                                                            | <b>\$ 12.4</b>       | <b>\$ 10.4</b> |

*See Notes to Consolidated Financial Statements.*

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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

**Basis of Presentation**

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

**Pending Merger with FPL Group, Inc.**

On December 18, 2005, Constellation Energy entered into an Agreement and Plan of Merger with FPL Group, Inc. (FPL Group). We discuss the details of this pending merger in *Note 15* of our 2005 Annual Report on Form 10-K.

Prior to completion of the merger, which is subject to shareholder and various regulatory approvals, Constellation Energy and FPL Group will continue to operate as separate companies.

**Variable Interest Entities**

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

| VIE                                     | Nature of Involvement                        | Date of Involvement |
|-----------------------------------------|----------------------------------------------|---------------------|
| Power projects and fuel supply entities | Equity investment and guarantees             | Prior to 2003       |
| Power contract monetization entities    | Power sale agreements, loans, and guarantees | March 2005          |
| Oil & gas fields                        | Equity investment                            | May 2006            |

We discuss the nature of our involvement with the power contract monetization VIEs in detail in *Note 4* to our 2005 Annual Report on Form 10-K.

The following is summary information available as of June 30, 2006 about the VIEs in which we have a significant interest, but are not the primary beneficiary:

|                      | Power Contract Monetization VIEs | All Other VIEs | Total      |
|----------------------|----------------------------------|----------------|------------|
| <i>(In millions)</i> |                                  |                |            |
| Total assets         | \$ 836.6                         | \$ 272.6       | \$ 1,109.2 |

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|                              | <b>Power Contract<br/>Monetization<br/>VIEs</b> | <b>All<br/>Other<br/>VIEs</b> | <b>Total</b> |
|------------------------------|-------------------------------------------------|-------------------------------|--------------|
| Total liabilities            | 655.3                                           | 82.9                          | 738.2        |
| Our ownership interest       |                                                 | 55.2                          | 55.2         |
| Other ownership interests    | 181.3                                           | 134.5                         | 315.8        |
| Our maximum exposure to loss | 71.9                                            | 77.2                          | 149.1        |

The maximum exposure to loss represents the loss that we would incur in the unlikely event that our interests in all of these entities were to become worthless and we were required to fund the full amount of all guarantees associated with these entities. Our maximum exposure to loss as of June 30, 2006 consists of the following:

outstanding loans and letters of credit totaling \$81.3 million,  
the carrying amount of our investment totaling \$55.1 million, and  
debt and performance guarantees totaling \$12.7 million.

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

### Merger-Related Costs

We continued to incur costs related to our pending merger with FPL Group, which totaled \$7.1 million pre-tax for the quarter ended June 30, 2006 and \$9.0 million pre-tax for the six months ended June 30, 2006. Through June 30, 2006, we have recognized a cumulative total of \$26.0 million pre-tax of merger costs. We anticipate our total transaction and employee retention costs to be approximately \$55 million. These costs exclude merger integration costs and incremental expense associated with our equity awards that provide for accelerated vesting and cash settlement in the event of a change in control. We discuss the details of our pending merger in *Note 15* and our stock-based compensation plans in *Note 14* of our 2005 Annual Report on Form 10-K.



## Stock-Based Compensation

Under our long-term incentive plans, we granted stock options, performance-based units, performance and service-based restricted stock, and equity to officers, key employees, and members of the Board of Directors.

We adopted the provisions of Statement of Financial Accounting Standard (SFAS) No. 123 Revised (SFAS No. 123R), *Share-Based Payment*, on October 1, 2005, as described in more detail in *Note 1* of our 2005 Annual Report on Form 10-K. Under SFAS No. 123R, we recognize compensation cost ratably or in tranches (depending if the award has cliff or graded vesting) over the period during which an employee is required to provide service in exchange for the award, which is typically a one to five-year period. We use a forfeiture assumption to estimate the number of awards that are expected to vest during the service period, and we ultimately true-up the estimated expense to the actual expense associated with vested awards. We estimate the fair value of stock option awards on the date of grant using the Black-Scholes option-pricing model, and we re-measure the fair value of liability awards each reporting period.

The following table illustrates the pro-forma effect on net income and earnings per share for all outstanding stock options and stock awards during the quarter and six months ended June 30, 2005, when the fair value provisions of SFAS No. 123R were not in effect. We do not capitalize any portion of our stock-based compensation.

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Quarter Ended  
June 30, 2005

Six Months Ended  
June 30, 2005

(In millions, except per share amounts)

|                                                                                                                                               |    |       |    |        |
|-----------------------------------------------------------------------------------------------------------------------------------------------|----|-------|----|--------|
| Net income, as reported                                                                                                                       | \$ | 121.7 | \$ | 242.4  |
| Add: Stock-based compensation expense determined under intrinsic value method and included in reported net income, net of related tax effects |    | 5.5   |    | 10.0   |
| Deduct: Stock-based compensation expense determined under fair value based method for all awards, net of related tax effects                  |    | (7.8) |    | (14.4) |
| Pro-forma net income                                                                                                                          | \$ | 119.4 | \$ | 238.0  |
| Earnings per share:                                                                                                                           |    |       |    |        |
| Basic as reported                                                                                                                             | \$ | 0.69  | \$ | 1.37   |
| Basic pro forma                                                                                                                               |    | 0.67  |    | 1.34   |
| Diluted as reported                                                                                                                           |    | 0.68  |    | 1.35   |
| Diluted pro forma                                                                                                                             |    | 0.66  |    | 1.33   |

### Accretion of Asset Retirement Obligations

SFAS No. 143, *Accounting for Asset Retirement Obligations*, provides the accounting requirements for recognizing an estimated liability for legal obligations associated with the retirement of tangible long-lived assets. Financial Accounting Standards Board (FASB) Interpretation (FIN) 47, *Accounting for Conditional Asset Retirement Obligations - an interpretation of FASB Statement No. 143*, clarifies that obligations that are conditional upon a future event are subject to the provisions of SFAS No. 143.

We measure asset retirement obligations at fair value when incurred and capitalize a corresponding amount as part of the book value of the related long-lived assets. The increase in the capitalized cost is included in determining depreciation expense over the estimated useful life of these assets. Since the fair value of the asset retirement obligations is determined using a present value approach, accretion of the liability due to the passage of time is recognized each period to "Accretion of asset retirement obligations" in our Consolidated Statements of Income until the settlement of the liability. We record a gain or loss when the liability is settled after retirement.

The change in our "Asset retirement obligations" liability during 2006 was as follows:

|                                         |    |               |
|-----------------------------------------|----|---------------|
|                                         |    | (In millions) |
| Liability at January 1, 2006            | \$ | 908.0         |
| Accretion expense                       |    | 33.2          |
| Liabilities incurred                    |    | 0.2           |
| Liabilities settled                     |    |               |
| Revisions to expected future cash flows |    | (2.4)         |
| Other                                   |    |               |
| Liability at June 30, 2006              | \$ | 939.0         |

### Acquisitions

#### Gas Properties

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In the first quarter of 2006, we acquired working interests in gas and oil producing properties for approximately \$100 million in cash. We purchased leases, producing wells, and related equipment. We have included the results of operations in our merchant energy business segment since the date of acquisition.

### Cogenex

In April 2005, we acquired Cogenex Corporation from Alliant Energy Corporation. We include Cogenex with our other nonregulated businesses and have included their results in our consolidated financial statements since the date of acquisition. Cogenex is a North American energy services firm providing consulting and technology solutions to industrial, institutional, and governmental customers. We acquired 100% ownership of Cogenex for \$34.9 million. We acquired cash of \$14.4 million as part of the purchase.

Our final purchase price allocation for the net assets acquired is as follows:

*At April 1, 2005*

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|                                        |    | <i>(In millions)</i> |
|----------------------------------------|----|----------------------|
| Cash                                   | \$ | 14.4                 |
| Other Current Assets                   |    | 12.4                 |
| <hr/>                                  |    |                      |
| Total Current Assets                   |    | 26.8                 |
| Net Property, Plant and Equipment      |    |                      |
| Other Assets                           |    | 34.9                 |
| <hr/>                                  |    |                      |
| Total Assets Acquired                  |    | 61.7                 |
| Current Liabilities                    |    | (8.0)                |
| Deferred Credits and Other Liabilities |    | (18.8)               |
| <hr/>                                  |    |                      |
| Net Assets Acquired                    | \$ | 34.9                 |

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We believe that the pro-forma impact of the Cogenex acquisition would not have been material to our results of operations in 2005.

## Information by Operating Segment

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

Our merchant energy business is nonregulated and includes:

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

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

deployment of risk capital through portfolio management and trading activities,

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

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

products and services to upstream (exploration and production) and downstream (transportation and storage) wholesale natural gas customers,

coal sourcing services for the variable or fixed supply needs of North American and international power generators, and

generation operations and maintenance services.

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

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

Our remaining nonregulated businesses:

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

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

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

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



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Reportable Segments

|                                            | Merchant<br>Energy<br>Business | Regulated<br>Electric<br>Business | Regulated<br>Gas<br>Business | Other<br>Nonregulated<br>Businesses | Eliminations   | Consolidated   |
|--------------------------------------------|--------------------------------|-----------------------------------|------------------------------|-------------------------------------|----------------|----------------|
| <i>(In millions)</i>                       |                                |                                   |                              |                                     |                |                |
| <i>For the three months ended June 30,</i> |                                |                                   |                              |                                     |                |                |
| <b>2006</b>                                |                                |                                   |                              |                                     |                |                |
| Unaffiliated revenues                      | \$ 3,718.5                     | \$ 498.7                          | \$ 141.8                     | \$ 62.9                             | \$             | \$ 4,421.9     |
| Intersegment revenues                      | 232.5                          |                                   | 1.8                          |                                     | (234.3)        |                |
| <b>Total revenues</b>                      | <b>3,951.0</b>                 | <b>498.7</b>                      | <b>143.6</b>                 | <b>62.9</b>                         | <b>(234.3)</b> | <b>4,421.9</b> |
| <b>Net income (loss)</b>                   | <b>71.7</b>                    | <b>19.9</b>                       | <b>(1.4)</b>                 | <b>2.9</b>                          |                | <b>93.1</b>    |
| <b>2005</b>                                |                                |                                   |                              |                                     |                |                |
| Unaffiliated revenues                      | \$ 2,825.4                     | \$ 465.1                          | \$ 141.7                     | \$ 46.3                             | \$             | \$ 3,478.5     |
| Intersegment revenues                      | 196.7                          |                                   | 3.5                          | 0.3                                 | (200.5)        |                |
| <b>Total revenues</b>                      | <b>3,022.1</b>                 | <b>465.1</b>                      | <b>145.2</b>                 | <b>46.6</b>                         | <b>(200.5)</b> | <b>3,478.5</b> |
| Income from discontinued operations        | 2.7                            |                                   |                              | 1.2                                 |                | 3.9            |
| <b>Net income (loss)</b>                   | <b>95.4</b>                    | <b>25.4</b>                       | <b>(1.7)</b>                 | <b>2.6</b>                          |                | <b>121.7</b>   |
| <i>For the six months ended June 30,</i>   |                                |                                   |                              |                                     |                |                |
| <b>2006</b>                                |                                |                                   |                              |                                     |                |                |
| Unaffiliated revenues                      | \$ 7,632.9                     | \$ 1,002.7                        | \$ 560.1                     | \$ 123.7                            | \$             | \$ 9,319.4     |
| Intersegment revenues                      | 439.7                          |                                   | 3.7                          | 0.1                                 | (443.5)        |                |
| <b>Total revenues</b>                      | <b>8,072.6</b>                 | <b>1,002.7</b>                    | <b>563.8</b>                 | <b>123.8</b>                        | <b>(443.5)</b> | <b>9,319.4</b> |
| Income from discontinued operations        |                                |                                   |                              | 0.9                                 |                | 0.9            |
| <b>Net income</b>                          | <b>115.3</b>                   | <b>53.5</b>                       | <b>33.6</b>                  | <b>4.6</b>                          |                | <b>207.0</b>   |
| <b>2005</b>                                |                                |                                   |                              |                                     |                |                |
| Unaffiliated revenues                      | \$ 5,493.0                     | \$ 956.6                          | \$ 506.3                     | \$ 94.6                             | \$             | \$ 7,050.5     |
| Intersegment revenues                      | 422.2                          |                                   | 4.7                          | 0.5                                 | (427.4)        |                |
| <b>Total revenues</b>                      | <b>5,915.2</b>                 | <b>956.6</b>                      | <b>511.0</b>                 | <b>95.1</b>                         | <b>(427.4)</b> | <b>7,050.5</b> |
| Income from discontinued operations        | 3.1                            |                                   |                              | 2.9                                 |                | 6.0            |
| <b>Net income</b>                          | <b>144.3</b>                   | <b>68.9</b>                       | <b>25.9</b>                  | <b>3.3</b>                          |                | <b>242.4</b>   |

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

## Pension and Postretirement Benefits

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

|                                                        | Quarter Ended<br>June 30, |         | Six Months Ended<br>June 30, |         |
|--------------------------------------------------------|---------------------------|---------|------------------------------|---------|
|                                                        | 2006                      | 2005    | 2006                         | 2005    |
| <i>(In millions)</i>                                   |                           |         |                              |         |
| <b>Components of net periodic pension benefit cost</b> |                           |         |                              |         |
| Service cost                                           | \$ 12.9                   | \$ 11.4 | \$ 24.6                      | \$ 22.5 |
| Interest cost                                          | 24.0                      | 21.2    | 44.5                         | 41.9    |
| Expected return on plan assets                         | (26.2)                    | (25.6)  | (48.5)                       | (49.5)  |
| Amortization of unrecognized prior service cost        | 1.5                       | 1.5     | 2.8                          | 2.9     |
| Recognized net actuarial loss                          | 10.2                      | 6.7     | 18.8                         | 12.1    |
| Amount capitalized as construction cost                | (3.8)                     | (2.0)   | (6.7)                        | (3.7)   |
| Net periodic pension benefit cost (1)                  | \$ 18.6                   | \$ 13.2 | \$ 35.5                      | \$ 26.2 |

(1)

*Net periodic pension benefit cost excludes a reduction in termination benefits of \$0.4 million in 2005. BGE's portion of our net periodic pension benefit cost was \$10.1 million for the quarter ended June 30, 2006 and \$5.4 million for the quarter ended June 30, 2005. BGE's portion of our net periodic pension benefit cost was \$18.2 million for the six months ended June 30, 2006 and \$10.5 million for the six months ended June 30, 2005.*

In July 2006, we were required to record a pre-tax settlement charge in our Consolidated Statements of Income of \$3.7 million for one of our qualified plans under SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*. This charge reflects the recognition of the portion of deferred actuarial gains and losses associated with employees who elected to receive their pension benefit in the form of a lump-sum payment. In accordance with SFAS No. 88, a settlement charge must be recognized at the point in time when lump-sum payments exceed annual pension plan service and interest cost, which occurred in July 2006. We expect to record approximately \$4 million of additional settlement charges during the remainder of 2006 as employees continue to receive lump-sum payments from this plan.

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

|                                                               | Quarter Ended<br>June 30, |        | Six Months Ended<br>June 30, |         |
|---------------------------------------------------------------|---------------------------|--------|------------------------------|---------|
|                                                               | 2006                      | 2005   | 2006                         | 2005    |
| <i>(In millions)</i>                                          |                           |        |                              |         |
| <b>Components of net periodic postretirement benefit cost</b> |                           |        |                              |         |
| Service cost                                                  | \$ 2.1                    | \$ 1.9 | \$ 4.2                       | \$ 3.7  |
| Interest cost                                                 | 6.6                       | 6.1    | 12.8                         | 11.8    |
| Amortization of transition obligation                         | 0.6                       | 0.5    | 1.1                          | 1.0     |
| Amortization of unrecognized prior service cost               | (1.0)                     | (0.9)  | (1.9)                        | (1.7)   |
| Recognized net actuarial loss                                 | 1.6                       | 1.9    | 3.6                          | 3.1     |
| Amount capitalized as construction cost                       | (2.3)                     | (2.1)  | (4.3)                        | (3.9)   |
| Net periodic postretirement benefit cost (1)                  | \$ 7.6                    | \$ 7.4 | \$ 15.5                      | \$ 14.0 |

(1)

*BGE's portion of our net periodic postretirement benefit cost was \$6.5 million for the quarter ended June 30, 2006 and \$6.2 million for the quarter ended June 30, 2005. BGE's portion of our net periodic postretirement benefit costs was \$12.8 million for the six months ended June 30, 2006 and \$12.0 million for the six months ended June 30, 2005.*

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 \$3 million in pension benefit payments for our non-qualified pension plans and approximately \$26 million for retiree health and life insurance benefit payments during 2006. We contributed \$52 million to our qualified pension plans in March 2006, even though there was no IRS required minimum contribution in 2006.

## Financing Activities

At June 30, 2006, we had \$155.0 million of commercial paper outstanding, and at August 4, 2006 we had no commercial paper outstanding.

Constellation Energy had committed bank lines of credit under four credit facilities of \$3.6 billion at June 30, 2006. We discuss these facilities in more detail in *Note 8* of our 2005 Annual Report on Form 10-K. These facilities can issue letters of credit up to \$3.6 billion. Letters of credit issued under all of our facilities totaled \$1.8 billion at June 30, 2006.

In May 2006, we issued \$122.0 million of tax-exempt variable rate notes to refinance tax-exempt pollution control loans. We used \$75.0 million of the net proceeds to refinance a 6.00% pollution control revenue refunding loan in June 2006 and in July 2006 we used the remaining \$47.0 million of proceeds to refinance a 5.55% pollution control revenue refunding loan. As discussed in *Note 9* of our 2005 Annual Report on Form 10-K, at December 31, 2005, BGE remained contingently liable for an outstanding balance of \$269.8 million of tax-exempt debt that was transferred to our merchant energy business. As a result of refinancing \$122.0 million of this tax-exempt debt, BGE is only contingently liable for \$147.8 million.

Additionally, under our employee benefit plans and shareholder investment plans we issued \$40.8 million of common stock during the six months ended June 30, 2006.

## Income Taxes

Total income taxes are different from the amount that would be computed by applying the statutory Federal income tax rate of 35% to book income before income taxes as follows:

|                                                                       | Quarter Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|-----------------------------------------------------------------------|---------------------------|----------|------------------------------|----------|
|                                                                       | 2006                      | 2005     | 2006                         | 2005     |
| <i>(In millions)</i>                                                  |                           |          |                              |          |
| Income before income taxes (excluding BGE preference stock dividends) | \$ 146.8                  | \$ 151.6 | \$ 309.3                     | \$ 309.6 |
| Statutory federal income tax rate                                     | 35%                       | 35%      | 35%                          | 35%      |
| Income taxes computed at statutory federal rate                       | 51.4                      | 53.1     | 108.3                        | 108.4    |
| (Decreases) increases in income taxes due to:                         |                           |          |                              |          |
| Synthetic fuel tax credits                                            | (8.5)                     | (27.4)   | (27.0)                       | (52.0)   |
| State income taxes, net of federal tax benefit                        | 6.4                       | 6.2      | 14.1                         | 13.2     |
| Other                                                                 | 1.1                       | (1.4)    | 1.2                          | (3.0)    |
| Total income taxes                                                    | \$ 50.4                   | \$ 30.5  | \$ 96.6                      | \$ 66.6  |
| Effective tax rate                                                    | 34.3%                     | 20.1%    | 31.2%                        | 21.5%    |

Synthetic fuel tax credits are net of our expectation of a 68% phase-out in 2006 based on forward market prices and volatilities at June 30, 2006. During the second quarter of 2006, we recorded a \$7.5 million phase-out of tax credits associated with first quarter 2006 production, in order to increase the estimated phase-out percentage from 46% at March 31, 2006 to 68% at June 30, 2006.

Based on forward market prices and volatilities as of July 28, 2006, we continue to estimate a 68% tax credit phase-out in 2006. The expected amount of synthetic fuel tax credits phased-out may change materially from period to period as a result of continued changes in oil prices.

