CONSTELLATION ENERGY GROUP INC
Form 10-Q/A
July 30, 2003

Use these links to rapidly review the document
TABLE OF CONTENTS

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A
(Amendment No. 1)

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

For the quarterly period ended **MARCH 31, 2003**

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)

410-234-5000

(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 an accelerated filer Yes ý No o

Indicate by check mark whether Baltimore Gas and Electric Company is an accelerated filer Yes o No ý

COMMON STOCK, WITHOUT PAR VALUE 165,335,362 SHARES OUTSTANDING OF CONSTELLATION ENERGY GROUP, INC. ON APRIL 30, 2003.

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.

Explanatory Note

Subsequent to the filing of our Quarterly Report on Form 10-Q for the period ended March 31, 2003, we discovered an overstatement of $282.9 million in revenues and expenses resulting from a change in our processes in anticipation of a market design change in New England. Accordingly, we are filing this amendment to restate certain parts of the Quarterly Report on Form 10-Q for Constellation Energy Group, Inc. and Baltimore Gas and Electric Company for the period ended March 31, 2003. As noted below, this amendment does not affect previously reported income from operations, earnings, cash flows or common shareholders' equity, nor does it affect revenues or expenses for any period other than the quarter ended March 31, 2003. This amendment affects only Part I Items 1, 2 and 4 of the previously filed Quarterly Report on Form 10-Q.

During the first quarter of 2003, in preparation for and following the implementation of changes in the market design in New England, our merchant energy business recorded certain transactions with the New England Independent System Operator (ISO) by computing gross sales and gross purchases by delivery location. This means that when our sources of power and ultimate load-serving customers were in different New England delivery locations, we recorded the transactions as a purchase from the third-party power provider in the source location and a sale to the New England ISO in that location. Then in the zone where our ultimate load-serving customer was served, we recorded a purchase from the New England ISO and a sale to the ultimate load-serving customer in that location. This gross reporting was consistent with the market design change in New England and ensured the appropriate capture of congestion and other costs in our systems necessary for risk management and settlement purposes. The New England ISO is however not a principal in these transactions; and as such, for financial reporting purposes we should have recorded these transactions on a net basis for the New England region as a whole and not on a gross basis.

As a result, we have restated our unaudited Consolidated Financial Statements for the period ended March 31, 2003, and made corresponding amendments to *Management's Discussion and Analysis of Financial Condition and Results of Operations*. The restatement has resulted in a reduction to both "Nonregulated revenues" and "Operating expenses" of $282.9 million for the period ended March 31, 2003. The principal effects of the restatement on the accompanying unaudited Consolidated Financial Statements are described in the *Notes to the Consolidated Financial Statements* beginning on page 9.

Please note that this amended Quarterly Report on Form 10-Q for the period ended March 31, 2003, does not reflect events occurring after May 14, 2003, the date on which we originally filed our Quarterly Report on Form 10-Q for the period ended March 31, 2003. For a description of these events, please read our reports filed with the Securities and Exchange Commission since May 14, 2003.

TABLE OF CONTENTS

PART 1 FINANCIAL INFORMATION

Item 1 Financial Statements

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Constellation Energy Group, Inc. and Subsidiaries

Three Months Ended March 31,

	2003	2002
	(Restated)	
	(In millions, except per share amounts)	
Revenues		
Nonregulated revenues	$ **1,545.5**	$ 371.2
Regulated electric revenues	**486.3**	460.3
Regulated gas revenues	**298.2**	220.8
Total revenues	**2,330.0**	1,052.3
Expenses		
Operating expenses	**1,973.5**	682.2
Workforce reduction costs	**0.7**	25.9
Depreciation and amortization	**111.1**	117.1
Accretion of asset retirement obligations	**10.7**	
Taxes other than income taxes	**72.1**	65.6
Total expenses	**2,168.1**	890.8

