CONSTELLATION ENERGY GROUP INC
Form 10-Q
May 09, 2006

QuickLinks -- Click here to rapidly navigate through this document

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For The Quarterly Period Ended **March 31, 2006**

Commission File Number	Exact name of registrant as specified in its charter	IRS Employer Identification No.
1-12869	**CONSTELLATION ENERGY GROUP, INC.**	**52-1964611**
1-1910	**BALTIMORE GAS AND ELECTRIC COMPANY**	**52-0280210**

MARYLAND
(State of Incorporation of both registrants)

750 E. PRATT STREET, BALTIMORE, MARYLAND 21202
(Address of principal executive offices) (Zip Code)

410-783-2800

(Registrants' telephone number, including area code)

NOT APPLICABLE

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

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

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 ý Accelerated filer o Non-accelerated filer o

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

Large accelerated filer o Accelerated filer o Non-accelerated filer ý

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

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

Common Stock, without par value 178,948,857 shares outstanding of Constellation Energy Group, Inc. on April 28, 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.

TABLE OF CONTENTS

	Page
Part I Financial Information	
Item 1 Financial Statements	
Constellation Energy Group, Inc. and Subsidiaries	
Consolidated Statements of Income	3
Consolidated Statements of Comprehensive Income	3
Consolidated Balance Sheets	4
Consolidated Statements of Cash Flows	6
Baltimore Gas and Electric Company and Subsidiaries	
Consolidated Statements of Income	7
Consolidated Balance Sheets	8
Consolidated Statements of Cash Flows	10
Notes to Consolidated Financial Statements	11
Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations	
Introduction and Overview	21
Business Environment	21
Events of 2006	24
Results of Operations	25
Financial Condition	37
Capital Resources	39
Item 3 Quantitative and Qualitative Disclosures About Market Risk	43
Item 4 Controls and Procedures	43
Part II Other Information	
Item 1 Legal Proceedings	44
Item 1A Risk Factors	44
Item 2 Unregistered Sales of Equity Securities and Use of Proceeds	45
Item 5 Other Information	45
Item 6 Exhibits	47
Signature	48

PART 1 FINANCIAL INFORMATION

Item 1 Financial Statements

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Constellation Energy Group, Inc. and Subsidiaries

	Three Months Ended March 31, 2006	2005
	(In millions, except per share amounts)	
Revenues		
Nonregulated revenues	**$ 3,975.2**	$ 2,715.9
Regulated electric revenues	**504.0**	491.5
Regulated gas revenues	**418.3**	364.6
Total revenues	**4,897.5**	3,572.0
Expenses		
Fuel and purchased energy expenses	**3,924.2**	2,677.6
Operating expenses	**521.0**	458.3
Workforce reduction costs	**2.2**	
Merger-related costs	**1.9**	
Depreciation, depletion, and amortization	**134.3**	130.6
Accretion of asset retirement obligations	**16.5**	15.1
Taxes other than income taxes	**74.9**	68.5
Total expenses	**4,675.0**	3,350.1
Income from Operations	**222.5**	221.9
Other Income	**14.2**	12.9
Fixed Charges		
Interest expense	**77.0**	79.7
Interest capitalized and allowance for borrowed funds used during construction	**(2.8)**	(2.9)
BGE preference stock dividends	**3.3**	3.3
Total fixed charges	**77.5**	80.1
Income from Continuing Operations Before Income Taxes	**159.2**	154.7
Income Tax Expense	**46.2**	36.1
Income from Continuing Operations	**113.0**	118.6
Income from discontinued operations, net of income taxes of $0.5 and $3.3, respectively	**0.9**	2.1
Net Income	**$ 113.9**	$ 120.7
Earnings Applicable to Common Stock	**$ 113.9**	$ 120.7
Average Shares of Common Stock Outstanding Basic	**178.6**	176.8

	Three Months Ended March 31,	
Average Shares of Common Stock Outstanding Diluted	**180.4**	178.6
Earnings Per Common Share from Continuing Operations Basic	**$ 0.63**	$ 0.67
Income from discontinued operations	**0.01**	0.01
Earnings Per Common Share Basic	**$ 0.64**	$ 0.68
Earnings Per Common Share from Continuing Operations Diluted	**$ 0.63**	$ 0.67
Income from discontinued operations		0.01
Earnings Per Common Share Diluted	**$ 0.63**	$ 0.68
Dividends Declared Per Common Share	**$ 0.3775**	$ 0.335