## Commitments, Guarantees, 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 2006 and 2017. In addition, our merchant energy business enters into long-term contracts for the capacity and transmission rights for the physical delivery of energy to meet our obligations to our customers. These contracts expire in various years between 2006 and 2019.

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. These contracts expire between 2007 and 2009. Our regulated gas business has gas transportation and storage contracts that expire between 2006 and 2028. As discussed in *Note 1* of our 2005 Annual Report on Form 10-K, the costs under these contracts are fully recoverable by our regulated businesses.

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 June 30, 2006, the total amount of commitments was \$7,542.8 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 2017 and provide for the sale of energy to electricity distribution utilities and certain retail customers. Our power sales contracts associated with our power plants extend for terms into 2014 and provide for the sale of all or a portion of the actual output of certain of our power plants. All long-term contracts were executed at pricing that approximated market rates, including profit margin, at the time of execution.

### Guarantees

The terms of our guarantees are as follows:

|      |               |               |            |       | Expiration           |  |  |  |
|------|---------------|---------------|------------|-------|----------------------|--|--|--|
| 2006 | 2007-<br>2008 | 2009-<br>2010 | Thereafter | Total |                      |  |  |  |
|      |               |               |            |       | <i>(In millions)</i> |  |  |  |

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|                    | Expiration |                |           |                |           |              |           |                |           |                 |
|--------------------|------------|----------------|-----------|----------------|-----------|--------------|-----------|----------------|-----------|-----------------|
| Competitive supply | \$         | 4,100.3        | \$        | 2,584.5        | \$        | 243.9        | \$        | 2,080.3        | \$        | 9,009.0         |
| Other              |            | 0.5            |           | 15.2           |           | 1.6          |           | 1,287.9        |           | 1,305.2         |
| <b>Total</b>       | <b>\$</b>  | <b>4,100.8</b> | <b>\$</b> | <b>2,599.7</b> | <b>\$</b> | <b>245.5</b> | <b>\$</b> | <b>3,368.2</b> | <b>\$</b> | <b>10,314.2</b> |

At June 30, 2006, we had a total of \$10,314.2 million in guarantees outstanding related to loans, credit facilities, and contractual performance of certain of our subsidiaries as described below. These guarantees do not represent our incremental obligations, and we do not expect to fund the full amount under these guarantees.

Constellation Energy guaranteed \$9,009.0 million on behalf of our subsidiaries for competitive supply activities. These guarantees are put into place in order to allow our subsidiaries the flexibility needed to conduct business with counterparties without having to post other forms of collateral. While the face amount of these guarantees is \$9,009.0 million, our calculated fair value of obligations covered by these guarantees was \$3,118.7 million at June 30, 2006. If the parent company was required to fund these subsidiary obligations, the total amount based on June 30, 2006 market prices would be \$3,118.7 million. The recorded fair value of obligations in our Consolidated Balance Sheets for guarantees was \$996.1 million at June 30, 2006.

Constellation Energy guaranteed \$945.0 million primarily on behalf of our nuclear generating facilities mostly due to nuclear insurance and for credit support to ensure these plants have funds to meet expenses and obligations to safely operate and maintain the plants.

Constellation Energy guaranteed \$61.0 million on behalf of our other nonregulated businesses primarily for loans and performance bonds of which \$25.0 million was recorded in our Consolidated Balance Sheets at June 30, 2006.

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Our merchant energy business guaranteed \$29.2 million for loans and other performance guarantees related to certain power projects in which we have an investment.

Our other nonregulated businesses guaranteed \$6.7 million for performance bonds.

BGE guaranteed two-thirds of certain debt of Safe Harbor Water Power Corporation, an unconsolidated investment. At June 30, 2006, Safe Harbor Water Power Corporation had outstanding debt of \$20.0 million. The maximum amount of BGE's guarantee is \$13.3 million.

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

The total fair value of the obligations for our guarantees recorded in our Consolidated Balance Sheets at June 30, 2006 was \$1.0 billion and not the \$10.3 billion of total guarantees. We assess the risk of loss from these guarantees to be minimal.

### **Environmental Matters**

#### *Solid and Hazardous Waste*

The Environmental Protection Agency (EPA) and several state agencies have notified us that we are considered a potentially responsible party with respect to the clean-up of certain environmentally contaminated sites. We cannot estimate the final clean-up costs for all of these sites, but the current estimated costs for, and current status of, each site is described in more detail below.

#### Metal Bank

In 1997, the EPA, under the Comprehensive Environmental Response, Compensation and Liability Act ("Superfund"), issued a Record of Decision (ROD) for the proposed clean-up at the Metal Bank of America site, a metal reclaimer in Philadelphia. We had previously recorded a liability in our Consolidated Balance Sheets for BGE's 15.47% share of probable clean-up costs. The EPA and potentially responsible parties, including BGE, filed cost recovery claims against Metal Bank of America for an equitable share of expected site remediation costs. In March 2006, all claims were settled. Under the terms of the settlement, the potentially responsible parties will remediate the site and the costs of the clean-up will be paid from funds held in trust for that purpose. BGE is not required to contribute to the trust and we do not believe the potentially responsible parties will incur clean-up costs in excess of the amount held by the trust; therefore, in March 2006, we reversed the previously recorded liability.

#### 68th Street Dump

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 affiliate 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 complete. However, those costs could have a material effect on our financial results.

#### Kane and Lombard

The EPA issued its ROD for the Kane and Lombard Drum site located in Baltimore, Maryland on September 30, 2003, which specified the clean-up plan for the site, consisting of enhanced reductive dechlorination, a soil management plan, and institutional controls. An EPA order requiring cleanup of the site by 18 parties, including Constellation Energy, is expected to become effective in August 2006. The EPA estimates that total clean-up costs will be approximately \$7 million. Our share of site-related costs will be 11.1% of the total. We recorded a liability in our Consolidated Balance Sheets for our share of the clean-up costs that we believe is probable.

#### Spring Gardens

In December 1996, BGE signed a consent order with the Maryland Department of the Environment that requires it to implement remedial action plans for contamination at and around the Spring Gardens site, located in Baltimore, Maryland. The Spring Gardens site was once used to

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manufacture gas from coal and oil. Based on the remedial action plans, BGE estimates its probable clean-up costs will total \$47 million. BGE has recorded these costs as a liability in its Consolidated Balance Sheets and has deferred these costs, net of accumulated amortization and amounts it recovered from insurance companies, as a regulatory asset. Based on the results of studies at this site, it is reasonably possible that additional costs could exceed the amount BGE has recognized by approximately \$14 million. Through June 30, 2006, BGE has spent approximately \$40 million for remediation at this site.

BGE also has investigated other small sites where gas was manufactured in the past. We do not expect the clean-up costs of the remaining smaller sites to have a material effect on our financial results.



*Air Quality*

In late July 2005, we received two Notices of Violation (NOVs) from the Placer County Air Pollution Control District, Placer County California (District) alleging that the Rio Bravo Rocklin facility located in Lincoln, California had violated certain District air emission regulations. We have a combined 50% ownership interest in the partnership which owns the Rio Bravo Rocklin facility. The NOVs allege a total of 38 violations between January 2003 and March 2005 of either the facility's air permit or federal, state, and county air emission standards related to nitrogen oxide, carbon monoxide, and particulate emissions, as well as violations of certain monitoring and reporting requirements during that time period. The maximum civil penalties for the alleged violations range from \$10,000 to \$40,000 per violation. Management of the Rio Bravo Rocklin facility is currently evaluating the allegations in the NOVs; and therefore, it is not possible to determine the actual liability, if any, of the partnership that owns the Rio Bravo Rocklin facility.

**Litigation**

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

*Western Power Markets*

*City of Tacoma v. AEP, et al.*, The City of Tacoma, on June 7, 2004, in the U.S. District Court, Western District of Washington, filed a complaint against over 60 companies, including Constellation Energy Commodities Group, Inc. (CCG). The complaint alleges that the defendants engaged in manipulation of electricity markets resulting in prices for power in the western power markets that were substantially above what market prices would have been in the absence of the alleged unlawful contracts, combinations and conspiracy in violation of Section 1 of the Sherman Act. The complaint further alleges that the total amount of damages is unknown, but is estimated to exceed \$175 million. On February 11, 2005, the Court granted the defendants' motion to dismiss the action based on the Court's lack of jurisdiction over the claims in question. The plaintiff has appealed the dismissal of the action to the Ninth Circuit Court of Appeals. We believe that we have meritorious defenses to this action and intend to defend against it vigorously. However, we cannot predict the timing, or outcome, of this case, or its possible effect on our financial results.

*Mercury*

Beginning in 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.

In rulings applicable to all but six of the cases, involving claims related to approximately 50 children, the Circuit Court for Baltimore City dismissed with prejudice all claims against BGE and Constellation Energy. 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 has been involved in several actions concerning asbestos. The actions are based upon the theory of "premises liability," alleging that BGE knew of and exposed individuals to an asbestos hazard. BGE and numerous other parties are defendants in these cases.

Approximately 517 individuals who were never employees of BGE 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 in these actions. To date, most asbestos claims against us 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. The remaining claims are currently pending in state courts in Maryland and Pennsylvania.

BGE does not know the specific facts necessary to estimate its potential liability for these claims. The specific facts BGE does not know include:

the identity of BGE's 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.

### Revenue Sufficiency Guarantee Costs

In April 2006, the Federal Energy Regulatory Commission (FERC) issued an order requiring the Midwest Independent System Operator (MISO) to retroactively re-allocate revenue sufficiency guarantee costs (RSGs) for the period April 2005 to present based on the FERC's finding that MISO violated its tariff and incorrectly allocated RSGs among market participants. The re-allocation of RSGs would result in some participants recognizing additional expense and others receiving refunds.

In May 2006, the MISO filed a motion with FERC seeking a stay of the FERC order. The motion was granted by FERC delaying the implementation of the original order until after the issuance of an order on rehearing. In May 2006, we and other market participants filed requests for rehearing with FERC. Although the details of how RSGs might be re-allocated by MISO are not fully known, our competitive supply operations transacted in the MISO market during the period under review and potentially could be retroactively charged an amount ranging from zero up to approximately \$30 million. Due to uncertainties regarding the ultimate outcome of this order, we have not recorded a liability in our Consolidated Balance Sheet at June 30, 2006. We cannot predict the ultimate timing or outcome of FERC's order on rehearing.

### Insurance

We discuss our nuclear and non-nuclear insurance programs in *Note 12* of our 2005 Annual Report on Form 10-K.

### SFAS No. 133 Hedging Activities

We are exposed to market risk, including changes in interest rates and the impact of market fluctuations in the price and transportation costs of electricity, natural gas, and other commodities. We discuss our market risk in more detail in our 2005 Annual Report on Form 10-K.

### Interest Rates

We use interest rate swaps to manage our interest rate exposures associated with new debt issuances and to optimize the mix of fixed and floating-rate debt. The swaps used to manage our exposure prior to the issuance of new debt are designated as cash-flow hedges under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, with the effective portion of gains and losses, net of associated deferred income tax effects, recorded in "Accumulated other comprehensive income" in our Consolidated Balance Sheets, in anticipation of planned financing transactions. We reclassify gains and losses on the hedges from "Accumulated other comprehensive income" into "Interest expense" in our Consolidated Statements of Income during the periods in which the interest payments being hedged occur.

The swaps used to optimize the mix of fixed and floating-rate debt are designated as fair value hedges under SFAS No. 133. We record any gains or losses on swaps that qualify for fair value hedge accounting treatment, as well as changes in the fair value of the debt being hedged, in "Interest expense," and we record any changes in fair value of the swaps and the debt in "Risk management assets and liabilities" and "Long-term debt" in our Consolidated Balance Sheets. In addition, we record the difference between interest on hedged fixed-rate debt and floating-rate swaps in "Interest expense" in the periods that the swaps settle.

"Accumulated other comprehensive income" includes net unrealized pre-tax gains on interest rate cash-flow hedges totaling \$13.9 million at June 30, 2006 and \$15.4 million at December 31, 2005. We expect to reclassify \$2.1 million of pre-tax net gains on these cash-flow hedges from "Accumulated other comprehensive income" into "Interest expense" during the next twelve months. We had no hedge ineffectiveness on these swaps.

During 2004, to optimize the mix of fixed and floating-rate debt, we entered into interest rate swaps qualifying as fair value hedges relating to \$450.0 million of our fixed-rate debt maturing in 2012 and 2015, and converted this notional amount of debt to floating-rate. The fair value of these hedges was an unrealized pre-tax loss of \$21.7 million at June 30, 2006 and an unrealized pre-tax loss of \$0.9 million at December 31, 2005 and was recorded as an increase in our "Risk management liabilities" and a decrease in our "Long-term debt." We have not recognized any hedge ineffectiveness on these interest rate swaps.

### Commodity Prices

At June 30, 2006 our merchant energy business had designated certain purchase and sale contracts as cash-flow hedges of forecasted transactions for the years 2006 through 2015 under SFAS No. 133.

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Under the provisions of SFAS No. 133, we record gains and losses on energy derivative contracts designated as cash-flow hedges of forecasted transactions in "Accumulated other comprehensive income" in our Consolidated Balance Sheets prior to the settlement of the anticipated hedged physical transaction. We reclassify these gains or losses into earnings upon settlement of the underlying hedged transaction. We record derivatives used for hedging activities from our merchant energy business in "Risk management assets and liabilities" in our Consolidated Balance Sheets.

Our merchant energy business has net unrealized pre-tax losses of \$1,860.0 million at June 30, 2006 and \$517.1 million at December 31, 2005 on these hedges recorded in "Accumulated other comprehensive income."

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We expect to reclassify \$935.4 million of net pre-tax losses on cash-flow hedges from "Accumulated other comprehensive income" into earnings during the next twelve months based on the market prices at June 30, 2006. However, the actual amount reclassified into earnings could vary from the amounts recorded at June 30, 2006 due to future changes in market prices.

We recognized into earnings a pre-tax gain of \$10.8 million for the quarter ended June 30, 2006 and a pre-tax gain of \$0.8 million for the quarter ended June 30, 2005 related to the ineffective portion of our hedges. We recognized into earnings a pre-tax gain of \$5.6 million for the six months ended June 30, 2006 and a pre-tax gain of \$12.4 million for the six months ended June 30, 2005 related to the ineffective portion of our hedges. In addition, during the six months ended June 30, 2006, we de-designated contracts previously designated as cash-flow hedges for which the forecasted transaction originally hedged is no longer probable and as a result we recognized a pre-tax loss of \$10.5 million.

Our merchant energy business also enters into natural gas storage contracts under which the gas in storage qualifies for fair value hedge accounting treatment under SFAS No. 133. We recognized a \$2.6 million pre-tax net gain for the quarter ended June 30, 2006 and a pre-tax net loss of \$0.1 million for the quarter ended June 30, 2005 due to hedge ineffectiveness. We recognized a \$1.6 million pre-tax net gain for the six months ended June 30, 2006 and a pre-tax net gain of \$0.5 million for the six months ended June 30, 2005 due to hedge ineffectiveness. We record changes in fair value of these hedges as a component of "Fuel and purchased energy expenses" in our Consolidated Statements of Income.

### Accounting Standards Issued

#### FSP FIN 46R-6

In April 2006, the FASB issued Staff Position (FSP) FIN 46R-6, *Determining the Variability to Be Considered in Applying FASB Interpretation No. 46R*. FSP FIN 46R-6 provides that, in applying FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities an Interpretation of ARB No. 51*, the reporting enterprise should consider the design of the entity, the nature of the entity's risks, and the purpose for which the entity was created. FSP FIN 46R-6 must be applied prospectively to new or modified contracts beginning July 1, 2006. We do not expect the adoption of this FSP to have a material impact on our, or BGE's, financial results.

#### FIN 48

In July 2006, the FASB issued FIN No. 48, *Accounting for Uncertainty in Income Taxes*. FIN 48 provides guidance for the recognition and measurement of an entity's uncertain tax positions through the use of a "more-likely-than-not" threshold. This threshold would be used to evaluate whether each tax position will be sustained upon examination by a taxing authority. FIN 48 must be applied to all tax positions beginning January 1, 2007. We are currently assessing the potential impact of FIN 48; however, the impact could be material to our, or BGE's, financial results.

### Accounting Standards Adopted

#### FSP 115-1 and 124-1

In November 2005, FSP SFAS 115-1 and SFAS 124-1, *The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments*, was issued to replace the measurement and recognition criteria of EITF 03-1, *The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments*. FSP 115-1 and 124-1 references existing guidance in SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, SEC Staff Accounting Bulletin No. 59, *Accounting for Noncurrent Marketable Equity Securities*, and APB No. 18, *The Equity Method of Accounting for Investments in Common Stock*. FSP 115-1 and 124-1 requires an other-than-temporary analysis to be completed each reporting period (i.e., every quarter) beginning after December 15, 2005. The adoption of this standard did not have a material impact on our, or BGE's, financial results.

**Related Party Transactions BGE****Income Statement**

BGE provides standard offer service to those customers that do not choose an alternate electric supplier. Our wholesale marketing and risk management operation supplies a portion of BGE's standard offer service obligation to commercial and industrial customers and provided BGE the energy and capacity required to meet all of its residential standard offer service obligations through June 30, 2006. Beginning July 1, 2006, our wholesale marketing and risk management operation will supply a substantial portion of BGE's standard offer service obligation to residential customers through May 31, 2007, and a portion of BGE's standard offer service obligations from June 1, 2007 through May 31, 2009. Bidding to supply BGE's standard offer service to customers will occur from time to time through a competitive bidding process approved by the Maryland Public Service Commission.

The cost of BGE's purchased energy from nonregulated subsidiaries of Constellation Energy to meet its standard offer service obligation was as follows:

|                      | Quarter Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|----------------------|---------------------------|----------|------------------------------|----------|
|                      | 2006                      | 2005     | 2006                         | 2005     |
| <i>(In millions)</i> |                           |          |                              |          |
| Purchased energy     | \$ 220.7                  | \$ 185.4 | \$ 408.3                     | \$ 398.5 |

In addition, Constellation Energy charges BGE for the costs of certain corporate functions. Certain costs are directly assigned to BGE. We allocate other corporate function costs based on a total percentage of expected use by BGE. We believe this method of allocation is reasonable and approximates the cost BGE would have incurred as an unaffiliated entity.

The following table presents the costs Constellation Energy charged to BGE in each period.

|                      | Quarter Ended<br>June 30, |         | Six Months Ended<br>June 30, |         |
|----------------------|---------------------------|---------|------------------------------|---------|
|                      | 2006                      | 2005    | 2006                         | 2005    |
| <i>(In millions)</i> |                           |         |                              |         |
| Charges to BGE       | \$ 30.1                   | \$ 27.7 | \$ 61.7                      | \$ 52.7 |

**Balance Sheet**

BGE participates in a cash pool under a Master Demand Note agreement with Constellation Energy. Under this arrangement, participating subsidiaries may invest in or borrow from the pool at market interest rates. Constellation Energy administers the pool and invests excess cash in short-term investments or issues commercial paper to manage consolidated cash requirements. BGE had invested \$238.5 million at June 30, 2006 and had borrowed \$3.2 million at December 31, 2005 under this arrangement.

BGE's Consolidated Balance Sheets include intercompany amounts related to corporate functions performed at the Constellation Energy holding company, BGE's purchases to meet its standard offer service obligation, BGE's charges to Constellation Energy and its nonregulated affiliates for certain services it provides them, and the participation of BGE's employees in the Constellation Energy pension plan.

We believe our allocation methods are reasonable and approximate the costs that would be charged to unaffiliated entities.

## Item 2. Management's Discussion

### Management's Discussion and Analysis of Financial Condition and Results of Operations

#### Introduction and Overview

Constellation Energy Group, Inc. (Constellation Energy) is an energy company that conducts its business through various subsidiaries including a merchant energy business and Baltimore Gas and Electric Company (BGE). We describe our operating segments in the *Notes to Consolidated Financial Statements* on page 14.