Three Months Ended March 31,

	2003		2002	
Net Gain on Sales of Investments and Other Assets		**13.7**		257.1
Income from Operations		**175.6**		418.6
Other Income		**8.9**		4.5
Fixed Charges				
Interest expense		**82.3**		67.9
Interest capitalized and allowance for borrowed funds used during construction		**(4.4)**		(11.8)
BGE preference stock dividends		**3.3**		3.3
Total fixed charges		**81.2**		59.4
Income Before Income Taxes		**103.3**		363.7
Income Taxes		**36.3**		135.1
Income Before Cumulative Effects of Changes in Accounting Principles		**67.0**		228.6
Cumulative Effects of Changes in Accounting Principles, Net of Income Taxes of $119.5		**(198.4)**		
Net (Loss) Income	**$**	**(131.4)**	$	228.6
(Loss) Earnings Applicable to Common Stock	**$**	**(131.4)**	$	228.6
Average Shares of Common Stock Outstanding		**164.9**		163.7
Earnings Per Common Share and Earnings Per Common Share Assuming Dilution Before Cumulative Effects of Changes in Accounting Principles	**$**	**0.40**	$	1.40
Cumulative Effects of Changes in Accounting Principles		**(1.20)**		
(Loss) Earnings Per Common Share and (Loss) Earnings Per Common Share Assuming Dilution	**$**	**(0.80)**	$	1.40
Dividends Declared Per Common Share	**$**	**0.26**	$	0.24

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

Constellation Energy Group, Inc. and Subsidiaries

Three Months Ended March 31,

	2003		2002	
		(In millions)		
Net (Loss) Income	**$**	**(131.4)**	$	228.6
Other comprehensive income (OCI)				
Reclassification of net gain on sales of securities from OCI to net income, net of taxes		**(2.6)**		(156.9)
Reclassification of net gains on hedging instruments from OCI to net income, net of taxes		**(6.0)**		(3.7)

Three Months Ended March 31,

	2003	2002
Net unrealized loss on hedging instruments, net of taxes	**(6.0)**	(37.1)
Net unrealized loss on securities, net of taxes	**(11.7)**	(4.9)
Comprehensive (Loss) Income	**$ (157.7)**	$ 26.0

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

1

CONSOLIDATED BALANCE SHEETS

Constellation Energy Group, Inc. and Subsidiaries

	March 31, **2003***	*December 31,* **2002**
	(In millions)	
Assets		
Current Assets		
Cash and cash equivalents	**$ 612.2**	$ 615.0
Accounts receivable (net of allowance for uncollectibles of **$45.1** and $41.9 respectively)	**1,799.4**	1,244.1
Trading securities	**9.3**	77.1
Mark-to-market energy assets	**114.8**	144.0
Risk management assets	**217.7**	72.3
Fuel stocks	**84.1**	126.5
Materials and supplies	**199.1**	208.6
Prepaid taxes other than income taxes	**41.8**	57.1
Other	**197.9**	157.1
Total current assets	**3,276.3**	2,701.8
Investments and Other Assets		
Real estate projects and investments	**72.5**	86.1
Investments in qualifying facilities and power projects	**436.0**	439.2
Financial investments	**28.4**	36.9
Nuclear decommissioning trust funds	**631.3**	645.4
Mark-to-market energy assets	**1,027.0**	1,348.2
Risk management assets	**59.7**	88.8
Goodwill	**121.1**	115.9
Other	**194.0**	167.8
Total investments and other assets	**2,570.0**	2,928.3

	March 31, 2003*	December 31, 2002
Property, Plant and Equipment		
Regulated property, plant and equipment	**5,100.9**	5,075.2
Nonregulated generation property, plant and equipment	**6,994.4**	6,811.9
Other nonregulated property, plant and equipment	**257.0**	242.0
Nuclear fuel (net of amortization)	**211.5**	224.8
Accumulated depreciation	**(3,781.2)**	(4,396.8)
Net property, plant and equipment	**8,782.6**	7,957.1
Deferred Charges		
Regulatory assets (net)	**301.0**	405.7
Other	**133.4**	136.0
Total deferred charges	**434.4**	541.7
Total Assets	**$ 15,063.3**	$ 14,128.9