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

Constellation Energy Group, Inc. and Subsidiaries

	Three Months Ended March 31, 2006	2005
	(In millions)	
Net Income	**$ 113.9**	$ 120.7
Other comprehensive income (OCI)		
Reclassification of net gain on sales of securities from OCI to net income, net of taxes	**(0.3)**	(0.1)
Reclassification of net loss (gain) on hedging instruments from OCI to net income, net of taxes	**81.0**	(37.6)
Net unrealized (loss) gain on hedging instruments, net of taxes	**(755.0)**	218.5
Net unrealized gain on securities, net of taxes	**11.8**	10.9
Net unrealized loss on foreign currency, net of taxes		(0.1)
Comprehensive Income	**$ (548.6)**	$ 312.3

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

	March 31, 2006*	December 31, 2005
	(In millions)	
Assets		
Current Assets		
Cash and cash equivalents	**$ 424.8**	$ 813.0
Accounts receivable (net of allowance for uncollectibles of **$51.6** and $47.4, respectively)	**2,657.5**	2,727.9
Fuel stocks	**427.8**	489.5
Materials and supplies	**195.3**	197.0
Mark-to-market energy assets	**938.4**	1,339.2
Risk management assets	**438.9**	1,244.3
Unamortized energy contract assets	**50.6**	55.6
Deferred income taxes	**193.6**	
Other	**640.3**	555.3
Total current assets	**5,967.2**	7,421.8
Investments and Other Assets		
Nuclear decommissioning trust funds	**1,140.5**	1,110.7
Investments in qualifying facilities and power projects	**307.9**	306.2
Regulatory assets (net)	**121.9**	154.3
Goodwill	**146.5**	147.1
Mark-to-market energy assets	**858.5**	1,089.3
Risk management assets	**459.8**	626.0
Unamortized energy contract assets	**144.8**	141.2
Other	**367.1**	410.6
Total investments and other assets	**3,547.0**	3,985.4
Property, Plant and Equipment		
Nonregulated property, plant and equipment	**8,766.2**	8,580.8
Regulated property, plant and equipment	**5,573.0**	5,520.5
Nuclear fuel (net of amortization)	**295.5**	302.0
Accumulated depreciation	**(4,419.3)**	(4,336.6)
Net property, plant and equipment	**10,215.4**	10,066.7
Total Assets	**$ 19,729.6**	$ 21,473.9

** Unaudited*

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

Constellation Energy Group, Inc. and Subsidiaries

	March 31, 2006*	*December 31,* 2005
	(In millions)	
Liabilities and Equity		
Current Liabilities		
Short-term borrowings	**$ 425.0**	$ 0.7
Current portion of long-term debt	**612.8**	491.3
Accounts payable and accrued liabilities	**1,657.6**	1,667.9
Customer deposits and collateral	**304.7**	458.9
Mark-to-market energy liabilities	**801.4**	1,348.7
Risk management liabilities	**654.2**	483.5
Unamortized energy contract liabilities	**459.6**	489.5
Deferred income taxes		151.4
Accrued expenses and other	**537.1**	780.4
Total current liabilities	**5,452.4**	5,872.3
Deferred Credits and Other Liabilities		
Deferred income taxes	**1,064.2**	1,180.8
Asset retirement obligations	**924.7**	908.0
Mark-to-market energy liabilities	**635.9**	912.3
Risk management liabilities	**968.6**	1,035.5
Unamortized energy contract liabilities	**997.4**	1,118.7
Postretirement and postemployment benefits	**384.2**	382.6
Net pension liability	**368.5**	401.4
Deferred investment tax credits	**62.3**	64.1
Other	**108.4**	101.0
Total deferred credits and other liabilities	**5,514.2**	6,104.4
Long-term Debt		
Long-term debt of Constellation Energy	**3,043.5**	3,049.1
Long-term debt of nonregulated businesses	**341.7**	357.5
First refunding mortgage bonds of BGE	**342.8**	342.8
Other long-term debt of BGE	**861.5**	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	**(7.6)**	(8.0)
Current portion of long-term debt	**(612.8)**	(491.3)
Total long-term debt	**4,226.8**	4,369.3
Minority Interests	**22.2**	22.4
BGE Preference Stock Not Subject to Mandatory Redemption	**190.0**	190.0
Common Shareholders' Equity		
Common stock	**2,645.5**	2,620.8