This Quarterly Report on Form 10-Q is a combined report of Constellation Energy and 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.

Our 2005 Annual Report on Form 10-K includes a detailed discussion of various items impacting our business, our results of operations, and our financial condition. These include:

*Introduction and Overview* section which provides a description of our business segments,

*Strategy* section,

*Business Environment* section, including how regulation, weather, and other factors affect our business, and

*Critical Accounting Policies* section.

Critical accounting policies are the accounting policies that are most important to the portrayal of our financial condition and results of operations and require management's most difficult, subjective, or complex judgment. Our critical accounting policies include accounting for derivatives, evaluation of assets for impairment and other than temporary decline in value, and asset retirement obligations.

In this discussion and analysis, we explain the general financial condition and the results of operations for Constellation Energy and BGE including:

factors which affect our businesses,

our earnings and costs in the periods presented,

changes in earnings and costs between periods,

sources of earnings,

impact of these factors on our overall financial condition,

expected future expenditures for capital projects, and

expected sources of cash for further capital expenditures.

As you read this discussion and analysis, refer to our Consolidated Statements of Income on page 3, which present the results of our operations for the quarters and six months ended June 30, 2006 and 2005. We analyze and explain the differences between periods in the specific line items of our Consolidated Statements of Income.

We have organized our discussion and analysis as follows:

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We describe changes to our business environment during the year.

We highlight significant events that occurred in 2006 that are important to understanding our results of operations and financial condition.

We then review our results of operations beginning with an overview of our total company results, followed by a more detailed review of those results by operating segment.

We review our financial condition, addressing our sources and uses of cash, capital resources, commitments, and liquidity.

We conclude with a discussion of our exposure to various market risks.

### **Business Environment**

With the evolving regulatory environment surrounding customer choice, increasing competition, and the growth of our merchant energy business, various factors affect our financial results. We discuss these various factors in the *Forward Looking Statements* section on page 53 and in *Item 1A. Risk Factors* on page 52. We discuss our market risks in the *Market Risk* section beginning on page 48.

In this section, we discuss in more detail events which have impacted our business during the six months ended June 30, 2006.

### **Regulation by the Maryland PSC**

#### *Electric Rates*

As a result of the November 1999 Maryland Public Service Commission (Maryland PSC) order regarding the deregulation of electric generation in Maryland, BGE's residential electric base rates were frozen until July 2006. Subsequent orders of the Maryland PSC specified that BGE would procure the power to serve BGE residential customers beginning July 2006 via auctions to be conducted in late 2005 and early 2006. The procured power costs of these auctions resulted in an average residential customer bill increase of 72%. In a special session of the Maryland legislature, the legislature approved Senate Bill 1 which, among other things:

reconstitutes the Maryland PSC by dismissing all five of the current Maryland PSC commissioners effective June 30, 2006 and requiring that five new commissioners be selected by the Governor of Maryland from a list prepared by legislative leaders;



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imposes rate stabilization measures that (i) cap rate increases by BGE for residential POLR service at 15% from July 1, 2006 to May 31, 2007, (ii) give residential POLR customers the option from June 1, 2007 until January 1, 2008 of paying a full market rate or choosing a short term rate stabilization plan in order to provide a smooth transition to market rates without adversely affecting the creditworthiness of BGE, and (iii) provide for full market rates for residential POLR service starting January 1, 2008;

allows BGE to recover deferred costs from its customers over a period not to exceed 10 years, on terms and conditions to be determined by the Maryland PSC, including through the issuance of rate stabilization bonds that securitize the deferred costs;

directs the Maryland PSC to conduct a comprehensive review of Maryland's deregulated electricity market, including the implications of requiring or allowing utilities to construct, acquire, or lease power generating facilities and alternative approaches to power procurement;

directs the Maryland PSC to investigate measures to mitigate the impact of residential rate increases on BGE customers, including by investigating the prior determination of and allowances for stranded costs that occurred when BGE transferred assets to its affiliates in 2000 and by requiring the Maryland PSC to provide funds to residential customers of BGE for mitigation of BGE's rate increases, including any adjustment in favor of BGE's customers to allowances for such stranded costs and any funds identified by the Maryland PSC as properly allocated to BGE and its residential customers as conditions to the Maryland PSC's approval of our merger with FPL Group, Inc. (FPL Group);

expands the authority of the Maryland PSC to review acquisitions, dispositions, and financings by public service companies operating in Maryland;

requires BGE to credit residential electric rates by approximately \$39 million per year for 10 years, beginning January 1, 2007, through suspending the collection of the residential return component of the administrative charge for POLR service and a credit against funds collected from BGE rate payers for the nuclear decommissioning trust for our Calvert Cliffs Nuclear Power Plant, Inc. (Calvert Cliffs);

directs Maryland's taxing authority to consider whether property tax valuation methodologies applied to power plants located in Maryland should be revised in light of the values of those properties in a restructured electric industry; and

directs the Maryland PSC to conduct a full review of our merger with FPL Group pursuant to new standards and procedures and include certain conditions in any order approving the merger.

Because the legislation requires substantial additional decisions and proceedings by the Maryland PSC and other governmental authorities to implement many of its provisions, we cannot predict the impact of the legislation on us, BGE, the energy market in Maryland, or the merger with FPL Group. The new legislation and its implementation through applicable regulatory proceedings could have a material adverse effect on our, or BGE's, business and financial results.

In addition, certain current Maryland PSC commissioners have challenged in court the provision requiring appointment of a new group of commissioners, and one or more other parties may challenge the constitutionality of one or more of the other provisions of the new legislation. The Maryland Court of Appeals has enjoined the enforcement of the sections of the legislation that the commissioners have challenged pending further order from the court. The outcome of any challenges and the additional uncertainty that could result cannot be predicted.

### ***Cost for Decommissioning***

Under the November 1999 Maryland PSC order regarding the deregulation of electric generation, BGE ratepayers must pay a total of \$520 million, in 1993 dollars adjusted for inflation, to fund the decommissioning of Calvert Cliffs through fixed annual collections. The fixed annual amount was set at approximately \$18.7 million through June 30, 2006. On June 28, 2006, BGE received approval from the Maryland PSC to continue annual customer collections at \$18.7 million through December 31, 2016. BGE will be required to submit a filing to determine the level of customer contributions after December 31, 2016.

As discussed above, the new Maryland legislation requires BGE to credit residential electric customers the \$18.7 million collected annually for 10 years beginning January 1, 2007.

## **Federal Regulation**

### ***Network Transmission Rates***

In May 2005, the Federal Energy Regulatory Commission (FERC) issued an order accepting BGE's joint application to have network transmission rates established through a formula that tracks costs instead of through fixed rates. The formula approach became effective June 1, 2005, and the implementation of these rates did not have a material effect on our, or BGE's, financial results. The use of this formula approach was allowed by FERC to become effective subject to refund based on the outcome of a hearing before an administrative law judge. However, the various parties participating in this proceeding have arrived at a settlement resolving all issues, which was approved by FERC on April 19, 2006. The settlement did not have a material effect on our, or BGE's, financial results.

### ***PJM Capacity Market Proposals***

In April 2006, FERC issued an initial order approving PJM Interconnection's (PJM) proposal to restructure its capacity market. Such a restructuring would change how we are paid for generating plant capacity available to PJM. However, FERC found that certain elements of the proposal needed further development before FERC could issue a final order and encouraged the parties to the proceeding, including Constellation Energy, to continue to seek a negotiated resolution of the remaining issues. Subsequently, FERC directed that settlement discussions be conducted among the parties, which have since commenced and are ongoing. Currently, we cannot predict the outcome of any additional FERC proceedings on this matter or the settlement discussions, or the possible effect on our, or BGE's, financial results.

### ***Revenue Sufficiency Guarantee***

In April 2006, FERC issued an order requiring the Midwest Independent System Operator (MISO) to retroactively re-allocate revenue sufficiency guarantee costs (RSGs) for the period April 2005 to present. The re-allocation of RSGs would result in some participants recognizing additional expense and others receiving refunds. Implementation of the FERC order has been delayed pending rehearing. We discuss the potential impact of the order on our financial results in more detail in the *Notes to Consolidated Financial Statements* on page 21.

## **Environmental Matters**

### ***Air Quality and Hazardous Air Emissions***

In April 2006, the Healthy Air Act (HAA) was enacted into law in Maryland. The HAA establishes through two phases annual sulfur dioxide (SO<sub>2</sub>), nitrogen oxide (NO<sub>x</sub>), and mercury emission caps for specific coal-fired units in Maryland, including units located at three of our facilities. The first phase reduces SO<sub>2</sub> emissions by 74 percent in 2010, NO<sub>x</sub> emissions by 59 percent in 2009, and mercury emissions by 80 percent in 2010, all from 2004 levels. The second phase reduces SO<sub>2</sub> emissions by 80 percent in 2013, NO<sub>x</sub> emissions by 66 percent in 2012, and mercury emissions by 90 percent in 2013, all from 2004 levels.

In order to implement the requirements of the HAA, the Maryland Department of the Environment (MDE) is expected to finalize its Clean Power Rule (CPR) by the third quarter of 2006. The requirements of the HAA and the CPR for SO<sub>2</sub>, NO<sub>x</sub>, and mercury emissions are more stringent and apply sooner than those of the existing Clean Air Interstate and the Clean Air Mercury Rules. We discuss the Clean Air Interstate and the Clean Air Mercury Rules in more detail in *Item 1. Business Environmental Matters* section in our 2005 Annual Report on Form 10-K.

Although we continue to evaluate our options, we believe that the environmental capital expenditure estimates provided in *Item 1. Business Environmental Matters* section in our 2005 Annual Report on Form 10-K will be adequate to cover the first phase of emission reduction requirements of the HAA and the CPR. However, as discussed in our 2005 Annual Report on Form 10-K, our estimates of costs continue to be subject to significant uncertainties.

For phase two implementation, we are currently assessing our various compliance alternatives, and although we cannot yet estimate the additional costs we may incur, such costs could be material.

### ***New Source Review***

In March 2006, the U.S. Court of Appeals for the District of Columbia annulled the equipment replacement rule adopted by the Environmental Protection Agency (EPA) in August 2003, which established a threshold for determining when major new source review requirements are triggered. We believe the court decision, which was anticipated, should have minimal effect on us as it maintains the existing rules for equipment replacement. However, we anticipate that the EPA will continue to examine the existing equipment replacement rules and may again propose new rules. In addition, the U.S. Supreme Court has agreed to hear a case, not involving us, relating to the new source review

requirements. We cannot predict the timing or outcome of any future EPA

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regulatory action or the outcome of the U.S. Supreme Court proceeding, or their possible effect on our financial results.

### **Global Climate Change**

The HAA and the proposed CPR require that Maryland become a full participant in the Northeast Regional Greenhouse Gas Initiative (RGGI) by 2007. RGGI is a regional cap-and-trade program initially covering carbon dioxide (CO<sub>2</sub>) emissions from power plants with capacity greater than 25 megawatts in the affected states. The program aims to stabilize emissions at current levels beginning in 2009 and reduce regional emissions by 10 percent before 2020.

Under the program, it is expected that affected plants would participate in an auction to obtain sufficient CO<sub>2</sub> allowances to support the level of emissions that result from plant operations.

We continue to evaluate the potential impact of the HAA and CPR CO<sub>2</sub> emissions requirements and RGGI participation on our financial results; however, our compliance costs could be material.

### **Accounting Standards Issued and Adopted**

We discuss recently issued and adopted accounting standards in the *Accounting Standards Issued* and *Accounting Standards Adopted* sections of the *Notes to Consolidated Financial Statements* on page 22.

### **Pending Merger with FPL Group, Inc.**

On December 18, 2005, Constellation Energy entered into an Agreement and Plan of Merger with FPL Group. We discuss the details of this pending merger in *Note 15* of our 2005 Annual Report on Form 10-K and legislation enacted by the Maryland General Assembly that may affect the merger in the *Regulation by the Maryland PSC* section beginning on page 24.

Prior to the completion of the merger, which is subject to shareholder and various regulatory approvals, Constellation Energy and FPL Group will continue to operate as separate companies. The discussion and analysis of our results of operations and financial condition beginning on page 29 relates solely to Constellation Energy.

## **Events of 2006**

### **Commodity Prices**

During the six months ended June 30, 2006, we continued to experience significant changes in commodity prices. This volatile commodity price environment continues to impact our results of operations and financial condition, as discussed in more detail in the following sections:

*Financial Condition* beginning on page 44,

*Mark-to-Market* beginning on page 34,

*Risk Management Assets and Liabilities* on page 38,

*Market Risk* beginning on page 48, and

*Notes to Consolidated Financial Statements* on page 21.

### **Residential Electric Rates**

We discuss the legislation enacted by the Maryland General Assembly in more detail in the *Regulation by the Maryland PSC* section beginning on page 24.

### **Gas-Fired Plants**

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In June 2006, we announced that we would evaluate the potential sale of the following natural gas-fired generating plants:

| Facility        | Capacity<br>(MW) | Unit Type      | Location      |
|-----------------|------------------|----------------|---------------|
| High Desert     | 830              | Combined Cycle | California    |
| Rio Nogales     | 800              | Combined Cycle | Texas         |
| Holland         | 665              | Combined Cycle | Illinois      |
| University Park | 300              | Peaking        | Illinois      |
| Big Sandy       | 300              | Peaking        | West Virginia |
| Wolf Hills      | 250              | Peaking        | Virginia      |

As a result, we evaluated these generating plants for impairment as of June 30, 2006, in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, and determined that the assets are not impaired. At the date of this report, no decision has been made to sell the plants. We cannot predict the potential impact of selling these natural gas-fired generating plants, which could result in a material gain or loss on sale.

### Synthetic Fuel Facilities

#### *Phase-Out of Tax Credits*

As discussed in our 2005 Annual Report on Form 10-K, the Internal Revenue Code provides for a phase-out of synthetic fuel tax credits if average annual wellhead oil prices increase above certain levels. For 2006, we estimate the tax credit reduction would begin if the reference price exceeds approximately \$54 per barrel and would be fully phased out if the reference price exceeds approximately \$68 per barrel.

During the six months ended June 30, 2006, oil prices remained at historically high levels. Based on forward market prices and volatilities as of June 30, 2006, we estimate a 68% tax credit phase-out in 2006. As a result, the amount of tax credits recognized in the first

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half of 2006 reflects the estimated 68% tax credit phase-out.

As a result of oil prices remaining at high levels, in July 2006, we decreased production at our South Carolina facility and production has been idled at four facilities in which we have a minority ownership interest.

Based on forward market prices and volatilities as of July 28, 2006, we estimate a 68% tax credit phase-out in both 2006 and 2007. However, the ultimate amount of tax credits phased-out for 2006 and 2007, is subject to change based on the actual reference price and production levels for the entire year. In addition, our ability to claim synthetic fuel tax credits and the potential phase-out of these credits could be materially impacted by any future legislative changes to the Internal Revenue Code.

We actively monitor and manage our exposure to synthetic fuel tax credit phase-out as part of our ongoing hedging activities. In addition, we are exploring various options related to our South Carolina facility, including the suspension or cessation of synthetic fuel production depending on our expectation of the level of tax credit phase-out.

### ***Impairment Analysis***

The increase in estimated synthetic fuel tax credit phase-out during the second quarter of 2006 indicated there is a potential that we may not be able to recover our investments in synthetic fuel facilities. As a result of this triggering event, we performed an impairment analysis of our investment in synthetic fuel facilities.

At June 30, 2006, the book value of our investment in synthetic fuel facilities is approximately \$20 million, substantially all of which is related to our South Carolina facility. We determined that an impairment had not occurred as the expected future undiscounted cash flows exceeded the book value of our investment at June 30, 2006.

Based on forward market prices and volatilities at July 28, 2006, the projected phase-outs of tax credits, and management's expectations regarding likely production levels, the expected future undiscounted cash flows are not significantly greater than book value. We will continue to monitor the level of synthetic fuel tax credit phase-out and perform impairment analyses as new information becomes available. A future increase in synthetic fuel tax credit phase-out could result in an impairment.

### **Workforce Reduction Costs**

During the quarter ended March 31, 2006, we incurred costs associated with a planned workforce restructuring at our R. E. Ginna Nuclear Power Plant (Ginna). In July 2006, we announced a planned workforce restructuring at our Nine Mile Point nuclear facility.

In addition, unrelated to the workforce restructurings, in July 2006, we were required to record a pre-tax settlement charge in our Consolidated Statements of Income of \$3.7 million for one of our qualified plans under SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*.

We discuss these restructurings in more detail in the *Notes to Consolidated Financial Statements* on page 12 and the settlement charge in the *Notes to Consolidated Financial Statements* on page 16.

### **Acquisition**

During 2006, we acquired working interests in gas and oil producing fields. We discuss this acquisition in more detail in the *Notes to Consolidated Financial Statements* on page 13.

### **Initial Public Offering of Constellation Energy Partners LLC (formerly Constellation Energy Resources LLC)**

In June 2006, Constellation Energy Partners LLC, (CEP) a wholly owned limited liability company formed by Constellation Energy, filed a registration statement on Form S-1 with the Securities and Exchange Commission related to the potential underwritten initial public offering of CEP's common units. CEP is principally engaged in the acquisition, development and exploitation of natural gas properties. CEP's existing property is located in the Robinson's Bend Field in the Black Warrior Basin of Alabama.

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Although the registration statement relating to the CEP common units has been filed with the Securities and Exchange Commission, it has not yet become effective. The common units may not be sold, nor may offers to buy be accepted, prior to the time the registration statement becomes effective. This quarterly report does not constitute an offer to sell or the solicitation of any offer to buy any securities of CEP, and there will not be any sale of any such securities in any state in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of such state.

**Results of Operations for the Quarter and Six Months Ended June 30, 2006 Compared with the Same Periods of 2005**

In this section, we discuss our earnings and the factors affecting them. We begin with a general overview, then separately discuss earnings for our operating segments. We discuss changes in other income, fixed charges, and income taxes, as necessary, in the aggregate for all segments in the *Consolidated Nonoperating Income and Expenses* section on page 43.

**Overview****Results**

|                                           | Quarter Ended<br>June 30, |          | Six Months Ended<br>June 30, |           |
|-------------------------------------------|---------------------------|----------|------------------------------|-----------|
|                                           | 2006                      | 2005     | 2006                         | 2005      |
| <i>(In millions, after-tax)</i>           |                           |          |                              |           |
| Merchant energy                           | \$ 71.7                   | \$ 92.7  | \$ 115.3                     | \$ 141.2  |
| Regulated electric                        | 19.9                      | 25.4     | 53.5                         | 68.9      |
| Regulated gas                             | (1.4)                     | (1.7)    | 33.6                         | 25.9      |
| Other nonregulated                        | 2.9                       | 1.4      | 3.7                          | 0.4       |
| <b>Income from Continuing Operations</b>  | <b>93.1</b>               | 117.8    | <b>206.1</b>                 | 236.4     |
| Income from discontinued operations       |                           | 3.9      | 0.9                          | 6.0       |
| <b>Net Income</b>                         | <b>\$ 93.1</b>            | \$ 121.7 | <b>\$ 207.0</b>              | \$ 242.4  |
| <i>Other Items Included in Operations</i> |                           |          |                              |           |
| Merger-related costs                      | \$ (6.0)                  | \$       | \$ (7.5)                     | \$        |
| Non-qualifying hedges                     |                           | (3.5)    | (9.7)                        | (11.7)    |
| Workforce reduction costs                 |                           |          | (1.3)                        |           |
| <b>Total Other Items</b>                  | <b>\$ (6.0)</b>           | \$ (3.5) | <b>\$ (18.5)</b>             | \$ (11.7) |

**Quarter Ended June 30, 2006**

Our total net income for the quarter ended June 30, 2006 decreased \$28.6 million, or \$0.16 per share, compared to the same period of 2005 mostly because of the following:

We had lower earnings of \$17.5 million after-tax at our synthetic fuel facilities mostly due to the estimated phase-out of tax credits as a result of the high price of oil. We discuss the phase-out of tax credits in more detail in the *Events of 2006* section beginning on page 27.