** Unaudited*

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

2

CONSOLIDATED BALANCE SHEETS

Constellation Energy Group, Inc. and Subsidiaries

	March 31, 2003*	December 31, 2002
	(In millions)	
Liabilities and Equity		
Current Liabilities		
Short-term borrowings	**$ 12.4**	$ 10.5
Current portion of long-term debt	**291.6**	426.2
Accounts payable	**1,373.7**	943.4
Customer deposits and collateral	**356.4**	102.8
Mark-to-market energy liabilities	**106.4**	94.1
Risk management liabilities	**169.6**	20.1
Accrued interest	**128.1**	95.5
Dividends declared	**46.2**	42.8
Other	**288.5**	337.1
Total current liabilities	**2,772.9**	2,072.5

	March 31, 2003*	*December 31,* 2002
Deferred Credits and Other Liabilities		
Deferred income taxes	**1,217.8**	1,330.7
Mark-to-market energy liabilities	**951.8**	881.5
Risk management liabilities	**153.8**	149.5
Asset retirement obligations	**581.3**	
Net pension liability	**230.9**	334.6
Postretirement and postemployment benefits	**357.7**	352.8
Deferred investment tax credits	**83.9**	85.7
Other	**135.5**	150.1
Total deferred credits and other liabilities	**3,712.7**	3,284.9
Long-term Debt		
Long-term debt of Constellation Energy	**2,800.0**	2,800.0
Long-term debt of nonregulated businesses	**348.3**	349.8
First refunding mortgage bonds of BGE	**780.1**	904.9
Other long-term debt of BGE	**735.1**	745.1
Company obligated mandatorily redeemable trust preferred securities of subsidiary trust holding solely 7.16% debentures of BGE due June 30, 2038	**250.0**	250.0
Unamortized discount and premium	**(9.2)**	(9.7)
Current portion of long-term debt	**(291.6)**	(426.2)
Total long-term debt	**4,612.7**	4,613.9
Minority Interests	**107.0**	105.3
BGE Preference Stock Not Subject to Mandatory Redemption	**190.0**	190.0
Common Shareholders' Equity		
Common stock	**2,086.4**	2,078.9
Retained earnings	**1,802.1**	1,977.6
Accumulated other comprehensive loss	**(220.5)**	(194.2)
Total common shareholders' equity	**3,668.0**	3,862.3
Commitments, Guarantees, and Contingencies (see Notes)		
Total Liabilities and Equity	**$ 15,063.3**	$ 14,128.9

** Unaudited*

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Constellation Energy Group, Inc. and Subsidiaries

Three Months Ended March 31,	**2003**	**2002**
	(In millions)	
Cash Flows From Operating Activities		
Net (loss) income	$ **(131.4)**	$ 228.6
Adjustments to reconcile to net cash provided by operating activities		
Cumulative effects of changes in accounting principles	**198.4**	
Depreciation and amortization	**139.4**	124.5
Accretion of asset retirement obligations	**10.7**	
Deferred income taxes	**30.5**	(23.9)
Investment tax credit adjustments	**(1.8)**	(2.0)
Deferred fuel costs	**(24.9)**	25.5
Pension and postemployment benefits	**(98.1)**	(27.7)
Net gain on sales of investments and other assets	**(13.7)**	(257.1)
Workforce reduction costs	**0.7**	25.9
Equity in earnings of affiliates less than dividends received	**8.7**	26.4
Changes in		
Accounts receivable	**(559.3)**	(143.2)
Mark-to-market energy assets and liabilities	**47.2**	53.3
Risk management assets and liabilities	**(15.1)**	(23.8)
Materials, supplies and fuel stocks	**51.9**	35.3
Other current assets	**(27.0)**	101.3
Accounts payable	**366.2**	224.7
Other current liabilities	**232.2**	136.8
Other	**31.1**	(69.7)
Net cash provided by operating activities	**245.7**	434.9
Cash Flows From Investing Activities		
Purchases of property, plant and equipment	**(148.1)**	(226.5)
Contributions to nuclear decommissioning trust funds	**(4.4)**	(0.2)
Sales of investments and other assets	**89.8**	591.0
Other investments	**(21.9)**	(2.1)
Net cash (used in) provided by investing activities	**(84.6)**	362.2
Cash Flows From Financing Activities		
Net issuance (maturity) of short-term borrowings	**1.9**	(775.8)
Proceeds from issuance of		
Long-term debt		1,821.0
Common stock	**10.1**	