		March 31, 2006*		December 31, 2005
Retained earnings		**2,856.5**		2,810.2
Accumulated other comprehensive loss		**(1,178.0)**		(515.5)
Total common shareholders' equity		**4,324.0**		4,915.5
Commitments, Guarantees, and Contingencies (see Notes)				
Total Liabilities and Equity	**$**	**19,729.6**	$	21,473.9

** Unaudited*

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Constellation Energy Group, Inc. and Subsidiaries

Three Months Ended March 31,	2006	2005
	(In millions)	
Cash Flows From Operating Activities		
Net income	**$ 113.9**	$ 120.7
Adjustments to reconcile to net cash (used in) provided by operating activities		
(Gain) loss from discontinued operations	**(0.9)**	3.0
Depreciation, depletion, and amortization	**143.9**	161.8
Accretion of asset retirement obligations	**16.5**	15.1
Deferred income taxes	**(48.3)**	21.6
Investment tax credit adjustments	**(1.7)**	(1.8)
Deferred fuel costs	**7.1**	3.6
Pension and postemployment benefits	**(30.5)**	(33.4)
Workforce reduction costs	**2.2**	
Merger-related costs	**1.9**	
Equity in earnings of affiliates less than dividends received	**5.0**	7.5
Proceeds from derivative power sales contracts classified as financing activities under SFAS No. 149	**(19.6)**	
Changes in		
Accounts receivable	**(76.1)**	15.8
Mark-to-market energy assets and liabilities	**(191.0)**	(21.2)
Risk management assets and liabilities		(56.3)
Materials, supplies, and fuel stocks	**(73.8)**	11.2
Other current assets	**(64.0)**	6.7
Accounts payable and accrued liabilities	**(23.3)**	32.3
Other current liabilities	**(269.6)**	62.9
Other	**19.1**	0.1
Net cash (used in) provided by operating activities	**(489.2)**	349.6
Cash Flows From Investing Activities		
Investments in property, plant and equipment	**(184.4)**	(143.8)
Asset acquisitions and business combinations, net of cash acquired	**(100.8)**	(3.5)
Investments in nuclear decommissioning trust fund securities	**(57.7)**	(64.0)
Proceeds from nuclear decommissioning trust fund securities	**53.3**	59.6
Sales of investments and other assets	**14.6**	0.3
Issuances of loans receivable		(176.4)
Other investments	**(10.6)**	35.3
Net cash used in investing activities	**(285.6)**	(292.5)
Cash Flows From Financing Activities		
Net issuance of short-term borrowings	**424.3**	3.0
Proceeds from issuance of common stock	**18.8**	26.3
Repayment of long-term debt	**(17.6)**	(22.7)
Common stock dividends paid	**(59.8)**	(50.2)
Proceeds from contract and portfolio acquisitions		308.5
Proceeds from derivative power sales contracts classified as financing activities under SFAS No. 149	**19.6**	
Other	**1.3**	(25.4)

Three Months Ended March 31,	**2006**	2005
Net cash provided by financing activities	**386.6**	239.5
Net (Decrease) Increase in Cash and Cash Equivalents	**(388.2)**	296.6
Cash and Cash Equivalents at Beginning of Period	**813.0**	706.3
Cash and Cash Equivalents at End of Period	**$ 424.8**	$ 1,002.9