We had lower earnings of approximately \$9 million after-tax at our merchant energy business due to lower gross margin from the Mid-Atlantic Region. We discuss this decrease in gross margin in more detail in the *Mid-Atlantic Region* section on page 33.

We had lower earnings of \$6.0 million after-tax, of which BGE recorded \$1.6 million after-tax, due to incurring additional merger-related costs associated with our pending merger with FPL Group. We discuss these costs in more detail in the *Notes to Consolidated Financial Statements* on page 11.

We had lower earnings of \$5.5 million after-tax from our regulated electric business primarily due to higher operations and maintenance expenses.



We had lower income from discontinued operations of \$3.9 million.

These decreases were partially offset by the following:

We had higher earnings of approximately \$36 million after-tax due to favorable mark-to-market results, including trading activities, at our wholesale competitive supply operation. We also had higher wholesale accrual gross margin of approximately \$22 million after-tax. These increases were partially offset by lower earnings of approximately \$51 million after-tax due to higher operating expenses mostly because of higher labor and benefit costs due to the growth of this operation. We discuss our mark-to-market and accrual results in more detail in the *Competitive Supply Wholesale* section beginning on page 34.

We had higher earnings of \$6.2 million after-tax at our retail competitive supply operation primarily due to an increase in gross margin. We discuss our retail gross margin in more detail in the *Competitive Supply Retail* section on page 33.

#### **Six Months Ended June 30, 2006**

Our total net income for the six months ended June 30, 2006 decreased \$35.4 million, or \$0.20 per share, compared to the same period of 2005 mostly because of the following:

We had lower earnings of approximately \$59 million after-tax at our merchant energy business due to lower gross margin from the Mid-Atlantic Region. We discuss this decrease in gross margin in more detail in the *Mid-Atlantic Region* section on page 33.

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We had lower earnings of \$25.6 million after-tax at our synthetic fuel facilities mostly due to the expected phase-out of tax credits as a result of the high price of oil. We discuss the phase-out of tax credits in more detail in the *Events of 2006* section beginning on page 27.

We had lower earnings of \$15.4 million after-tax from our regulated electric business primarily due to higher operations and maintenance expenses and lower revenues less electricity purchased for resale expenses.

We had lower earnings of \$8.8 million after-tax due to incurring additional merger-related costs associated with our pending merger with FPL Group and workforce reduction costs associated with a restructuring at our Ginna facility. We discuss these costs in more detail in the *Notes to Consolidated Financial Statements* beginning on page 11.

We had lower income from discontinued operations of \$5.1 million.

These decreases were partially offset by the following:

We had higher earnings of approximately \$81 million after-tax due to favorable mark-to-market results, including trading activities, at our wholesale competitive supply operation. We also had higher wholesale accrual gross margin of approximately \$58 million after-tax. These increases were partially offset by lower earnings of approximately \$68 million after-tax due to higher operating expenses mostly because of higher labor and benefit costs due to the growth of this operation. We discuss our mark-to-market and accrual results in more detail in the *Competitive Supply Wholesale* section beginning on page 34.

We had higher earnings of \$7.7 million after-tax from our regulated gas business primarily due to the favorable impact of the increase in gas base rates that was approved in December 2005. We discuss the gas base rate increase in more detail in the *Regulated Gas Business* section on page 42.

In the following sections, we discuss our net income by business segment in greater detail.

### Merchant Energy Business

#### *Background*

Our merchant energy business is a competitive provider of energy solutions for various customers. We discuss the impact of deregulation on our merchant energy business in *Item 1. Business Competition* section of our 2005 Annual Report on Form 10-K.

Our merchant energy business focuses on delivery of physical, customer-oriented products to producers and consumers, manages the risk and optimizes the value of our owned generation assets, and uses our portfolio management and trading capabilities both to manage risk and to deploy risk capital to generate additional returns. We continue to identify and pursue opportunities which can generate additional returns, through portfolio management and trading activities, within our business due to the significant growth in scale of our competitive supply operations.

We record merchant energy revenues and expenses in our financial results in different periods depending upon which portion of our business they affect. We discuss our revenue recognition policies in the *Critical Accounting Policies* section and *Note 1* of our 2005 Annual Report on Form 10-K. We summarize our revenue and expense recognition policies as follows:

We record revenues as they are earned and fuel and purchased energy costs as they are incurred for contracts and activities subject to accrual accounting, including certain load-serving activities.

Prior to the settlement of the forecasted transaction being hedged, we record changes in the fair value of contracts designated as cash-flow hedges in other comprehensive income to the extent that the hedges are effective. We record the effective portion of the changes in fair value of hedges in earnings in the period the settlement of the hedged transaction occurs. We record the ineffective portion of the changes in fair value of hedges, if any, in earnings in the period in which the change occurs.

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We record changes in the fair value of contracts that are subject to mark-to-market accounting in revenues or fuel and purchased energy expenses in the period in which the change occurs.

Mark-to-market accounting requires us to make estimates and assumptions using judgment in determining the fair value of certain contracts and in recording revenues from those contracts. We discuss the effects of mark-to-market accounting on our results in the *Competitive Supply Mark-to-Market* section beginning on page 34.

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Our wholesale marketing and risk management operation actively transacts in energy and energy-related commodities in order to manage our portfolio of energy purchases and sales to customers through structured transactions. As part of these activities we trade energy and energy-related commodities and deploy risk capital in the management of our portfolio in order to earn additional returns. These activities are managed through daily value at risk and stop loss limits and liquidity guidelines, and may have a material impact on our financial results. We discuss the impact of our trading activities and value at risk in more detail in the *Competitive Supply Mark-to-Market* section beginning on page 34 and the *Market Risk* section beginning on page 48.

### Results

|                                                       | Quarter Ended<br>June 30, |                 | Six Months Ended<br>June 30, |                  |
|-------------------------------------------------------|---------------------------|-----------------|------------------------------|------------------|
|                                                       | 2006                      | 2005            | 2006                         | 2005             |
| <i>(In millions)</i>                                  |                           |                 |                              |                  |
| Revenues                                              | \$ 3,951.0                | \$ 3,022.1      | \$ 8,072.6                   | \$ 5,915.2       |
| Fuel and purchased energy expenses                    | (3,258.2)                 | (2,445.7)       | (6,807.3)                    | (4,828.6)        |
| Operating expenses                                    | (423.0)                   | (328.5)         | (798.6)                      | (658.4)          |
| Merger-related costs                                  | (5.0)                     |                 | (6.3)                        |                  |
| Workforce reduction costs                             |                           |                 | (2.2)                        |                  |
| Depreciation, depletion, and amortization             | (72.1)                    | (65.4)          | (140.3)                      | (128.3)          |
| Accretion of asset retirement obligations             | (16.7)                    | (15.3)          | (33.2)                       | (30.4)           |
| Taxes other than income taxes                         | (31.5)                    | (25.5)          | (62.3)                       | (50.0)           |
| <b>Income from Operations</b>                         | <b>\$ 144.5</b>           | <b>\$ 141.7</b> | <b>\$ 222.4</b>              | <b>\$ 219.5</b>  |
| Income from Continuing Operations (after-tax)         | \$ 71.7                   | \$ 92.7         | \$ 115.3                     | \$ 141.2         |
| Income from discontinued operations (after-tax)       |                           | 2.7             |                              | 3.1              |
| <b>Net Income</b>                                     | <b>\$ 71.7</b>            | <b>\$ 95.4</b>  | <b>\$ 115.3</b>              | <b>\$ 144.3</b>  |
| <i>Other Items Included in Operations (after-tax)</i> |                           |                 |                              |                  |
| Merger-related costs                                  | \$ (4.2)                  |                 | \$ (5.2)                     |                  |
| Non-qualifying hedges                                 |                           | (3.5)           | (9.7)                        | (11.7)           |
| Workforce reduction costs                             |                           |                 | (1.3)                        |                  |
| <b>Total Other Items</b>                              | <b>\$ (4.2)</b>           | <b>\$ (3.5)</b> | <b>\$ (16.2)</b>             | <b>\$ (11.7)</b> |

*Above amounts include intercompany transactions eliminated in our Consolidated Financial Statements. The Information by Operating Segment section within the Notes to Consolidated Financial Statements on page 15 provides a reconciliation of operating results by segment to our Consolidated Financial Statements.*

### Revenues and Fuel and Purchased Energy Expenses

Our merchant energy business manages the revenues we realize from the sale of energy to our customers and our costs of procuring fuel and energy. As previously discussed, our merchant energy business uses either accrual or mark-to-market accounting to record our revenues and expenses. Mark-to-market results reflect the net impact of amounts recorded in either revenues or fuel and purchased energy expenses to recognize changes in fair value of derivative contracts subject to mark-to-market accounting during the reporting period.

The difference between revenues and fuel and purchased energy expenses, including all direct expenses, is the gross margin of our merchant energy business, and this measure is a useful tool for assessing the profitability of our merchant energy business. Accordingly, we believe it is appropriate to discuss the operating results of our merchant energy business by analyzing the changes in gross margin between periods. In managing our portfolio, we may terminate, restructure, or acquire contracts. Such transactions are within the normal course of managing our portfolio and may materially impact the timing of our recognition of revenues, fuel and purchased energy expenses, and cash flows.

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We analyze our merchant energy gross margin in the following categories because of the risk profile of each category, differences in the revenue sources, and the nature of fuel and purchased energy expenses. With the exception of a portion of our competitive supply activities that we are required to account for using the mark-to-market method of accounting, all of these activities are accounted for on an accrual basis.

**Mid-Atlantic Region** our fossil, nuclear, and hydroelectric generating facilities and load-serving activities in the PJM region. This also includes active portfolio management of the generating assets and other physical and financial contractual arrangements, as well as other PJM competitive supply activities. In addition, due to the expiration of its power purchase agreement, beginning in June 2006, the results of our University Park generating facility are included with the Mid-Atlantic Region. University Park was previously included in Plants with Power Purchase Agreements.

**Plants with Power Purchase Agreements** our generating facilities outside the Mid-Atlantic Region with long-term power purchase agreements, including the Nine Mile Point, Ginna, and High Desert facilities.

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Wholesale Competitive Supply our marketing and risk management operation that provides energy products and services (including portfolio management and trading activities) primarily to distribution utilities, power generators, and other wholesale customers. We also provide global coal and upstream and downstream natural gas services.

Retail Competitive Supply our operation that provides electric and gas energy products and services to commercial, industrial, and governmental customers.

Other our investments in qualifying facilities and domestic power projects and our generation operations and maintenance services.

We provide a summary of our revenues, fuel and purchased energy expenses, and gross margin as follows:

|                                            | Quarter Ended June 30, |                     | Six Months Ended June 30, |                     |
|--------------------------------------------|------------------------|---------------------|---------------------------|---------------------|
|                                            | 2006                   | 2005                | 2006                      | 2005                |
| <i>(Dollar amounts in millions)</i>        |                        |                     |                           |                     |
| <b>Revenues:</b>                           |                        |                     |                           |                     |
| Mid-Atlantic Region                        | \$ 651.6               | \$ 495.4            | \$ 1,117.0                | \$ 990.2            |
| Plants with Power Purchase Agreements      | 194.0                  | 191.9               | 384.7                     | 384.4               |
| Competitive Supply                         |                        |                     |                           |                     |
| Retail                                     | 1,845.9                | 1,403.0             | 3,870.1                   | 2,723.5             |
| Wholesale                                  | 1,249.9                | 929.1               | 2,670.4                   | 1,797.6             |
| Other                                      | 9.6                    | 2.7                 | 30.4                      | 19.5                |
| <b>Total</b>                               | <b>\$ 3,951.0</b>      | <b>\$ 3,022.1</b>   | <b>\$ 8,072.6</b>         | <b>\$ 5,915.2</b>   |
| <b>Fuel and purchased energy expenses:</b> |                        |                     |                           |                     |
| Mid-Atlantic Region                        | \$ (398.9)             | \$ (227.8)          | \$ (765.0)                | \$ (541.2)          |
| Plants with Power Purchase Agreements      | (18.6)                 | (18.6)              | (35.4)                    | (33.9)              |
| Competitive Supply                         |                        |                     |                           |                     |
| Retail                                     | (1,751.8)              | (1,335.4)           | (3,702.7)                 | (2,592.9)           |
| Wholesale                                  | (1,088.9)              | (863.9)             | (2,304.2)                 | (1,660.6)           |
| Other                                      |                        |                     |                           |                     |
| <b>Total</b>                               | <b>\$ (3,258.2)</b>    | <b>\$ (2,445.7)</b> | <b>\$ (6,807.3)</b>       | <b>\$ (4,828.6)</b> |
| <b>Gross Margin:</b>                       |                        |                     |                           |                     |
|                                            |                        | <u>% of</u>         |                           | <u>% of</u>         |
|                                            |                        | <u>Total</u>        |                           | <u>Total</u>        |
| Mid-Atlantic Region                        | \$ 252.7               | 36%                 | \$ 267.6                  | 46%                 |
| Plants with Power Purchase Agreements      | 175.4                  | 25                  | 173.3                     | 30                  |
| Competitive Supply                         |                        |                     |                           |                     |
| Retail                                     | 94.1                   | 14                  | 67.6                      | 12                  |
| Wholesale                                  | 161.0                  | 23                  | 65.2                      | 11                  |
| Other                                      | 9.6                    | 2                   | 2.7                       | 1                   |
| <b>Total</b>                               | <b>\$ 692.8</b>        | <b>100%</b>         | <b>\$ 576.4</b>           | <b>100%</b>         |

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Mid-Atlantic Region

|                                    | Quarter Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|------------------------------------|---------------------------|----------|------------------------------|----------|
|                                    | 2006                      | 2005     | 2006                         | 2005     |
| <i>(In millions)</i>               |                           |          |                              |          |
| Revenues                           | \$ 651.6                  | \$ 495.4 | \$ 1,117.0                   | \$ 990.2 |
| Fuel and purchased energy expenses | (398.9)                   | (227.8)  | (765.0)                      | (541.2)  |
| Gross margin                       | \$ 252.7                  | \$ 267.6 | \$ 352.0                     | \$ 449.0 |

The decrease of \$14.9 million in gross margin during the quarter ended June 30, 2006 compared to the same period of 2005 is primarily due to:

lower generation at Calvert Cliffs, which resulted in lower gross margin of approximately \$10 million, mostly because of a longer planned refueling outage that included replacement of the reactor vessel head, and

lower competitive transition charge (CTC) revenues of approximately \$9 million due to commercial and industrial customers that completed their obligation in July 2005 and the continued decline in the CTC rate. We discuss our CTC revenues over time in more detail in our 2005 Annual Report on Form 10-K.

These decreases in gross margin were partially offset by favorable portfolio management and new contracts that began during the second quarter of 2006, which more than offset the negative impact of continuing to serve fixed-price obligations to BGE as variable costs, including emissions and coal costs, continued to increase.

The decrease of \$97.0 million in gross margin during the six months ended June 30, 2006 compared to the same period of 2005 is primarily due to:

lower gross margin of approximately \$50 million mostly because of a higher level of variable costs, including higher emissions and coal costs, associated with serving fixed-price obligations to BGE, partially offset by favorable portfolio management and new contracts that began during the second quarter of 2006,

lower generation at Calvert Cliffs, which resulted in lower gross margin of approximately \$27 million, mostly because of a longer planned refueling outage that included replacement of the reactor vessel head, and

lower CTC revenues of approximately \$21 million due to commercial and industrial customers that completed their obligation in July 2005 and the continued decline in the CTC rate.

Plants with Power Purchase Agreements

|                                    | Quarter Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|------------------------------------|---------------------------|----------|------------------------------|----------|
|                                    | 2006                      | 2005     | 2006                         | 2005     |
| <i>(In millions)</i>               |                           |          |                              |          |
| Revenues                           | \$ 194.0                  | \$ 191.9 | \$ 384.7                     | \$ 384.4 |
| Fuel and purchased energy expenses | (18.6)                    | (18.6)   | (35.4)                       | (33.9)   |
| Gross margin                       | \$ 175.4                  | \$ 173.3 | \$ 349.3                     | \$ 350.5 |

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Gross margin from our Plants with Power Purchase Agreements was about the same for the quarter and six months ended June 30, 2006 compared to the same periods of 2005.

### Competitive Supply

#### *Retail*

|                                    | Quarter Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|------------------------------------|---------------------------|------------|------------------------------|------------|
|                                    | 2006                      | 2005       | 2006                         | 2005       |
| <i>(In millions)</i>               |                           |            |                              |            |
| Accrual revenues                   | \$ 1,843.1                | \$ 1,405.1 | \$ 3,859.9                   | \$ 2,726.7 |
| Fuel and purchased energy expenses | (1,749.5)                 | (1,335.4)  | (3,683.5)                    | (2,592.9)  |
| Retail accrual activities          | 93.6                      | 69.7       | 176.4                        | 133.8      |
| Mark-to-market activities          | 0.5                       | (2.1)      | (9.0)                        | (3.2)      |
| Gross margin                       | \$ 94.1                   | \$ 67.6    | \$ 167.4                     | \$ 130.6   |

The increase in gross margin from our retail competitive supply activities during the quarter ended June 30, 2006 compared to the same period of 2005 is primarily due to an increase in customers and higher realized margins. We served 1.6 million megawatt hours more of electricity and 15.9 billion cubic feet more of natural gas to retail customers during the quarter ended June 30, 2006 compared to the same period of 2005.



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The increase in gross margin from our retail competitive supply activities during the six months ended June 30, 2006 compared to the same period of 2005 is primarily due to an increase in customers and higher realized contract margins. We served 3.8 million megawatt hours more of electricity and 25.3 billion cubic feet more of natural gas to retail customers during the six months ended June 30, 2006 compared to the same period of 2005. These increases in gross margin were partially offset by higher losses on mark-to-market contracts mostly due to a higher number of contracts subject to mark-to-market accounting during the six months ended June 30, 2006 compared to the same period of 2005.

### Wholesale

|                                    | Quarter Ended<br>June 30, |          | Six Months Ended<br>June 30, |            |
|------------------------------------|---------------------------|----------|------------------------------|------------|
|                                    | 2006                      | 2005     | 2006                         | 2005       |
| <i>(In millions)</i>               |                           |          |                              |            |
| Accrual revenues                   | \$ 1,144.5                | \$ 882.6 | \$ 2,467.7                   | \$ 1,728.6 |
| Fuel and purchased energy expenses | (1,088.9)                 | (863.9)  | (2,304.2)                    | (1,660.6)  |
| Wholesale accrual activities       | 55.6                      | 18.7     | 163.5                        | 68.0       |
| Mark-to-market revenues            | 105.4                     | 46.5     | 202.7                        | 69.0       |
| Gross margin                       | \$ 161.0                  | \$ 65.2  | \$ 366.2                     | \$ 137.0   |

We analyze our wholesale accrual and mark-to-market competitive supply activities separately below.

### Wholesale Accrual

Our wholesale marketing and risk management operation had \$36.9 million of higher gross margin from accrual activities during the quarter ended June 30, 2006 compared to the same period of 2005 due to:

approximately \$18 million increase in gross margin primarily due to a higher gross margin of \$26 million related to new contracts entered into during 2006 and higher realized gross margin associated with existing contracts, partially offset by a decrease of approximately \$8 million due to the expiration of certain favorable contracts, and

approximately \$23 million related primarily to the growth in our coal and natural gas activities.

Our wholesale marketing and risk management operation had \$95.5 million of higher gross margin from accrual activities during the six months ended June 30, 2006 compared to the same period of 2005 due to:

approximately \$45 million primarily due to new contracts entered into during 2006 and higher realized gross margin associated with existing contracts. This increase in gross margin was partially offset by the absence of the favorable impact related to the monetization of a power purchase agreement during the first quarter of 2005, and

approximately \$50 million related primarily to the growth in our coal and natural gas activities.