Three Months Ended March 31,

	2003	2002
Repayment of long-term debt	**(134.9)**	(848.5)
Common stock dividends paid	**(39.6)**	(19.7)
Other	**(1.4)**	(4.4)
Net cash (used in) provided by financing activities	**(163.9)**	172.6
Net (Decrease) Increase in Cash and Cash Equivalents	**(2.8)**	969.7
Cash and Cash Equivalents at Beginning of Period	**615.0**	72.4
Cash and Cash Equivalents at End of Period	**$ 612.2**	$ 1,042.1

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,

	2003	2002
	(In millions)	
Revenues		
Electric revenues	**$ 486.3**	$ 460.4
Gas revenues	**303.5**	223.3
Total revenues	**789.8**	683.7
Expenses		
Operating expenses		
Electricity purchased for resale	**243.6**	240.5
Gas purchased for resale	**203.1**	124.3
Operations and maintenance	**77.1**	84.5
Workforce reduction costs	**0.3**	20.9
Depreciation and amortization	**55.9**	56.5
Taxes other than income taxes	**45.2**	44.0
Total expenses	**625.2**	570.7
Income from Operations	**164.6**	113.0
Other Income	**0.3**	1.3
Fixed Charges		
Interest expense	**30.0**	36.5
Allowance for borrowed funds used during construction	**(0.5)**	(0.4)
Total fixed charges	**29.5**	36.1

Three Months Ended March 31,	2003	2002
Income Before Income Taxes	**135.4**	78.2
Income Taxes	**53.6**	31.0
Net Income	**81.8**	47.2
Preference Stock Dividends	**3.3**	3.3
Earnings Applicable to Common Stock	**$ 78.5**	$ 43.9

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

5

CONSOLIDATED BALANCE SHEETS

Baltimore Gas and Electric Company and Subsidiaries

	March 31, **2003***	*December 31,* **2002**
	(In millions)	
Assets		
Current Assets		
Cash and cash equivalents	**$ 9.1**	$ 10.2
Accounts receivable (net of allowance for uncollectibles of **$11.5** and $11.5, respectively)	**391.3**	357.5
Investment in cash pool, affiliated company	**338.7**	338.1
Accounts receivable, affiliated companies	**82.5**	131.2
Fuel stocks	**14.4**	40.6
Materials and supplies	**34.3**	31.8
Prepaid taxes other than income taxes	**21.0**	42.0
Other	**10.9**	10.3
Total current assets	**902.2**	961.7
Other Assets		
Receivable, affiliated company	**139.7**	63.3
Other	**85.7**	85.9
Total other assets	**225.4**	149.2
Utility Plant		
Plant in service		
Electric	**3,457.4**	3,422.3

	March 31, 2003*		December 31, 2002
Gas	**1,046.3**		1,041.0
Common	**483.9**		489.1
Total plant in service	**4,987.6**		4,952.4
Accumulated depreciation	**(1,777.4)**		(1,851.4)
Net plant in service	**3,210.2**		3,101.0
Construction work in progress	**108.8**		118.3
Plant held for future use	**4.5**		4.5
Net utility plant	**3,323.5**		3,223.8
Deferred Charges			
Regulatory assets (net)	**301.0**		405.7
Other	**44.4**		39.5
Total deferred charges	**345.4**		445.2
Total Assets	**$**	**4,796.5**	$ 4,779.9