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

	Three Months Ended March 31,	
	2006	**2005**
	(In millions)	
Revenues		
Electric revenues	**$ 504.0**	$ 491.5
Gas revenues	**420.2**	365.8
Total revenues	**924.2**	857.3
Expenses		
Operating expenses		
Electricity purchased for resale	**262.9**	242.1
Gas purchased for resale	**298.4**	260.3
Operations and maintenance	**120.0**	107.8
Merger-related costs	**0.6**	
Depreciation and amortization	**57.7**	59.6
Taxes other than income taxes	**43.5**	43.8
Total expenses	**783.1**	713.6
Income from Operations	**141.1**	143.7
Other Income	**0.1**	1.0
Fixed Charges		
Interest expense	**24.2**	23.7
Allowance for borrowed funds used during construction	**(0.4)**	(0.4)
Total fixed charges	**23.8**	23.3
Income Before Income Taxes	**117.4**	121.4
Income Taxes	**45.7**	47.1
Net Income	**71.7**	74.3
Preference Stock Dividends	**3.3**	3.3
Earnings Applicable to Common Stock	**$ 68.4**	$ 71.0

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

Baltimore Gas and Electric Company and Subsidiaries

	March 31, 2006*	December 31, 2005
	(In millions)	
Assets		
Current Assets		
Cash and cash equivalents	**$ 14.3**	$ 15.1
Accounts receivable (net of allowance for uncollectibles of **$13.6** and $13.0, respectively)	**453.3**	480.5
Investment in cash pool, affiliated company	**91.7**	
Accounts receivable, affiliated companies	**0.6**	1.8
Fuel stocks	**48.4**	102.7
Materials and supplies	**37.6**	40.1
Prepaid taxes other than income taxes	**22.8**	45.7
Other	**9.8**	6.5
Total current assets	**678.5**	692.4
Investments and Other Assets		
Regulatory assets (net)	**121.9**	154.3
Receivable, affiliated company	**179.2**	154.7
Other	**124.7**	144.0
Total investments and other assets	**425.8**	453.0
Utility Plant		
Plant in service		
Electric	**3,917.4**	3,891.1
Gas	**1,122.5**	1,116.7
Common	**432.7**	416.0
Total plant in service	**5,472.6**	5,423.8
Accumulated depreciation	**(1,942.4)**	(1,923.8)
Net plant in service	**3,530.2**	3,500.0
Construction work in progress	**97.6**	93.9
Plant held for future use	**2.8**	2.8
Net utility plant	**3,630.6**	3,596.7
Total Assets	**$ 4,734.9**	$ 4,742.1

** Unaudited*

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

Baltimore Gas and Electric Company and Subsidiaries

	March 31, 2006*	December 31, 2005
	(In millions)	
Liabilities and Equity		
Current Liabilities		
Current portion of long-term debt	$ **591.5**	$ 469.6
Accounts payable and accrued liabilities	**124.2**	169.7
Accounts payable and accrued liabilities, affiliated companies	**148.2**	152.8
Borrowing from cash pool, affiliated company		3.2
Customer deposits	**69.2**	65.1
Accrued taxes	**83.7**	35.5
Accrued expenses and other	**78.6**	79.6
Total current liabilities	**1,095.4**	975.5
Deferred Credits and Other Liabilities		
Deferred income taxes	**599.4**	608.9
Postretirement and postemployment benefits	**276.7**	277.7
Deferred investment tax credits	**14.7**	15.1
Other	**16.1**	19.0
Total deferred credits and other liabilities	**906.9**	920.7
Long-term Debt		
First refunding mortgage bonds of BGE	**342.8**	342.8
Other long-term debt of BGE	**861.5**	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 business	**25.0**	25.0
Unamortized discount and premium	**(2.2)**	(2.3)
Current portion of long-term debt	**(591.5)**	(469.6)
Total long-term debt	**893.3**	1,015.1
Minority Interest	**18.2**	18.3
Preference Stock Not Subject to Mandatory Redemption	**190.0**	190.0
Common Shareholder's Equity		
Common stock	**912.2**	912.2
Retained earnings	**718.2**	709.6
Accumulated other comprehensive income	**0.7**	0.7
Total common shareholder's equity	**1,631.1**	1,622.5

	March 31, 2006*	December 31, 2005
Commitments, Guarantees, and Contingencies (see Notes)		
Total Liabilities and Equity	**$ 4,734.9**	$ 4,742.1

** Unaudited*

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Baltimore Gas and Electric Company and Subsidiaries