### Mark-to-Market

Mark-to-market results include net gains and losses from origination, trading, and risk management activities for which we use the mark-to-market method of accounting. We discuss these activities and the mark-to-market method of accounting in more detail in the *Critical Accounting Policies* section of our 2005 Annual Report on Form 10-K.

As a result of the nature of our operations and the use of mark-to-market accounting for certain activities, mark-to-market earnings will fluctuate. We cannot predict these fluctuations, but the impact on our earnings could be material. We discuss our market risk in more detail in the *Market Risk* section beginning on page 48. The primary factors that cause fluctuations in our mark-to-market results are:

the number, size, and profitability of new transactions, including termination or restructuring of existing contracts,  
the number and size of our open derivative positions, and  
changes in the level and volatility of forward commodity prices and interest rates.

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Mark-to-market results were as follows:

|                                                         | Quarter Ended<br>June 30, |                | Six Months Ended<br>June 30, |                |
|---------------------------------------------------------|---------------------------|----------------|------------------------------|----------------|
|                                                         | 2006                      | 2005           | 2006                         | 2005           |
| <i>(In millions)</i>                                    |                           |                |                              |                |
| <b>Unrealized mark-to-market results</b>                |                           |                |                              |                |
| Origination gains                                       | \$ 2.7                    | \$ 7.7         | \$ 6.0                       | \$ 9.6         |
| <b>Risk management and trading mark-to-market</b>       |                           |                |                              |                |
| Unrealized changes in fair value                        | 103.2                     | 36.7           | 187.7                        | 56.2           |
| Changes in valuation techniques                         |                           |                |                              |                |
| Reclassification of settled contracts to realized       | (104.8)                   | (73.6)         | (228.9)                      | (61.8)         |
| <b>Total risk management and trading mark-to-market</b> | <b>(1.6)</b>              | <b>(36.9)</b>  | <b>(41.2)</b>                | <b>(5.6)</b>   |
| Total unrealized mark-to-market*                        | 1.1                       | (29.2)         | (35.2)                       | 4.0            |
| <b>Realized mark-to-market</b>                          | <b>104.8</b>              | <b>73.6</b>    | <b>228.9</b>                 | <b>61.8</b>    |
| <b>Total mark-to-market results</b>                     | <b>\$ 105.9</b>           | <b>\$ 44.4</b> | <b>\$ 193.7</b>              | <b>\$ 65.8</b> |

\* Total unrealized mark-to-market is the sum of origination gains and total risk management and trading mark-to-market.

Origination gains arise primarily from contracts that our wholesale marketing and risk management operation structures to meet the risk management needs of our customers or relate to our trading activities. Transactions that result in origination gains may be unique and provide the potential for individually significant gains from a single transaction.

Origination gains represent the initial fair value recognized on these transactions. The recognition of origination gains is dependent on sufficient observable market data that validates the initial fair value of the contract. Liquidity and market conditions impact our ability to identify sufficient, objective market-price information to permit recognition of origination gains. As a result, while our strategy and competitive position provide the opportunity to continue to originate such transactions, the level of origination gains we are able to recognize may vary from period to period as a result of the number, size, and market-price transparency of the individual transactions executed in any period.

Risk management and trading mark-to-market represents both realized and unrealized gains and losses from changes in the value of our portfolio, including the recognition of gains associated with decreases in the close-out adjustment when we are able to obtain sufficient market price information. We discuss the changes in mark-to-market results below. We show the relationship between our mark-to-market results and the change in our net mark-to-market energy asset later in this section.

The increase in mark-to-market results for the quarter and six-months ended June 30, 2006, reflects our continued deployment of risk capital in order to take advantage of existing market conditions which generated significant returns and captured additional value within our trading portfolio. Additionally, our mark-to-market results included higher gains on transactions that are not trading positions. These positions are economic hedges of accrual transactions. These economic hedges receive mark-to-market accounting treatment as they are derivative contracts that are not designated for either cash-flow hedge or accrual accounting.

Mark-to-market results increased \$61.5 million during the quarter ended June 30, 2006 compared to the same period of 2005 because of an increase in unrealized changes in fair value. Unrealized changes in fair value increased \$66.5 million primarily due to a higher level of risk management and trading mark-to-market activities mostly due to a higher level of open power positions that resulted in increased gains of \$70.9 million, which was partially offset by the absence of a \$4.4 million favorable impact related to changes in the close-out adjustment during the quarter ended June 30, 2006 compared to the same period of 2005.

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Mark-to-market results increased \$127.9 million during the six months ended June 30, 2006 compared to the same period of 2005 because of an increase in unrealized changes in fair value. Unrealized changes in fair value increased \$131.5 million primarily due to a higher level of risk management and trading mark-to-market activities mostly due to a higher level of open power positions that resulted in increased gains of \$159.2 million, which was partially offset by the absence of a \$27.7 million favorable impact related to changes in the close-out adjustment during the six months ended June 30, 2006 compared to the same period of 2005.

The close-out adjustments are determined by the change in open positions, new transactions where we did not have observable market price information, and existing transactions where we have now observed sufficient market price information and/or we realized cash flows since the transactions' inception. We discuss the close-out adjustment in more detail in the *Critical Accounting Policies* section of our 2005 Annual Report on Form 10-K.

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### Mark-to-Market Energy Assets and Liabilities

Our mark-to-market energy assets and liabilities are comprised of derivative contracts subject to mark-to-market accounting and consisted of the following:

|                                        | <b>June 30,<br/>2006</b> | <b>December 31,<br/>2005</b> |
|----------------------------------------|--------------------------|------------------------------|
| <i>(In millions)</i>                   |                          |                              |
| Current Assets                         | \$ 867.1                 | \$ 1,339.2                   |
| Noncurrent Assets                      | 766.5                    | 1,089.3                      |
| <b>Total Assets</b>                    | <b>1,633.6</b>           | <b>2,428.5</b>               |
| Current Liabilities                    | 732.7                    | 1,348.7                      |
| Noncurrent Liabilities                 | 547.2                    | 912.3                        |
| <b>Total Liabilities</b>               | <b>1,279.9</b>           | <b>2,261.0</b>               |
| <b>Net mark-to-market energy asset</b> | <b>\$ 353.7</b>          | <b>\$ 167.5</b>              |

The following are the primary sources of the change in the net mark-to-market energy asset during the quarter and six months ended June 30, 2006:

|                                                         | <b>Quarter Ended<br/>June 30, 2006</b> | <b>Six Months Ended<br/>June 30, 2006</b> |
|---------------------------------------------------------|----------------------------------------|-------------------------------------------|
| <i>(In millions)</i>                                    |                                        |                                           |
| Fair value beginning of period                          | \$ 359.6                               | \$ 167.5                                  |
| Changes in fair value recorded in earnings              |                                        |                                           |
| Origination gains                                       | \$ 2.7                                 | \$ 6.0                                    |
| Unrealized changes in fair value                        | 103.2                                  | 187.7                                     |
| Changes in valuation techniques                         |                                        |                                           |
| Reclassification of settled contracts to realized       | (104.8)                                | (228.9)                                   |
| <b>Total changes in fair value recorded as revenues</b> | <b>1.1</b>                             | <b>(35.2)</b>                             |
| Changes in value of exchange-listed futures and options | (8.8)                                  | 131.9                                     |
| Net change in premiums on options                       | 4.4                                    | 89.1                                      |
| Contracts acquired                                      |                                        |                                           |
| Other changes in fair value                             | (2.6)                                  | 0.4                                       |
| <b>Fair value at end of period</b>                      | <b>\$ 353.7</b>                        | <b>\$ 353.7</b>                           |

Changes in the net mark-to-market energy asset that affected earnings were as follows:

Origination gains represent the initial unrealized fair value at the time these contracts are executed to the extent permitted by applicable accounting rules.

Unrealized changes in fair value represent unrealized changes in commodity prices, the volatility of options on commodities, the time value of options, and other valuation adjustments.

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Changes in valuation techniques represent improvements in estimation techniques, including modeling and other statistical enhancements used to value our portfolio to more accurately reflect the fair value of our contracts.

Reclassification of settled contracts to realized represent the portion of previously unrealized amounts settled during the period and recorded as realized revenues.

The net mark-to-market energy asset also changed due to the following items recorded in accounts other than in our Consolidated Statements of Income:

Changes in value of exchange-listed futures and options are adjustments to remove unrealized changes in fair value of exchange-traded contracts that are included in risk management and trading mark-to-market results. The fair value of these contracts is recorded in "Accounts receivable" rather than "Mark-to-market energy assets" in our Consolidated Balance Sheets because these amounts are settled through our margin account with a third-party broker.

Net changes in premiums on options reflects the accounting for premiums on options purchased as an increase in the net mark-to-market energy asset and premiums on options sold as a decrease in the net mark-to-market energy asset.

Contracts acquired represents the initial fair value of acquired derivative contracts recorded in "Mark-to-market energy assets and liabilities."

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The settlement terms of the net mark-to-market energy asset and sources of fair value as of June 30, 2006 are as follows:

|                                              | Settlement Term |               |                 |               |                |               |                 | Fair Value      |
|----------------------------------------------|-----------------|---------------|-----------------|---------------|----------------|---------------|-----------------|-----------------|
|                                              | 2006            | 2007          | 2008            | 2009          | 2010           | 2011          | Thereafter      |                 |
| <i>(In millions)</i>                         |                 |               |                 |               |                |               |                 |                 |
| Prices provided by external sources (1)      | \$ 106.7        | \$ 12.9       | \$ 210.8        | \$ 21.5       | \$ 30.4        | \$            | \$              | \$ 382.3        |
| Prices based on models                       | (6.0)           | (8.2)         | 6.5             | (13.1)        | (8.3)          | 1.0           | (0.5)           | (28.6)          |
| <b>Total net mark-to-market energy asset</b> | <b>\$ 100.7</b> | <b>\$ 4.7</b> | <b>\$ 217.3</b> | <b>\$ 8.4</b> | <b>\$ 22.1</b> | <b>\$ 1.0</b> | <b>\$ (0.5)</b> | <b>\$ 353.7</b> |

(1)

Includes contracts actively quoted and contracts valued from other external sources.

We manage our mark-to-market risk on a portfolio basis based upon the delivery period of our contracts and the individual components of the risks within each contract. Accordingly, we record and manage the energy purchase and sale obligations under our contracts in separate components based upon the commodity (e.g., electricity or gas), the product (e.g., electricity for delivery during peak or off-peak hours), the delivery location (e.g., by region), the risk profile (e.g., forward or option), and the delivery period (e.g., by month and year).

Consistent with our risk management practices, we have presented the information in the table above based upon the ability to obtain reliable prices for components of the risks in our contracts from external sources rather than on a contract-by-contract basis. Thus, the portion of long-term contracts that is valued using external price sources is presented under the caption "prices provided by external sources." This is consistent with how we manage our risk, and we believe it provides the best indication of the basis for the valuation of our portfolio. Since we manage our risk on a portfolio basis rather than contract-by-contract, it is not practicable to determine separately the portion of long-term contracts that is included in each valuation category. We describe the commodities, products, and delivery periods included in each valuation category in detail below.

The amounts for which fair value is determined using prices provided by external sources represent the portion of forward, swap, and option contracts for which price quotations are available through brokers or over-the-counter transactions. The term for which such price information is available varies by commodity, region, and product. The fair values included in this category are the following portions of our contracts:

forward and swap purchases and sales of electricity during peak and off-peak hours for delivery terms primarily through 2008, but up to 2010, depending upon the region,

options for the purchase and sale of electricity during peak hours for delivery terms through 2008, depending upon the region,

forward purchases and sales of electric capacity for delivery terms primarily through 2007, but up to 2008, depending upon the region,

forward and swap purchases and sales of natural gas, coal, and oil for delivery terms primarily through 2009, and

options for the purchase and sale of natural gas, coal, and oil for delivery terms through 2008.

The remainder of the net mark-to-market energy asset is valued using models. The portion of contracts for which such techniques are used includes standard products for which external prices are not available and customized products that are valued using modeling techniques to determine expected future market prices, contract quantities, or both.

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Modeling techniques include estimating the present value of cash flows based upon underlying contractual terms and incorporate, where appropriate, option pricing models and statistical and simulation procedures. Inputs to the models include:

- observable market prices,
- estimated market prices in the absence of quoted market prices,
- the risk-free market discount rate,
- volatility factors,
- estimated correlation of energy commodity prices, and
- expected generation profiles of specific regions.

Additionally, we incorporate counterparty-specific credit quality and factors for market price and volatility uncertainty and other risks in our valuation. The inputs and factors used to determine fair value reflect management's best estimates.



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The electricity, fuel, and other energy contracts we hold have varying terms to maturity, ranging from contracts for delivery the next hour to contracts with terms of ten years or more. Because an active, liquid electricity futures market comparable to that for other commodities has not developed, the majority of contracts used in the wholesale marketing and risk management operation are direct contracts between market participants and are not exchange-traded or financially settling contracts that can be readily liquidated in their entirety through an exchange or other market mechanism. Consequently, we and other market participants generally realize the value of these contracts as cash flows become due or payable under the terms of the contracts rather than through selling or liquidating the contracts themselves.

Consistent with our risk management practices, the amounts shown in the table on the previous page as being valued using prices from external sources include the portion of long-term contracts for which we can obtain reliable prices from external sources. The remaining portions of these long-term contracts are shown in the table as being valued using models. In order to realize the entire value of a long-term contract in a single transaction, we would need to sell or assign the entire contract. If we were to sell or assign any of our long-term contracts in their entirety, we may not realize the entire value reflected in the table. However, based upon the nature of the wholesale marketing and risk management operation, we expect to realize the value of these contracts, as well as any contracts we may enter into in the future to manage our risk, over time as the contracts and related hedges settle in accordance with their terms. Generally, we do not expect to realize the value of these contracts and related hedges by selling or assigning the contracts themselves in total.

The fair values in the table represent expected future cash flows based on the level of forward prices and volatility factors as of June 30, 2006 and could change significantly as a result of future changes in these factors. Additionally, because the depth and liquidity of the power markets varies substantially between regions and time periods, the prices used to determine fair value could be affected significantly by the volume of transactions executed.

Management uses its best estimates to determine the fair value of commodity and derivative contracts it holds and sells. These estimates consider various factors including closing exchange and over-the-counter price quotations, time value, volatility factors, and credit exposure. However, future market prices and actual quantities will vary from those used in recording mark-to-market energy assets and liabilities, and it is possible that such variations could be material.

### ***Risk Management Assets and Liabilities***

We record derivatives that qualify for designation as hedges under SFAS No. 133 in "Risk management assets and liabilities" in our Consolidated Balance Sheets. Our risk management assets and liabilities consisted of the following:

|                                              | June 30,<br>2006    | December 31,<br>2005 |
|----------------------------------------------|---------------------|----------------------|
| <i>(In millions)</i>                         |                     |                      |
| Current Assets                               | \$ 282.6            | \$ 1,244.3           |
| Noncurrent Assets                            | 437.4               | 626.0                |
| <b>Total Assets</b>                          | <b>720.0</b>        | <b>1,870.3</b>       |
| Current Liabilities                          | 808.8               | 483.5                |
| Noncurrent Liabilities                       | 926.9               | 1,035.5              |
| <b>Total Liabilities</b>                     | <b>1,735.7</b>      | <b>1,519.0</b>       |
| <b>Net risk management (liability) asset</b> | <b>\$ (1,015.7)</b> | <b>\$ 351.3</b>      |

The decrease in our net risk management asset since December 31, 2005 of \$1,367.0 million was due primarily to decreases in power prices that reduced the fair value of our short-term cash-flow hedge positions and the settlement of cash-flow hedges during the six months ended June 30, 2006. A decrease in the fair value of our cash-flow hedges indicates an increase in value of the accrual positions to which these hedges are related.

### ***Other***

| Quarter Ended<br>June 30, | Six Months Ended<br>June 30, |
|---------------------------|------------------------------|
|---------------------------|------------------------------|

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|                      | Quarter Ended<br>June 30, |        | Six Months Ended<br>June 30, |         |
|----------------------|---------------------------|--------|------------------------------|---------|
|                      | 2006                      | 2005   | 2006                         | 2005    |
| <i>(In millions)</i> |                           |        |                              |         |
| Revenues             | \$ 9.6                    | \$ 2.7 | \$ 30.4                      | \$ 19.5 |

Our merchant energy business holds up to a 50% voting interest in 24 operating domestic energy projects that consist of electric generation, fuel processing, or fuel handling facilities. Of these 24 projects, 17 are "qualifying facilities" that receive certain exemptions and pricing under the Public Utility Regulatory Policy Act of 1978 based on the facilities' energy source or the use of a cogeneration process.

We believe the current market conditions for our equity-method investments that own geothermal, coal, hydroelectric, and fuel processing projects provide sufficient positive cash flows to recover our investments. We continuously monitor issues that potentially could impact future profitability of these investments, including environmental and legislative initiatives. We discuss the impact of subsidies from the State of California in more detail in the *Merchant Energy Business Other* section in our 2005 Annual Report on Form 10-K.

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We discuss certain risks and uncertainties in more detail in the *Forward Looking Statements* section on page 53 and in *Item 1A. Risk Factors* section on page 52. However, should future events cause these investments to become uneconomic, our investments in these projects could become impaired under the provisions of APB No. 18.

If our strategy were to change from an intent to hold to an intent to sell for any of our equity-method investments in qualifying facilities or power projects, we would need to adjust their book value to fair value, and that adjustment could be material. If we were to sell these investments in the current market, we may have losses that could be material.

### ***Operating Expenses***

Our merchant energy business operating expenses increased \$94.5 million during the quarter ended June 30, 2006 compared to the same period of 2005 mostly due to an increase at our competitive supply operations totaling \$91.9 million primarily related to higher labor and benefit costs and the impact of inflation on other costs.

Our merchant energy business operating expenses increased \$140.2 million during the six months ended June 30, 2006 compared to the same period of 2005 mostly due to the following:

an increase of \$141.1 million at our competitive supply operations primarily related to higher labor and benefit costs and the impact of inflation on other costs, and

an increase of \$10.3 million at our High Desert facility primarily related to planned outage costs.

These increases in expenses were partially offset by lower operating expenses of \$22.0 million, including productivity initiatives at our nuclear facilities primarily due to lower refueling outage costs.

### ***Merger-Related Costs***

We discuss our pending merger with FPL Group and related costs in more detail in the *Notes to the Consolidated Financial Statements* on page 11.

### ***Workforce Reduction Costs***

During the six months ended June 30, 2006, our merchant energy business recognized expenses associated with our workforce reduction efforts at our Ginna facility. In addition, in July 2006, we announced a restructuring of the workforce at our Nine Mile Point nuclear facility. We discuss these programs in more detail in the *Notes to the Consolidated Financial Statements* on page 12.

### ***Depreciation, Depletion, and Amortization Expense***

Merchant energy depreciation, depletion, and amortization expense increased \$6.7 million during the quarter ended June 30, 2006 compared to the same period of 2005 mostly due to the following:

an increase of \$4.6 million related to our working interests in gas producing fields in Texas and Alabama, which were acquired in June 2005, and

an increase of \$3.4 million at our wholesale marketing and risk management operation on the back office accounting and settlement systems most of which was placed in service in the second quarter of 2005.

Merchant energy depreciation, depletion, and amortization expenses increased \$12.0 million during the six months ended June 30, 2006 compared to the same period of 2005 mostly due to the following:

an increase of \$8.8 million related to our working interests in gas producing fields in Texas and Alabama, and

an increase of \$4.9 million related to our wholesale marketing and risk management operation on the back office accounting and settlement systems.

*Taxes Other Than Income Taxes*

Merchant energy taxes other than income taxes increased \$6.0 million during the quarter ended June 30, 2006 compared to the same period of 2005 mostly due to \$3.8 million related to higher gross receipts taxes at our retail competitive supply operation and \$1.0 million related to our working interests in gas producing fields in Texas and Alabama.

Taxes other than income taxes increased \$12.3 million during the six months ended June 30, 2006 compared to the same period of 2005 mostly due to \$8.3 million related to higher gross receipts taxes at our retail competitive supply operation and \$2.4 million related to our working interests in gas producing fields in Texas and Alabama.

## Regulated Electric Business

Our regulated electric business is discussed in detail in *Item 1. Business Electric Business* section of our 2005 Annual Report on Form 10-K.

### Results

|                                                        | Quarter Ended<br>June 30, |                | Six Months Ended<br>June 30, |                 |
|--------------------------------------------------------|---------------------------|----------------|------------------------------|-----------------|
|                                                        | 2006                      | 2005           | 2006                         | 2005            |
| <i>(In millions)</i>                                   |                           |                |                              |                 |
| Revenues                                               | \$ 498.7                  | \$ 465.1       | \$ 1,002.7                   | \$ 956.6        |
| Electricity purchased for resale expenses              | (279.8)                   | (244.4)        | (542.7)                      | (486.5)         |
| Operations and maintenance expenses                    | (85.2)                    | (79.9)         | (169.6)                      | (155.8)         |
| Merger-related costs                                   | (1.3)                     |                | (1.7)                        |                 |
| Depreciation and amortization                          | (45.7)                    | (46.8)         | (91.5)                       | (94.2)          |
| Taxes other than income taxes                          | (32.8)                    | (33.1)         | (66.8)                       | (67.5)          |
| <b>Income from Operations</b>                          | <b>\$ 53.9</b>            | <b>\$ 60.9</b> | <b>\$ 130.4</b>              | <b>\$ 152.6</b> |
| <b>Net Income</b>                                      | <b>\$ 19.9</b>            | <b>\$ 25.4</b> | <b>\$ 53.5</b>               | <b>\$ 68.9</b>  |
| <i>Other Items Included in Operations (after-tax):</i> |                           |                |                              |                 |
| Merger-related costs                                   | \$ (1.2)                  |                | \$ (1.5)                     |                 |

*Above amounts include intercompany transactions eliminated in our Consolidated Financial Statements. The Information by Operating Segment section within the Notes to Consolidated Financial Statements on page 15 provides a reconciliation of operating results by segment to our Consolidated Financial Statements.*

Net income from the regulated electric business decreased \$5.5 million during the quarter ended June 30, 2006 compared to the same period of 2005 mostly because of higher operations and maintenance expenses of \$3.0 million after-tax.

Net income from the regulated electric business decreased \$15.4 million during the six months ended June 30, 2006 mostly because of higher operations and maintenance expenses of \$8.3 million after-tax and decreased revenue less electricity purchased for resale expenses of \$6.1 million after-tax.

### Electric Revenues

The changes in electric revenues in 2006 compared to 2005 were caused by:

|                                                                     | Quarter Ended<br>June 30, | Six Months Ended<br>June 30, |
|---------------------------------------------------------------------|---------------------------|------------------------------|
|                                                                     | 2006 vs. 2005             | 2006 vs. 2005                |
| <i>(In millions)</i>                                                |                           |                              |
| Distribution volumes                                                | \$ (5.6)                  | \$ (14.6)                    |
| Standard offer service                                              | 37.3                      | 56.1                         |
| <b>Total change in electric revenues from electric system sales</b> | <b>31.7</b>               | <b>41.5</b>                  |
| Other                                                               | 1.9                       | 4.6                          |
| <b>Total change in electric revenues</b>                            | <b>\$ 33.6</b>            | <b>\$ 46.1</b>               |

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| Quarter Ended<br>June 30,<br>2006 vs. 2005 | Six Months Ended<br>June 30,<br>2006 vs. 2005 |
|--------------------------------------------|-----------------------------------------------|
|--------------------------------------------|-----------------------------------------------|

Distribution Volumes

Distribution volumes are the amount of electricity that BGE delivers to customers in its service territory.

The percentage changes in our distribution volumes, by type of customer, in 2006 compared to 2005 were:

|             | Quarter<br>Ended<br>June 30,<br>2006 vs. 2005 | Six Months Ended<br>June 30,<br>2006 vs. 2005 |
|-------------|-----------------------------------------------|-----------------------------------------------|
| Residential | (1.5)%                                        | (4.7)%                                        |
| Commercial  | (0.2)                                         | (1.2)                                         |
| Industrial  | (3.8)                                         | (3.1)                                         |

During the quarter and six months ended June 30, 2006 compared to the same periods of 2005, we distributed less electricity to residential and commercial customers mostly due to milder weather and decreased usage per customer, partially offset by an increased number of customers. We distributed less electricity to industrial customers mostly due to decreased usage per customer.

Standard Offer Service

BGE provides standard offer service for customers that do not select an alternative generation supplier as discussed in *Item 1. Business Electric Regulatory Matters and Competition* section of our 2005 Annual Report on Form 10-K. We discuss the legislation enacted by the Maryland General Assembly related to the residential electric rate stabilization plan in the *Regulation by the Maryland PSC* section beginning on page 24.

Standard offer service revenues increased during the quarter and six months ended June 30, 2006 compared to the same periods of 2005 mostly due to an increase in the standard offer service rates partially offset by lower standard offer service volumes.

**Electricity Purchased for Resale Expenses**

Electricity purchased for resale expenses include the cost of electricity purchased for resale to our standard offer service customers. These costs do not include the cost of electricity purchased by delivery service only customers.

Electricity purchased for resale expenses increased \$35.4 million in the quarter and \$56.2 million in the six month periods ended June 30, 2006 compared to the same periods of 2005 mostly due to increased costs to serve standard offer service customers partially offset by decreased standard offer service volumes.

**Electric Operations and Maintenance Expenses**

Regulated electric operations and maintenance expenses increased \$5.3 million in the quarter ended June 30, 2006 compared to the same period of 2005 mostly due to higher labor and benefit costs and the impact of inflation on other costs. Regulated electric operations and maintenance expenses increased \$13.8 million in the six months ended June 30, 2006 compared to the same period of 2005 mostly due to higher labor and benefit costs and the impact of inflation on other costs and \$6.1 million of incremental distribution service restoration expenses associated with 2006 storms.

**Merger-Related Costs**

We discuss our pending merger with FPL Group and related costs in more detail in the *Notes to the Consolidated Financial Statements* on page 11.

**Regulated Gas Business**

Our regulated gas business is discussed in detail in *Item 1. Business Gas Business* section of our 2005 Annual Report on Form 10-K.

*Results*

|                                                        | Quarter Ended<br>June 30, |                 | Six Months Ended<br>June 30, |                |
|--------------------------------------------------------|---------------------------|-----------------|------------------------------|----------------|
|                                                        | 2006                      | 2005            | 2006                         | 2005           |
| <i>(In millions)</i>                                   |                           |                 |                              |                |
| Gas revenues                                           | \$ 143.6                  | \$ 145.2        | \$ 563.8                     | \$ 511.0       |
| Gas purchased for resale expenses                      | (83.8)                    | (90.1)          | (382.2)                      | (350.4)        |
| Operations and maintenance expenses                    | (35.1)                    | (32.1)          | (70.7)                       | (64.0)         |
| Merger-related costs                                   | (0.6)                     |                 | (0.8)                        |                |
| Depreciation and amortization                          | (11.5)                    | (11.6)          | (23.4)                       | (23.8)         |
| Taxes other than income taxes                          | (8.0)                     | (7.9)           | (17.5)                       | (17.3)         |
| <b>Income from operations</b>                          | <b>\$ 4.6</b>             | <b>\$ 3.5</b>   | <b>\$ 69.2</b>               | <b>\$ 55.5</b> |
| <b>Net (Loss) Income</b>                               | <b>\$ (1.4)</b>           | <b>\$ (1.7)</b> | <b>\$ 33.6</b>               | <b>\$ 25.9</b> |
| <i>Other Items Included in Operations (after-tax):</i> |                           |                 |                              |                |
| Merger-related costs                                   | \$ (0.4)                  |                 | \$ (0.6)                     |                |

*Above amounts include intercompany transactions eliminated in our Consolidated Financial Statements. The Information by Operating Segment section within the Notes to Consolidated Financial Statements on page 15 provides a reconciliation of operating results by segment to our Consolidated Financial Statements.*

Net income from the regulated gas business increased \$7.7 million during the six months ended June 30, 2006 compared to the same period of 2005 mostly due to increased revenues less gas purchased for resale expenses of \$12.7 million after-tax, which was primarily due to the increase

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in gas base rates that was approved by the Maryland PSC in December 2005. This increase was partially offset by higher operations and maintenance expenses of \$4.1 million after-tax.



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**Gas Revenues**

The changes in gas revenues in 2006 compared to 2005 were caused by:

|                                                           | Quarter Ended<br>June 30,<br>2006 vs. 2005 | Six Months Ended<br>June 30,<br>2006 vs. 2005 |
|-----------------------------------------------------------|--------------------------------------------|-----------------------------------------------|
| <i>(In millions)</i>                                      |                                            |                                               |
| Distribution volumes                                      | \$ (4.9)                                   | \$ (23.1)                                     |
| Base rates                                                | 4.6                                        | 18.9                                          |
| Weather normalization                                     | 2.3                                        | 16.5                                          |
| Gas cost adjustments                                      | (11.6)                                     | 19.5                                          |
| <b>Total change in gas revenues from gas system sales</b> | <b>(9.6)</b>                               | <b>31.8</b>                                   |
| Off-system sales                                          | 7.5                                        | 19.5                                          |
| Other                                                     | 0.5                                        | 1.5                                           |
| <b>Total change in gas revenues</b>                       | <b>\$ (1.6)</b>                            | <b>\$ 52.8</b>                                |

**Distribution Volumes**

The percentage changes in our distribution volumes, by type of customer, in 2006 compared to 2005 were:

|             | Quarter Ended<br>June 30,<br>2006 vs. 2005 | Six Months Ended<br>June 30,<br>2006 vs. 2005 |
|-------------|--------------------------------------------|-----------------------------------------------|
| Residential | (22.4)%                                    | (18.8)%                                       |
| Commercial  | (13.5)                                     | (18.7)                                        |
| Industrial  | 5.4                                        | 17.0                                          |

During the quarter and six months ended June 30, 2006 compared to the same periods in 2005, we distributed less gas to residential and commercial customers mostly due to milder weather and decreased usage per customer, partially offset by an increased number of customers. We distributed more gas to industrial customers mostly due to increased usage per customer.

**Base Rates**

The Maryland PSC issued an order in December 2005 granting BGE an annual increase in its gas base rates of \$35.6 million. Certain parties to the proceeding have sought judicial review and Maryland PSC rehearing of the decision. BGE will not seek review of any aspect of the order. We cannot provide assurance that a court will not reverse any aspect of the order or that it will not remand certain issues to the Maryland PSC.

**Weather Normalization**

The Maryland PSC allows us to record a monthly adjustment to our gas distribution revenues to eliminate the effect of abnormal weather patterns on our gas distribution volumes. This means our monthly gas base rate revenues are based on weather that is considered "normal" for the month and, therefore, are not affected by actual weather conditions.

**Gas Cost Adjustments**

We charge our gas customers for the natural gas they purchase from us using gas cost adjustment clauses set by the Maryland PSC as described in Note 1 of our 2005 Annual Report on Form 10-K.

Gas cost adjustment revenues decreased during the quarter ended June 30, 2006 compared to the same period of 2005 mostly due to less gas sold.

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Gas cost adjustment revenues increased during the six months ended June 30, 2006 compared to the same period of 2005 because we sold gas at higher prices, partially offset by less gas sold.

### Off-System Gas Sales

Off-system gas sales are low-margin direct sales of gas to wholesale suppliers of natural gas outside our service territory. Off-system gas sales, which occur after we have satisfied our customers' demand, are not subject to gas cost adjustments. The Maryland PSC approved an arrangement for part of the margin from off-system sales to benefit customers (through reduced costs) and the remainder to be retained by BGE (which benefits shareholders). Changes in off-system sales do not significantly impact earnings.

Revenues from off-system gas sales increased during the quarter and six months ended June 30, 2006 compared to the same periods of 2005 because we sold gas at higher prices partially offset by less gas sold.

### ***Gas Purchased For Resale Expenses***

Gas purchased for resale expenses include the cost of gas purchased for resale to our customers and for off-system sales. These costs do not include the cost of gas purchased by delivery service only customers.

Gas costs decreased \$6.3 million during the quarter ended June 30, 2006 compared to the same period of 2005 because we purchased less gas. Gas costs increased \$31.8 million during the six months ended June 30, 2006 compared to the same period of 2005 because the gas we purchased was at higher prices partially offset by less gas purchased.

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### *Gas Operations and Maintenance Expenses*

Regulated gas operations and maintenance expenses increased \$3.0 million in the quarter and \$6.7 million in the six months ended June 30, 2006 compared to the same periods of 2005 mostly due to higher labor and benefit costs and the impact of inflation on other costs.

### *Merger-Related Costs*

We discuss our pending merger with FPL Group and related costs in more detail in the *Notes to the Consolidated Financial Statements* on page 11.

## Other Nonregulated Businesses

### *Results*

|                                                        | Quarter Ended<br>June 30, |               | Six Months Ended<br>June 30, |               |
|--------------------------------------------------------|---------------------------|---------------|------------------------------|---------------|
|                                                        | 2006                      | 2005          | 2006                         | 2005          |
| <i>(In millions)</i>                                   |                           |               |                              |               |
| Revenues                                               | \$ 62.9                   | \$ 46.6       | \$ 123.8                     | \$ 95.1       |
| Operating expense                                      | (46.9)                    | (32.6)        | (95.3)                       | (72.4)        |
| Merger-related costs                                   | (0.2)                     |               | (0.2)                        |               |
| Depreciation and amortization                          | (9.5)                     | (9.7)         | (17.9)                       | (17.8)        |
| Taxes other than income taxes                          | (0.6)                     | (0.6)         | (1.2)                        | (0.8)         |
| <b>Income from Operations</b>                          | <b>\$ 5.7</b>             | <b>\$ 3.7</b> | <b>\$ 9.2</b>                | <b>\$ 4.1</b> |
| <b>Income from continuing operations (after-tax)</b>   | <b>\$ 2.9</b>             | <b>\$ 1.4</b> | <b>\$ 3.7</b>                | <b>\$ 0.4</b> |
| Income from discontinued operations (after-tax)        |                           | 1.2           | 0.9                          | 2.9           |
| <b>Net Income</b>                                      | <b>\$ 2.9</b>             | <b>\$ 2.6</b> | <b>\$ 4.6</b>                | <b>\$ 3.3</b> |
| <i>Other Items Included in Operations (after-tax):</i> |                           |               |                              |               |
| Merger-related costs                                   | \$ (0.2)                  |               | \$ (0.2)                     |               |

*Above amounts include intercompany transactions eliminated in our Consolidated Financial Statements. The Information by Operating Segment section within the Notes to Consolidated Financial Statements on page 15 provides a reconciliation of operating results by segment to our Consolidated Financial Statements.*

As previously discussed in our 2005 Annual Report on Form 10-K, we decided to sell certain non-core assets and accelerate the exit strategies on other assets that we will continue to hold and own over the next several years. While our intent is to dispose of these assets, market conditions and other events beyond our control may affect the actual sale of these assets. In addition, a future decline in the fair value of these assets could result in additional losses.

## Consolidated Nonoperating Income and Expenses

### *Income Taxes*

During the quarter and six months ended June 30, 2006, our income taxes increased compared to the same periods of 2005 mostly because of a decrease in synthetic fuel tax credits claimed in 2006 primarily due to the anticipated phase-out of synthetic fuel tax credits. During the quarter ended June 30, 2006, synthetic fuel tax credits were reduced by \$33 million and during the six months ended June 30, 2006, credits were reduced by \$49 million due to their expected phase-out. We discuss the phase-out of synthetic fuel tax credits in more detail in the *Events of 2006* section

beginning on page 27.

During the quarter and six months ended June 30, 2006, BGE's income taxes decreased compared to the same periods of 2005 mostly because of lower pre-tax income.

## Financial Condition

### Cash Flows

The following table summarizes our cash flows for 2006 and 2005, excluding the impact of changes in intercompany balances.

|                                                                                       | 2006 Segment Cash Flows           |                 |                | Consolidated Cash Flows      |                |
|---------------------------------------------------------------------------------------|-----------------------------------|-----------------|----------------|------------------------------|----------------|
|                                                                                       | Six Months Ended<br>June 30, 2006 |                 |                | Six Months Ended<br>June 30, |                |
|                                                                                       | Merchant                          | Regulated       | Other          | 2006                         | 2005           |
| <i>(In millions)</i>                                                                  |                                   |                 |                |                              |                |
| <b>Operating Activities</b>                                                           |                                   |                 |                |                              |                |
| Net income                                                                            | \$ 115.3                          | \$ 87.1         | \$ 4.6         | \$ 207.0                     | \$ 242.4       |
| Non-cash adjustments to net income                                                    | 149.9                             | 122.5           | 16.4           | 288.8                        | 370.7          |
| Changes in working capital                                                            | (1,125.6)                         | 203.0           | 10.7           | (911.9)                      | (114.1)        |
| Pension and postemployment benefits*                                                  |                                   |                 |                | (3.4)                        | (21.5)         |
| Other                                                                                 | (10.2)                            | (0.1)           | 10.5           | 0.2                          | 1.3            |
| <b>Net cash (used in) provided by operating activities</b>                            | <b>(870.6)</b>                    | <b>412.5</b>    | <b>42.2</b>    | <b>(419.3)</b>               | <b>478.8</b>   |
| <b>Investing activities</b>                                                           |                                   |                 |                |                              |                |
| Investments in property, plant and equipment                                          | (237.3)                           | (147.4)         | (29.7)         | (414.4)                      | (303.7)        |
| Acquisitions, net of cash acquired                                                    | (126.2)                           |                 |                | (126.2)                      | (237.9)        |
| Investments in nuclear decommissioning trust fund securities                          | (180.8)                           |                 |                | (180.8)                      | (186.4)        |
| Proceeds from nuclear decommissioning trust fund securities                           | 172.0                             |                 |                | 172.0                        | 177.6          |
| Sale of investments and other assets                                                  | 23.1                              | 0.5             | 19.5           | 43.1                         | 1.1            |
| Contracts acquired and portfolio acquisitions                                         | (2.3)                             |                 |                | (2.3)                        |                |
| Proceeds from sale of discontinued operations                                         |                                   |                 |                |                              | 217.6          |
| Issuances of loans receivable                                                         |                                   |                 |                |                              | (82.8)         |
| Other investments                                                                     | 2.6                               | 10.3            | (4.6)          | 8.3                          | (26.0)         |
| <b>Net cash used in investing activities</b>                                          | <b>(348.9)</b>                    | <b>(136.6)</b>  | <b>(14.8)</b>  | <b>(500.3)</b>               | <b>(440.5)</b> |
| <b>Cash flows from operating activities less cash flows from investing activities</b> | <b>\$ (1,219.5)</b>               | <b>\$ 275.9</b> | <b>\$ 27.4</b> | <b>(919.6)</b>               | <b>38.3</b>    |
| <b>Financing Activities*</b>                                                          |                                   |                 |                |                              |                |
| Net issuance (repayment) of debt                                                      |                                   |                 |                | 153.3                        | (326.3)        |
| Proceeds from issuance of common stock                                                |                                   |                 |                | 40.8                         | 45.2           |
| Common stock dividends paid                                                           |                                   |                 |                | (127.7)                      | (109.6)        |
| Proceeds from acquired contracts                                                      |                                   |                 |                | 221.3                        | 381.5          |
| Other                                                                                 |                                   |                 |                | 47.0                         | (10.8)         |
| <b>Net cash provided by (used in) financing activities</b>                            |                                   |                 |                | <b>334.7</b>                 | <b>(20.0)</b>  |
| <b>Net (Decrease) Increase in Cash and Cash Equivalents</b>                           |                                   |                 |                | <b>\$ (584.9)</b>            | <b>\$ 18.3</b> |

\*Items are not allocated to the business segments because they are managed for the company as a whole.