Three Months Ended March 31,	**2006**	**2005**
	(In millions)	
Cash Flows From Operating Activities		
Net income	**$ 71.7**	$ 74.3
Adjustments to reconcile to net cash provided by operating activities		
Depreciation and amortization	**60.3**	63.1
Deferred income taxes	**(10.1)**	(9.1)
Investment tax credit adjustments	**(0.4)**	(0.4)
Deferred fuel costs	**7.1**	3.6
Pension and postemployment benefits	**(24.7)**	(19.6)
Allowance for equity funds used during construction	**(0.8)**	(0.7)
Changes in		
Accounts receivable	**27.2**	(28.1)
Receivables, affiliated companies	**1.2**	(1.3)
Materials, supplies, and fuel stocks	**56.8**	75.6
Other current assets	**22.0**	23.9
Accounts payable and accrued liabilities	**(45.5)**	(25.6)
Accounts payable and accrued liabilities, affiliated companies	**(4.6)**	56.1
Other current liabilities	**51.3**	54.9
Other	**11.9**	6.1
Net cash provided by operating activities	**223.4**	272.8
Cash Flows From Investing Activities		
Utility construction expenditures (excluding equity portion of allowance for funds used during construction)	**(74.6)**	(58.1)
Change in cash pool at parent	**(94.9)**	(167.2)
Sales of investments and other assets	**0.5**	
Other	**7.9**	(20.4)
Net cash used in investing activities	**(161.1)**	(245.7)
Cash Flows From Financing Activities		
Distribution to parent	**(59.8)**	
Repayment of long-term debt		(20.0)
Preference stock dividends paid	**(3.3)**	(3.3)
Net cash used in financing activities	**(63.1)**	(23.3)
Net (Decrease) Increase in Cash and Cash Equivalents	**(0.8)**	3.8
Cash and Cash Equivalents at Beginning of Period	**15.1**	8.2
Cash and Cash Equivalents at End of Period	**$ 14.3**	$ 12.0

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

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 March 31, 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
	(In millions)		
Total assets	$ 830.6	$ 244.0	$ 1,074.6

	Power Contract Monetization VIEs	All Other VIEs	Total
Total liabilities	650.0	85.4	735.4
Our ownership interest		47.6	47.6
Other ownership interests	180.6	111.0	291.6
Our maximum exposure to loss	73.2	69.6	142.8

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 March 31, 2006 consists of the following:

- outstanding loans and letters of credit totaling $82.6 million,
- the carrying amount of our investment totaling $47.5 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.

Discontinued Operations

In the fourth quarter of 2005, we completed the sale of Constellation Power International Investments, Ltd. During the first quarter of 2006, we recognized an after-tax gain of $0.9 million due to the resolution of an outstanding contingency related to the sale. We discuss the details of the outstanding contingency in *Note 2* of our 2005 Annual Report on Form 10-K.

Workforce Reduction Costs

In March 2006, we approved a restructuring of the workforce at our R.E. Ginna Nuclear Power Plant (Ginna). In connection with this restructuring, 32 employees were terminated. During the quarter ended March 31, 2006, we recognized costs of $2.2 million pre-tax related to recording a liability for severance and other benefits under our existing benefit programs.

Merger-Related Costs

We continued to incur costs related to our pending merger with FPL Group, which totaled $1.9 million pre-tax for the quarter ended March 31, 2006. Through March 31, 2006, we have recognized $18.9 million pre-tax of merger costs. We anticipate our total merger-related costs to be approximately $55 million, excluding 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.

Earnings Per Share

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

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

	Quarter Ended March 31,	
	2006	**2005**
	(In millions)	
Non-dilutive stock options	**2.0**	0.7
Dilutive common stock equivalent shares	**1.8**	1.8

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 From 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 ended March 31, 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.

	Quarter Ended March 31, 2005
	(In millions, except per share amounts)

		Quarter Ended March 31, 2005
Net income, as reported	$	120.7
Add: Stock-based compensation expense determined under intrinsic value method and included in reported net income, net of related tax effects		4.5
Deduct: Stock-based compensation expense determined under fair value based method for all awards, net of related tax effects		(6.6)
Pro-forma net income	$	118.6
Earnings per share:		
Basic as reported	$	0.68
Basic pro forma		0.67
Diluted as reported		0.68
Diluted pro forma		0.66

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. 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		16.5
Other		
Liabilities incurred		0.2
Liabilities settled		
Revisions to cash flows		
Liability at March 31, 2006	$	924.7

"Liabilities incurred" in the table above primarily reflect asset retirement obligations recorded in connection with our investment in gas and oil producing properties discussed below.

Asset Acquisition

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 accounted for the purchase as an asset acquisition and include the results of operations in our merchant energy business segment.

Business Combination

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

		(In millions)
Cash	$	14.4
Other Current Assets		12.4
Total Current Assets		26.8
Net Property, Plant and Equipment		
Other Assets		34.9
Total Assets Acquired		61.7
Current Liabilities		(8.0)
Deferred Credits and Other Liabilities		(18.8)

At April 1, 2005

Net Assets Acquired	$	34.9

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 and capacity 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 and trading activities managed through daily value at risk and stop loss limits and liquidity guidelines),

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 in the table below.

	Reportable Segments					
	Merchant Energy Business	Regulated Electric Business	Regulated Gas Business	Other Nonregulated Businesses	Eliminations	Consolidated
				(In millions)		
Quarter ended March 31,						
2006						
Unaffiliated revenues	**$ 3,914.4**	**$ 504.0**	**$ 418.3**	**$ 60.8**	**$**	**$ 4,897.5**
Intersegment revenues	**207.2**		**1.9**	**0.1**	**(209.2)**	
Total revenues	**4,121.6**	**504.0**	**420.2**	**60.9**	**(209.2)**	**4,897.5**
Income from discontinued operations				**0.9**		**0.9**
Net income	**43.6**	**33.6**	**35.0**	**1.7**		**113.9**
2005						
Unaffiliated revenues	$ 2,667.6	$ 491.5	$ 364.6	$ 48.3	$	$ 3,572.0
Intersegment revenues	225.5		1.2	0.2	(226.9)	
Total revenues	2,893.1	491.5	365.8	48.5	(226.9)	3,572.0
Income from discontinued operations	0.4			1.7		2.1
Net income	48.9	43.5	27.6	0.7		120.7

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

Pension and Postretirement Benefits

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

	Quarter Ended March 31,	
	2006	2005
	(In millions)	
Components of net periodic pension benefit cost		
Service cost	**$ 11.7**	$ 11.1
Interest cost	**20.5**	20.7
Expected return on plan assets	**(22.3)**	(23.9)
Recognized net actuarial loss	**8.6**	5.4
Amortization of unrecognized prior service cost	**1.3**	1.4
Amount capitalized as construction cost	**(2.9)**	(1.7)
Net periodic pension benefit cost (1)	**$ 16.9**	$ 13.0

(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 $8.1 million in 2006 and $5.1 million in 2005.

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

	Quarter Ended March 31,	
	2006	**2005**
	(In millions)	
Components of net periodic postretirement benefit cost		
Service cost	**$ 2.1**	$ 1.8
Interest cost	**6.2**	5.7
Amortization of transition obligation	**0.5**	0.5
Recognized net actuarial loss	**2.0**	1.2
Amortization of unrecognized prior service cost	**(0.9)**	(0.8)
Amount capitalized as construction cost	**(2.0)**	(1.8)
Net periodic postretirement benefit cost (1)	**$ 7.9**	$ 6.6

(1) *BGE's portion of our net periodic postretirement benefit cost was $6.3 million in 2006 and $5.8 million in 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 $27 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 March 31, 2006, we had $425.0 million of commercial paper outstanding, and at May 5, 2006 we had $330.0 million of commercial paper outstanding.

Constellation Energy had committed bank lines of credit under four credit facilities of $3.6 billion at March 31, 2006 for short-term financial needs. 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 approximately $3.6 billion. Letters of credit issued under all of our facilities totaled $1.9 billion at March 31, 2006.

Additionally, under our employee benefit plans and shareholder investment plans we issued $18.8 million of common stock during the quarter ended March 31, 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
March 31,