### Cash Flows from Operating Activities

Cash used in operating activities was \$419.3 million in 2006 compared to cash provided by operating activities of \$478.8 million in 2005. This \$898.1 million decrease was primarily due to unfavorable changes in working capital and a decrease in non-cash adjustments to net income in the first half of 2006.

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Changes in working capital had a negative impact of \$911.9 million on cash flow from operations in 2006 compared to \$114.1 million in 2005. The net decrease of \$797.8 million was primarily due to the commodity price environment and increased risk management and trading activities that resulted in the following negative working capital changes:

a net increase of approximately \$570 million in cash collateral requirements, including requirements for exchange-settled transactions. This increase in cash collateral requirements was accompanied by a decrease in our letters of credit requirements, and

an increase in our net mark-to-market energy asset of approximately \$186 million. We discuss the changes in our net mark-to-market energy asset in more detail in the *Mark-to-Market Energy Assets and Liabilities* section on page 36.

Non-cash adjustments to net income decreased by \$81.9 million in 2006 compared to 2005 primarily due to the following:

a decrease in deferred income taxes of \$35.4 million,

lower depreciation, depletion, amortization, and accretion of \$32.9 million, and

the reclassification of \$21.3 million of higher proceeds from derivative power sales contracts as financing activities under SFAS No. 149, *Amendment of FASB Statement No. 133 on Derivative and Hedging Activities*.

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### *Cash Flows from Investing Activities*

Cash used in investing activities was \$500.3 million in 2006 compared to \$440.5 million in 2005. The \$59.8 million increase in cash used in 2006 compared to 2005 was primarily due to a \$110.7 million increase in cash paid for investments in property, plant and equipment and the absence in 2006 of \$217.6 million of proceeds from the sale of discontinued operations. This increase in cash used was mostly offset by the following:

- a \$111.7 million decrease in cash paid for acquisitions,
- the absence in 2006 of \$82.8 million from issuances of loans receivable,
- an increase of \$42.0 million of cash provided by sales of investments, and
- an increase of \$34.3 million of cash provided by other investing activities.

### *Cash Flows from Financing Activities*

Cash provided by financing activities was \$334.7 million in 2006 compared to a use of \$20.0 million in 2005. The increase of \$354.7 million in cash provided in 2006 compared to 2005 was primarily due to a net increase in cash related to changes in short-term borrowings and long-term debt of \$479.6 and the reclassification of higher proceeds from derivative power sales contracts of \$21.3 million. These increases were partially offset by a decrease of \$160.2 million related to proceeds from acquired contracts. We discuss the proceeds from acquired contracts below.

### *Contract and Portfolio Acquisitions*

During 2006 and 2005, our merchant energy business acquired pre-existing energy contracts, which generated significant cash flows at the inception of the agreements. These agreements had contract prices that differed from market prices at closing, which resulted in cash payments from the counterparty at the acquisition of the contract.

We received \$219.0 million during the six months ended June 30, 2006 and \$381.5 million during the same period of 2005 for these contract acquisitions. We reflect the underlying contracts on a gross basis as assets or liabilities in our Consolidated Balance Sheets depending on whether they were at above- or below-market prices at closing; therefore, we have also reflected them on a gross basis in cash flows from investing and financing activities in our Consolidated Statements of Cash Flows as follows:

#### *Six Months Ended June 30,*

|                                                                        | 2006                 | 2005     |
|------------------------------------------------------------------------|----------------------|----------|
|                                                                        | <i>(In millions)</i> |          |
| Financing activities proceeds from contract and portfolio acquisitions | \$ 221.3             | \$ 381.5 |
| Investing activities contract and portfolio acquisitions               |                      | (2.3)    |
| Cash flows from contract and portfolio acquisitions                    | \$ 219.0             | \$ 381.5 |

We record the proceeds we receive to acquire energy purchase and sale agreements as a financing cash inflow because it constitutes a prepayment for a portion of the market price of energy, which we will buy or sell over the term of the agreements and does not represent a cash inflow from current period operating activities. For those acquired contracts that are derivatives, we record the ongoing cash flows related to the contract with the counterparties as financing cash inflows in accordance with SFAS No. 149.

### **Security Ratings**

Independent credit-rating agencies rate Constellation Energy's and BGE's fixed-income securities. The ratings indicate the agencies' assessment of each company's ability to pay interest, distributions, dividends, and principal on these securities. These ratings affect how much it will cost each company to sell these securities; the better the rating, the lower the cost of the securities to each company when they sell them.

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The factors that credit rating agencies consider in establishing Constellation Energy's and BGE's credit ratings include, but are not limited to, cash flows, liquidity, business risk profile, regulatory and legislative climate, and the amount of debt as a component of total capitalization.

In April 2006, as a result of regulatory and legislative developments in Maryland, Standard & Poors Rating Group, Moody's Investors Service, and Fitch Ratings reviewed our ratings and took the following actions:

Fitch Ratings downgraded Constellation Energy's Senior Unsecured Debt rating from A- to BBB+, downgraded BGE's Senior Unsecured Debt ratings from A to A-, and reduced certain other credit ratings as noted in the table on the next page.

Fitch Ratings changed Constellation Energy's outlook to "evolving" and BGE's outlook to "negative."

Moody's Investor Service downgraded BGE's Senior Unsecured Debt rating from A2 to A3, reduced certain other credit ratings. In July 2006, Moody's Investor Service made further changes in BGE and CEG's credit ratings and outlook as discussed below.

Moody's Investor Service revised Constellation Energy's rating outlook from "positive" to "developing."

Standard & Poor's Ratings Group placed the ratings on Constellation Energy and BGE on "credit watch developing" from "positive."

In July 2006, Moody's Investors Service completed a review of BGE's rating and took the following actions:

downgraded BGE's senior unsecured debt from A3 to Baa2, and

changed Constellation Energy's outlook to "negative" from "developing."



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These actions were a result of the recent Maryland General Assembly actions and a difficult and uncertain regulatory environment. We discuss the recent Maryland General Assembly actions in more detail in the *Regulation by the Maryland PSC* section beginning on page 24. At the date of this report, our credit ratings were as follows:

|                             | <b>Standard<br/>&amp; Poors<br/>Rating<br/>Group</b> | <b>Moody's<br/>Investors<br/>Service</b> | <b>Fitch-<br/>Ratings</b> |
|-----------------------------|------------------------------------------------------|------------------------------------------|---------------------------|
| <b>Constellation Energy</b> |                                                      |                                          |                           |
| Commercial Paper            | A-2                                                  | P-2                                      | F-2                       |
| Senior Unsecured Debt       | BBB                                                  | Baa1                                     | BBB+*                     |
| <b>BGE</b>                  |                                                      |                                          |                           |
| Commercial Paper            | A-2                                                  | P-2*                                     | F-2*                      |
| Mortgage Bonds              | A                                                    | A2*                                      | A*                        |
| Senior Unsecured Debt       | BBB+                                                 | Baa2*                                    | A-*                       |
| Trust Preferred Securities  | BBB-                                                 | Baa1*                                    | BBB+*                     |
| Preference Stock            | BBB-                                                 | Baa2*                                    | BBB+*                     |

\* In 2006, these credit ratings were reduced to this current rating.

### Available Sources of Funding

We continuously monitor our liquidity requirements and believe that our facilities and access to the capital markets provide sufficient liquidity to meet our business requirements. We discuss our available sources of funding in more detail below.

#### *Constellation Energy*

At June 30, 2006, we had \$155.0 million of commercial paper outstanding, and at August 4, 2006 we had no commercial paper outstanding.

Constellation Energy has committed bank lines of credit under four credit facilities of \$3.6 billion at June 30, 2006. We discuss these credit facilities in more detail in *Note 8* of our 2005 Annual Report on Form 10-K. These facilities can issue letters of credit up to \$3.6 billion. Letters of credit issued under all of our facilities totaled \$1.8 billion at June 30, 2006.

We are currently assessing the potential sale of several gas-fired generating facilities. If sold, proceeds from the sale would be used for general corporate purposes, including repayment of debt. We discuss this potential sale in more detail in the *Events of 2006* section on page 27.

#### *BGE*

BGE currently maintains \$175.0 million in annual committed credit facilities expiring August 2006 through June 2007. BGE can borrow directly from the banks or use the facilities to allow commercial paper to be issued. As of June 30, 2006, BGE had no outstanding commercial paper, which results in \$175.0 million in unused credit facilities.

Pursuant to the energy legislation recently adopted by the Maryland legislature, BGE is permitted to recover deferred costs associated with the residential electric rate deferral by issuing rate stabilization bonds after January 1, 2007 that securitize the deferred costs. We currently intend to issue such bonds.

### Capital Resources

Our estimated annual amounts for the years 2006 and 2007 are shown in the table below.

We will continue to have cash requirements for:

working capital needs,

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payments of interest, distributions, and dividends,  
 capital expenditures, and  
 the retirement of debt and redemption of preference stock.

Capital requirements for 2006 and 2007 include estimates of spending for existing and anticipated projects. We continuously review and modify those estimates. Actual requirements may vary from the estimates included in the table below because of a number of factors including:

regulation, legislation, and competition,  
 BGE load requirements,  
 environmental protection standards,  
 the type and number of projects selected for construction or acquisition,  
 the effect of market conditions on those projects,  
 the cost and availability of capital,  
 the availability of cash from operations, and  
 business decisions to invest in capital projects.

Our estimates are also subject to additional factors. Please see the *Forward Looking Statements* section on page 53 and *Item 1A. Risk Factors* section on page 52. We discuss the potential impact of environmental legislation and regulation in more detail in *Item 1. Business Environmental Matters* section of our 2005 Annual Report on Form 10-K. We discuss legislation recently enacted by the State of Maryland in the *Environmental Matters* section beginning on page 26.

### Calendar Year Estimates

|                                            | 2006            | 2007            |
|--------------------------------------------|-----------------|-----------------|
| <i>(In millions)</i>                       |                 |                 |
| <b>Nonregulated Capital Requirements:</b>  |                 |                 |
| Merchant energy                            |                 |                 |
| Generation plants                          | \$ 215          | \$ 170          |
| Nuclear fuel                               | 140             | 140             |
| Environmental controls                     | 40              | 215             |
| Portfolio acquisitions/investments         | 325             | 195             |
| Technology/other                           | 240             | 155             |
| Total merchant energy capital requirements | 960             | 875             |
| Other nonregulated capital requirements    | 25              | 10              |
| Total nonregulated capital requirements    | 985             | 885             |
| <b>Regulated Capital Requirements:</b>     |                 |                 |
| Regulated electric                         | 295             | 335             |
| Regulated gas                              | 65              | 110             |
| Total regulated capital requirements       | 360             | 445             |
| <b>Total capital requirements</b>          | <b>\$ 1,345</b> | <b>\$ 1,330</b> |

Calendar Year Estimates

2006

2007

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**Capital Requirements*****Merchant Energy Business***

Our merchant energy business' capital requirements consist of its continuing requirements, including expenditures for:

- improvements to generating plants,
- nuclear fuel costs,
- costs of complying with the Environmental Protection Agency (EPA), Maryland, and Pennsylvania environmental regulations,
- portfolio acquisitions, upstream gas investments, and other investments, and
- enhancements to our information technology infrastructure.

***Regulated Electric and Gas***

Regulated electric and gas construction expenditures primarily include new business construction needs and improvements to existing facilities, including projects to improve reliability.

**Funding for Capital Requirements**

We discuss our funding for capital requirements in our 2005 Annual Report on Form 10-K.

**Contractual Payment Obligations and Committed Amounts**

We enter into various agreements that result in contractual payment obligations in connection with our business activities. These obligations primarily relate to our financing arrangements (such as long-term debt, preference stock, and operating leases), purchases of capacity and energy to support the growth in our merchant energy business activities, and purchases of fuel and transportation to satisfy the fuel requirements of our power generating facilities.

Our total contractual payment obligations as of June 30, 2006, increased approximately \$560 million during the first six months of 2006 primarily due to an increase in fuel and transportation obligations, operating leases, and purchased capacity and energy partially offset by a decrease in long-term debt. Our fuel and transportation obligations and operating leases increased mostly due to new coal and tolling contracts related to our merchant energy business. We detail our contractual payment obligations in the following table:

|                                        | Payments     |               |               |                 | Total          |
|----------------------------------------|--------------|---------------|---------------|-----------------|----------------|
|                                        | 2006         | 2007-<br>2008 | 2009-<br>2010 | There-<br>after |                |
| <i>(In millions)</i>                   |              |               |               |                 |                |
| <b>Contractual Payment Obligations</b> |              |               |               |                 |                |
| Long-term debt: <sup>1</sup>           |              |               |               |                 |                |
| Nonregulated                           |              |               |               |                 |                |
| Principal                              | \$ 10.8      | \$ 627.5      | \$ 500.7      | \$ 2,272.6      | \$ 3,411.6     |
| Interest                               | 108.2        | 364.0         | 313.6         | 1,455.5         | 2,241.3        |
| <b>Total</b>                           | <b>119.0</b> | <b>991.5</b>  | <b>814.3</b>  | <b>3,728.1</b>  | <b>5,652.9</b> |
| BGE                                    |              |               |               |                 |                |
| Principal                              | 419.6        | 416.8         | 11.5          | 589.1           | 1,437.0        |
| Interest                               | 40.5         | 97.5          | 71.2          | 775.1           | 984.3          |

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|                                                         | Payments   |            |            |            |             |
|---------------------------------------------------------|------------|------------|------------|------------|-------------|
| Total                                                   | 460.1      | 514.3      | 82.7       | 1,364.2    | 2,421.3     |
| BGE preference stock                                    |            |            |            | 190.0      | 190.0       |
| Operating leases <sup>2</sup>                           | 101.0      | 340.0      | 171.4      | 551.4      | 1,163.8     |
| Purchase obligations: <sup>3</sup>                      |            |            |            |            |             |
| Purchased capacity and energy <sup>4</sup>              | 328.5      | 941.0      | 450.1      | 558.5      | 2,278.1     |
| Fuel and transportation                                 | 1,380.1    | 2,268.5    | 578.3      | 614.1      | 4,841.0     |
| Other                                                   | 89.3       | 146.9      | 60.0       | 127.5      | 423.7       |
| Other noncurrent liabilities:                           |            |            |            |            |             |
| Postretirement and postemployment benefits <sup>5</sup> | 17.7       | 76.3       | 83.9       | 211.1      | 389.0       |
| Other                                                   |            |            |            |            |             |
| Total contractual payment obligations                   | \$ 2,495.7 | \$ 5,278.5 | \$ 2,240.7 | \$ 7,344.9 | \$ 17,359.8 |

*1 Amounts in long-term debt reflect the original maturity date. Investors may require us to repay \$282.3 million early through put options and remarketing features. Interest on variable rate debt is included based on the June 30, 2006 forward curve for interest rates.*

*2 Our operating lease commitments include future payment obligations under certain power purchase agreements as discussed further in Note 11 of our 2005 Annual Report on Form 10-K.*

*3 Contracts to purchase goods or services that specify all significant terms. Amounts related to certain purchase obligations are based on future purchase expectations which may differ from actual purchases.*

*4 Our contractual obligations for purchased capacity and energy are shown on a gross basis for certain transactions, including both the fixed payment portions of tolling contracts and estimated variable payments under unit-contingent power purchase agreements.*

*5 Amounts related to postretirement and postemployment benefits are for unfunded plans and reflect present value amounts consistent with the determination of the related liabilities recorded on the Consolidated Balance Sheets.*

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The table below presents our contingent obligations. Our contingent obligations increased approximately \$80 million during the first half of 2006, primarily due to guarantees by the parent company for subsidiary obligations to third parties in support of the growth of our merchant energy business, partially offset by a decrease in outstanding letters of credit.

These amounts do not represent incremental consolidated Constellation Energy obligations; rather, they primarily represent parental guarantees of certain subsidiary obligations to third parties. Our calculation of the fair value of subsidiary obligations covered by the \$9,009.0 million of the competitive supply guarantees was \$3,118.7 million at June 30, 2006. Accordingly, if the parent company was required to fund subsidiary obligations, the total amount based on June 30, 2006 market prices would be \$3,118.7 million.

|                                     | Expiration        |                   |                 |                   | Total              |
|-------------------------------------|-------------------|-------------------|-----------------|-------------------|--------------------|
|                                     | 2006              | 2007-<br>2008     | 2009-<br>2010   | There-<br>after   |                    |
| <i>(In millions)</i>                |                   |                   |                 |                   |                    |
| <b>Contingent Obligations</b>       |                   |                   |                 |                   |                    |
| Letters of credit                   | \$ 1,383.0        | \$ 418.7          | \$              | \$                | 1,801.7            |
| Guarantees competitive supply       | 4,100.3           | 2,584.5           | 243.9           | 2,080.3           | 9,009.0            |
| Other guarantees, net <sup>2</sup>  | 0.5               | 15.2              | 1.6             | 1,262.9           | 1,280.2            |
| <b>Total contingent obligations</b> | <b>\$ 5,483.8</b> | <b>\$ 3,018.4</b> | <b>\$ 245.5</b> | <b>\$ 3,343.2</b> | <b>\$ 12,090.9</b> |

*1 While the face amount of these guarantees is \$9,009.0 million, we do not expect to fund the full amount. In the event the parent was required to fulfill subsidiary obligations, our calculation of the fair value of obligations covered by these guarantees was \$3,118.7 million at June 30, 2006.*

*2 Other guarantees in the above table are shown net of liabilities of \$25.0 million recorded at June 30, 2006 in our Consolidated Balance Sheets.*

### Liquidity Provisions

In many cases, customers of our wholesale marketing and risk management operation rely on the creditworthiness of Constellation Energy. A decline below investment grade by Constellation Energy would negatively impact the business prospects of that operation.

We regularly review our liquidity needs to ensure that we have adequate facilities available to meet collateral requirements. This includes having liquidity available to meet margin requirements for our competitive supply operations.

We have certain agreements that contain provisions that would require additional collateral upon significant credit rating decreases in senior unsecured debt of Constellation Energy. Decreases in Constellation Energy's credit ratings would not trigger an early payment on any of our credit facilities.

Under counterparty contracts related to our wholesale marketing and risk management operation, we are obligated to post collateral if Constellation Energy's senior unsecured credit ratings declined below established contractual levels. Based on contractual provisions at June 30, 2006, we estimate that if Constellation Energy's senior unsecured debt were downgraded we would have the following additional collateral obligations:

| Credit Ratings Downgraded to | Incremental<br>Obligations | Cumulative<br>Incremental<br>Obligations |
|------------------------------|----------------------------|------------------------------------------|
| <i>(In millions)</i>         |                            |                                          |
| BBB-/Baa3                    | \$ 121                     | \$ 121                                   |
| Below investment grade       | 1,015                      | 1,136                                    |

Based on market conditions and contractual obligations at the time of a downgrade, we could be required to post collateral in an amount that could exceed the amounts specified above, which could be material. We discuss our credit ratings in the *Security Ratings* section beginning on page 45 and our credit facilities in the *Available Sources of Funding* section beginning on page 46.

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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 June 30, 2006, the debt to capitalization ratio as defined in the credit agreements was 50%. The failure by Constellation Energy to comply with these provisions could result in the acceleration of the maturity of the debt outstanding under these facilities, which is primarily letters of credit issued in support of our competitive supply operations. We detail our letters of credit in the *Contractual Payment Obligations and Committed Amounts* section above.

Certain credit facilities of BGE contain provisions requiring BGE to maintain a ratio of debt to capitalization equal to or less than 65%. At June 30, 2006, the debt to capitalization ratio for BGE as defined in these credit agreements was 44%. At June 30, 2006, no amount is outstanding under these facilities.

### **Off-Balance Sheet Arrangements**

We discuss our off-balance sheet arrangements in our 2005 Annual Report on Form 10-K.

### **Market Risk**

#### **Commodity Risk**

We measure the sensitivity of our wholesale marketing and risk management mark-to-market energy contracts to potential changes in market prices using value at risk. Value at risk represents the potential pre-tax loss in the fair value of our wholesale marketing and risk management mark-to-market energy assets and liabilities over one and ten-day holding periods. We discuss value at risk in more detail in the *Market Risk* section of our 2005 Annual Report on Form 10-K.

The table on the next page is the value at risk associated with our wholesale marketing and risk management operation's mark-to-market energy assets and liabilities, including both trading and non-trading activities. Generally, over the last several quarters, our value at risk has increased. This is the result of the combination of market conditions, increased trading activity including the growth of our gas business, and a

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higher number of economic hedges of accrual positions. These economic hedges receive mark-to-market accounting treatment as they are derivative contracts that are not designated for either cash-flow hedge or accrual accounting.

During the second quarter of 2006, there was a slight decrease in our value-at-risk primarily due to changes in commodity prices during the quarter. We discuss our mark-to-market results in more detail in the *Competitive Supply* section beginning on page 34.

|                                                     | <i>Quarter Ended</i> |                       |                      |                   |                  |
|-----------------------------------------------------|----------------------|-----------------------|----------------------|-------------------|------------------|
|                                                     | June 30,<br>2005     | September 30,<br>2005 | December 31,<br>2005 | March 31,<br>2006 | June 30,<br>2006 |
| <i>(In millions)</i>                                |                      |                       |                      |                   |                  |
| <b>99% Confidence Level, One-Day Holding Period</b> |                      |                       |                      |                   |                  |
| Average                                             | \$ 3.7               | \$ 6.8                | \$ 10.6              | \$ 15.4           | \$ 13.0          |
| High                                                | 6.0                  | 12.3                  | 14.5                 | 23.5              | 17.5             |
| <b>95% Confidence Level, One-Day Holding Period</b> |                      |                       |                      |                   |                  |
| Average*                                            | 2.9                  | 5.2                   | 8.0                  | 11.7              | 9.9              |
| High                                                | 4.6                  | 9.4                   | 11.0                 | 17.9              | 13.3             |
| <b>95% Confidence Level, Ten-Day Holding Period</b> |                      |                       |                      |                   |                  |
| Average                                             | 9.0                  | 16.4                  | 25.4                 | 37.1              | 31.2             |
| High                                                | 14.5                 | 29.6                  | 34.9                 | 56.5              | 42.0             |

\* For 2005, average value at risk was \$4.7 million.

The following table details our value at risk for the trading portion of our wholesale marketing and risk management mark-to-market energy assets and liabilities over a one-day holding period at a 99% confidence level for the following quarters:

|                      | <i>Quarter Ended</i> |                       |                      |                   |                  |
|----------------------|----------------------|-----------------------|----------------------|-------------------|------------------|
|                      | June 30,<br>2005     | September 30,<br>2005 | December 31,<br>2005 | March 31,<br>2006 | June 30,<br>2006 |
| <i>(In millions)</i> |                      |                       |                      |                   |                  |
| Average              | \$ 3.6               | \$ 6.5                | \$ 9.3               | \$ 12.0           | \$ 10.8          |
| High                 | 6.3                  | 11.4                  | 13.3                 | 17.6              | 15.6             |

Due to the inherent limitations of statistical measures such as value at risk and the seasonality of changes in market prices, the value at risk calculation may not reflect the full extent of our commodity price risk exposure. Additionally, actual changes in the value of options may differ from the value at risk calculated using a linear approximation inherent in our calculation method.

As a result, actual changes in the fair value of mark-to-market energy assets and liabilities could differ from the calculated value at risk, and such changes could have a material impact on our financial results.

### Wholesale Credit Risk

We actively monitor the credit portfolio of our wholesale marketing and risk management operation to attempt to reduce the impact of counterparty default. As of June 30, 2006 and December 31, 2005, the credit portfolio of our wholesale marketing and risk management operation had the following public credit ratings:

|                               | June 30,<br>2006 | December 31,<br>2005 |
|-------------------------------|------------------|----------------------|
| Rating                        |                  |                      |
| Investment Grade <sup>1</sup> | 59%              | 53%                  |
| Non-Investment Grade          | 6                | 7                    |
| Not Rated                     | 35               | 40                   |

<sup>1</sup> Includes counterparties with an investment grade rating by at least one of the major credit rating agencies. If split rating exists, the lower rating is used.



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We utilize internal credit ratings to evaluate the creditworthiness of our wholesale customers, including those companies that do not have public credit ratings. The "Not Rated" category in the table above includes counterparties that do not have public credit ratings and include governmental entities, municipalities, cooperatives, power pools, and other load-serving entities, and marketers for which we determine creditworthiness based on internal credit ratings.

The following table provides the breakdown of the credit quality of our wholesale credit portfolio based on our internal credit ratings.

|                             | <b>June 30,<br/>2006</b> | <b>December 31,<br/>2005</b> |
|-----------------------------|--------------------------|------------------------------|
| Investment Grade Equivalent | <b>80%</b>               | 80%                          |
| Non-Investment Grade        | <b>20</b>                | 20                           |

A portion of our wholesale credit risk is related to transactions that are recorded in our Consolidated Balance Sheets. These transactions primarily consist of open positions from our wholesale marketing and risk management operation that are accounted for using mark-to-market accounting, as well as amounts owed by wholesale counterparties for transactions that settled but have not yet been paid. The following table highlights the credit quality and exposures related to these activities at June 30, 2006:

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| Rating                                | Total Exposure<br>Before Credit<br>Collateral | Credit<br>Collateral | Net<br>Exposure | Number of<br>Counterparties Greater<br>than 10% of Net<br>Exposure | Net Exposure of<br>Counterparties Greater<br>than 10% of Net<br>Exposure |
|---------------------------------------|-----------------------------------------------|----------------------|-----------------|--------------------------------------------------------------------|--------------------------------------------------------------------------|
| <i>(Dollars in millions)</i>          |                                               |                      |                 |                                                                    |                                                                          |
| Investment grade                      | \$ 1,155                                      | \$ 87                | \$ 1,068        |                                                                    | \$                                                                       |
| Split rating                          | 3                                             |                      | 3               |                                                                    |                                                                          |
| Non-investment grade                  | 159                                           | 39                   | 120             |                                                                    |                                                                          |
| Internally rated investment grade     | 485                                           | 46                   | 439             |                                                                    |                                                                          |
| Internally rated non-investment grade | 180                                           | 23                   | 157             |                                                                    |                                                                          |
| Total                                 | \$ 1,982                                      | \$ 195               | \$ 1,787        |                                                                    | \$                                                                       |

Due to the possibility of extreme volatility in the prices of energy commodities and derivatives, the market value of contractual positions with individual counterparties could exceed established credit limits or collateral provided by those counterparties. If such a counterparty were then to fail to perform its obligations under its contract (for example, fail to deliver the electricity our wholesale marketing and risk management operation had contracted for), we could incur a loss that could have a material impact on our financial results.

Additionally, if a counterparty were to default and we were to liquidate all contracts with that entity, our credit loss would include the loss in value of mark-to-market contracts, the amount owed for settled transactions, and additional payments, if any, we would have to make to settle unrealized losses on accrual contracts.

**Interest Rate Risk, Retail Credit Risk, Foreign Currency Risk, and Equity Price Risk**

We discuss our exposure to interest rate risk, retail credit risk, foreign currency risk, and equity price risk in the *Market Risk* section of our 2005 Annual Report on Form 10-K.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

We discuss the following information related to our market risk:

SFAS No. 133 hedging activities section in the *Notes to Consolidated Financial Statements* beginning on page 21, activities of our wholesale marketing and risk management operation in the *Merchant Energy Business* section of *Management's Discussion and Analysis* beginning on page 30,

evaluation of commodity and credit risk in the *Market Risk* section of *Management's Discussion and Analysis* beginning on page 48, and

changes to our business environment in the *Business Environment* section of *Management's Discussion and Analysis* beginning on page 24.

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### Item 4. Controls and Procedures

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Constellation Energy or BGE have been detected. These inherent limitations include errors by personnel in executing controls due to faulty judgment or simple mistakes, which could occur in situations such as when personnel performing controls are new to a job function or when inadequate resources are applied to a process. Additionally, controls can be circumvented by the individual acts of some persons or by collusion of two or more people.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no absolute assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions or personnel, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

#### *Evaluation of Disclosure Controls and Procedures*

The principal executive officers and principal financial officer of both Constellation Energy and BGE have evaluated the effectiveness of the disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the fiscal quarter covered by this quarterly report (the "Evaluation Date"). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, Constellation Energy's and BGE's disclosure controls and procedures are effective.

#### *Changes in Internal Control over Financial Reporting*

During the quarter ended June 30, 2006, there has been no change in either Constellation Energy's or BGE's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, either Constellation Energy's or BGE's internal control over financial reporting.



## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

We discuss our Legal Proceedings in the *Notes to Consolidated Financial Statements* on page 20.

### Item 1A. Risk Factors

*The risk factors included in our 2005 Annual Report on Form 10-K have not materially changed except as set forth below. You should consider carefully the following risks, along with the risks described under Item 1A. Risk Factors in our 2005 Annual Report on Form 10-K. The risks and uncertainties described herein and in our 2005 Annual Report on Form 10-K are not the only ones that may affect us. Additional risks and uncertainties also may adversely affect our business and operations including those discussed in Item 2. Management's Discussion and Analysis. If any of the events described actually occur, our business and financial results could be materially adversely affected.*

#### **Energy legislation recently adopted in Maryland may be implemented in a manner that could materially adversely affect our business prospects and financial results.**

The recent adoption in Maryland of energy legislation was a response to anticipated increases in residential electric rates. The legislation, among other things, introduces a temporary cap on rate increases and requires a reconstituted Maryland PSC to evaluate the status of Maryland's deregulated electricity market, including the implications of requiring or allowing utilities to construct or acquire generating facilities and to re-evaluate the allowance for stranded costs under the Maryland Electric Customer Choice and Competition Act of 1999. Regulations will be adopted by the Maryland PSC and other governmental entities to implement this legislation.

If the legislation is implemented in a manner adverse to us, our financial results could be negatively impacted.

#### **We may be unable to obtain the consents or approvals required to complete our merger with FPL Group, Inc. (FPL Group) or, in order to do so, the combined company may be required to comply with material restrictions or conditions that could cause the companies to abandon the merger.**

On December 19, 2005, we announced the execution of a merger agreement with FPL Group. Completion of the merger is conditioned upon the receipt of consents, orders, approvals or clearances from various state and federal regulatory agencies. We have already received certain of these approvals. The remaining required approvals may not be obtained, or such approvals could be conditioned upon the agreement to restrict the operations of the combined businesses in accordance with specified business conduct rules, to divest generation facilities or to take other actions. In addition, as part of the regulatory approval process, governmental entities may impose significant additional costs on the business of the combined company. In this regard, recently adopted energy legislation in Maryland has created additional uncertainty about the Maryland PSC approval process and may result in substantial delay in the timing of required Maryland PSC approval of the merger or the imposition of terms and conditions that are unfavorable to the combined company, such as a requirement to share expected merger savings with utility customers. A substantial delay in obtaining satisfactory approvals or the imposition of unfavorable terms or conditions in connection with such approvals could have a material adverse effect on our financial results. In addition, delays or unfavorable terms could lead Constellation or FPL Group to become involved in litigation with one or more governmental entities or may cause Constellation or FPL Group to abandon the merger.

If we are unable to complete the merger, we still will incur and will remain liable for significant transaction costs, including legal, accounting, financial advisory, employee retention, filing, printing and other costs relating to the merger whether or not it is completed, which we estimate to be up to approximately \$55 million. Also, depending upon the reasons for not completing the merger, including whether we have received or entered into a competing takeover proposal, we may be required to pay FPL Group a termination fee of up to \$425 million. The occurrence of either of these events individually or in combination could have a material adverse affect on our financial results.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table presents shares surrendered by employees to satisfy tax withholding obligations on vested restricted stock.

| Period                   | Total Number of Shares Purchased | Average Price Paid for Shares | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans and Programs |
|--------------------------|----------------------------------|-------------------------------|----------------------------------------------------------------------------------|---------------------------------------------------------------------------------|
| April 1 - April 30, 2006 | 1,554                            | \$ 54.86                      |                                                                                  |                                                                                 |
| May 1 - May 31, 2006     | 44,129                           | 54.32                         |                                                                                  |                                                                                 |
| June 1 - June 30, 2006   | 84,825                           | 51.61                         |                                                                                  |                                                                                 |
| Total                    | 130,508                          | \$ 52.56                      |                                                                                  |                                                                                 |

**Item 5. Other Information****Forward Looking Statements**

We make statements in this report that are considered forward looking statements within the meaning of the Securities Exchange Act of 1934. Sometimes these statements will contain words such as "believes," "anticipates," "expects," "intends," "plans," and other similar words. We also disclose non-historical information that represents management's expectations, which are based on numerous assumptions. These statements and projections are not guarantees of our future performance and are subject to risks, uncertainties, and other important factors that could cause our actual performance or achievements to be materially different from those we project. These risks, uncertainties, and factors include, but are not limited to:

the timing and extent of changes in commodity prices and volatilities for energy and energy related products including coal, natural gas, oil, electricity, nuclear fuel, and emission allowances,

the liquidity and competitiveness of wholesale markets for energy commodities,

the effect of weather and general economic and business conditions on energy supply, demand, and prices,

the ability to attract and retain customers in our competitive supply activities and to adequately forecast their energy usage,

the timing and extent of deregulation of, and competition in, the energy markets, and the rules and regulations adopted on a transitional basis in those markets,

uncertainties associated with estimating natural gas reserves, developing properties, and extracting natural gas,

regulatory or legislative developments that affect deregulation, transmission or distribution rates and revenues, demand for energy, or increases in costs, including costs related to nuclear power plants, safety, or environmental compliance,

the inability of Baltimore Gas and Electric Company (BGE) to recover all its costs associated with providing electric residential customer service,

the conditions of the capital markets, interest rates, availability of credit, liquidity, and general economic conditions, as well as Constellation Energy Group's (Constellation Energy) and BGE's ability to maintain their current credit ratings,

the effectiveness of Constellation Energy's and BGE's risk management policies and procedures and the ability and willingness of our counterparties to satisfy their financial and performance commitments,

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operational factors affecting commercial operations of our generating facilities (including nuclear facilities) and BGE's transmission and distribution facilities, including catastrophic weather-related damages, unscheduled outages or repairs, unanticipated changes in fuel costs or availability, unavailability of coal or gas transportation or electric transmission services, workforce issues, terrorism, liabilities associated with catastrophic events, and other events beyond our control,

the actual outcome of uncertainties associated with assumptions and estimates using judgment when applying critical accounting policies and preparing financial statements, including factors that are estimated in determining the fair value of energy contracts, such as the ability to obtain market prices and, in the absence of verifiable market prices, the appropriateness of models and model inputs (including, but not limited to, estimated contractual load obligations, unit

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availability, forward commodity prices, interest rates, correlation and volatility factors),

changes in accounting principles or practices,

losses on the sale or write down of assets due to impairment events or changes in management intent with regard to either holding or selling certain assets,

cost and other effects of legal and administrative proceedings that may not be covered by insurance, including environmental liabilities, and

the likelihood and timing of the completion of the pending merger with FPL Group, Inc. (FPL Group), the terms and conditions of any required regulatory approvals of the pending merger, and potential diversion of management's time and attention from our ongoing business during this time period.

Given these uncertainties, you should not place undue reliance on these forward looking statements. Please see the other sections of this report and our other periodic reports filed with the Securities and Exchange Commission for more information on these factors. These forward looking statements represent our estimates and assumptions only as of the date of this report.

Changes may occur after that date, and neither Constellation Energy nor BGE assume responsibility to update these forward looking statements.

### **2006 Annual Meeting of Shareholders**

Constellation Energy's 2006 annual meeting of shareholders has been delayed by more than 30 days from the date of the 2005 annual meeting as we currently intend to coordinate our annual meeting with approval of proposals related to our merger with FPL Group. Notice of the date of the 2006 annual meeting will be publicly announced by Constellation Energy once it is established. Any shareholder who wants to include a proposal in the proxy statement for the 2006 annual meeting, or to propose a nominee for election as a director, or to present a proposal at the 2006 annual meeting must deliver such proposal, in writing, such that Constellation Energy receives it no later than the 10<sup>th</sup> day following the day on which public announcement of the date of the 2006 annual meeting is made.



**Item 6. Exhibits**

|                    |                                                                                                                                                                                                                                                       |
|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Exhibit 4(a)*      | Indenture dated as of July 24, 2006 between Constellation Energy Group, Inc. and Deutsche Bank Trust Company Americas, as trustee. (Designated as Exhibit 4(a) to the Registration Statement on Form S-3 filed July 24, 2006, File No. 333-135991.)   |
| Exhibit 4(b)*      | Indenture dated as of July 24, 2006 between Baltimore Gas and Electric Company and Deutsche Bank Trust Company Americas, as trustee. (Designated as Exhibit 4(b) to the Registration Statement on Form S-3 filed July 24, 2006, File No. 333-135991.) |
| Exhibit No. 10(a)* | Waiver and Release dated April 28, 2006 by Mayo A. Shattuck III. (Designated as Exhibit 10(ee) to Amendment No. 1 to the Annual Report on Form 10-K for the year ended December 31, 2005, File No. 1-12869.)                                          |
| Exhibit No. 10(b)* | Waiver and Release dated June 23, 2006 by Mayo A. Shattuck III. (Designated as Exhibit 10 to the Current Report on Form 8-K filed June 23, 2006, File No. 1-12869.)                                                                                   |
| Exhibit No. 12(a)  | Constellation Energy Group, Inc. Computation of Ratio of Earnings to Fixed Charges.                                                                                                                                                                   |
| Exhibit No. 12(b)  | Baltimore Gas and Electric Company Computation of Ratio of Earnings to Fixed Charges and Computation of Ratio of Earnings to Combined Fixed Charges and Preferred and Preference Dividend Requirements.                                               |
| Exhibit No. 31(a)  | Certification of Chairman of the Board, President, and Chief Executive Officer of Constellation Energy Group, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                          |
| Exhibit No. 31(b)  | Certification of Executive Vice President, Chief Financial Officer, and Chief Administrative Officer of Constellation Energy Group, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.    |
| Exhibit No. 31(c)  | Certification of President and Chief Executive Officer of Baltimore Gas and Electric Company pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                |
| Exhibit No. 31(d)  | Certification of Senior Vice President and Chief Financial Officer of Baltimore Gas and Electric Company pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                    |
| Exhibit No. 32(a)  | Certification of Chairman of the Board, President, and Chief Executive Officer of Constellation Energy Group, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                          |
| Exhibit No. 32(b)  | Certification of Executive Vice President, Chief Financial Officer, and Chief Administrative Officer of Constellation Energy Group, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.    |
| Exhibit No. 32(c)  | Certification of President and Chief Executive Officer of Baltimore Gas and Electric Company pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                |
| Exhibit No. 32(d)  | Certification of Senior Vice President and Chief Financial Officer of Baltimore Gas and Electric Company pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                    |

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\* Incorporated by reference

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, each registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CONSTELLATION  
ENERGY GROUP, INC.

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**(Registrant)**

BALTIMORE GAS AND  
ELECTRIC COMPANY

---

**(Registrant)**

/s/ E. FOLLIN SMITH

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**E. Follin Smith,**  
*Executive Vice President of  
Constellation Energy Group, Inc.  
and Senior Vice President of  
Baltimore Gas and Electric  
Company, and as Principal  
Financial Officer of each  
Registrant*

Date: August 8, 2006

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SIGNATURE