** Unaudited*

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

CONSOLIDATED BALANCE SHEETS

Baltimore Gas and Electric Company and Subsidiaries

	March 31, 2003*	December 31, 2002
	(In millions)	
Liabilities and Equity		
Current Liabilities		
Current portion of long-term debt	**$ 285.9**	$ 420.7
Accounts payable	**125.8**	103.2
Accounts payable, affiliated companies	**71.6**	85.6
Customer deposits	**56.0**	54.2
Accrued taxes	**53.1**	9.0
Accrued interest	**34.1**	31.4
Other	**46.2**	49.7
Total current liabilities	**672.7**	753.8

	March 31, 2003*		December 31, 2002
Deferred Credits and Other Liabilities			
Deferred income taxes		**546.1**	528.9
Postretirement and postemployment benefits		**280.1**	278.0
Deferred investment tax credits		**20.0**	20.5
Decommissioning of federal uranium enrichment facilities		**14.6**	14.6
Other		**14.1**	13.9
Total deferred credits and other liabilities		**874.9**	855.9
Long-term Debt			
First refunding mortgage bonds of BGE		**780.1**	904.9
Other long-term debt of BGE		**735.1**	745.1
Company obligated mandatorily redeemable trust preferred securities of subsidiary trust holding solely 7.16% debentures of BGE due June 30, 2038		**250.0**	250.0
Long-term debt of nonregulated businesses		**25.0**	25.0
Unamortized discount and premium		**(4.8)**	(5.2)
Current portion of long-term debt		**(285.9)**	(420.7)
Total long-term debt		**1,499.5**	1,499.1
Minority Interest		**19.2**	19.4
Preference Stock Not Subject to Mandatory Redemption		**190.0**	190.0
Common Shareholder's Equity			
Common stock		**912.2**	912.2
Retained earnings		**628.0**	549.5
Total common shareholder's equity		**1,540.2**	1,461.7
Commitments, Guarantees, and Contingencies (see Notes)			
Total Liabilities and Equity	**$**	**4,796.5**	$ 4,779.9

** Unaudited*

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Baltimore Gas and Electric Company and Subsidiaries

Three Months Ended March 31,	**2003**	2002
	(In millions)	
Cash Flows From Operating Activities		
Net income	**$ 81.8**	$ 47.2
Adjustments to reconcile to net cash provided by operating activities		
Depreciation and amortization	**56.7**	57.2
Deferred income taxes	**17.6**	(15.4)
Investment tax credit adjustments	**(0.5)**	(0.5)
Deferred fuel costs	**(24.9)**	25.5
Pension and postemployment benefits	**(73.5)**	6.8
Workforce reduction costs	**0.3**	20.9
Allowance for equity funds used during construction	**(0.9)**	(0.7)
Changes in		
Accounts receivable	**(33.8)**	(38.9)
Receivables, affiliated companies	**(27.7)**	86.9
Materials, supplies, and fuel stocks	**23.7**	38.3
Other current assets	**20.4**	49.9
Accounts payable	**22.6**	(6.0)
Accounts payable, affiliated companies	**(14.0)**	(19.0)
Other current liabilities	**45.1**	37.0
Other	**88.5**	(17.7)
Net cash provided by operating activities	**181.4**	271.5
Cash Flows From Investing Activities		
Utility construction expenditures (excluding AFC)	**(43.8)**	(40.1)
Investment in cash pool at parent	**(0.6)**	(24.6)
Other		(3.8)
Net cash used in investing activities	**(44.4)**	(68.5)
Cash Flows From Financing Activities		
Repayment of long-term debt	**(134.8)**	(213.0)
Preference stock dividends paid	**(3.3)**	(3.3)
Net cash used in financing activities	**(138.1)**	(216.3)
Net Decrease in Cash and Cash Equivalents	**(1.1)**	(13.3)
Cash and Cash Equivalents at Beginning of Period	**10.2**	37.4
Cash and Cash Equivalents at End of Period	**$ 9.1**	$ 24.1

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Various factors can have a great 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 presentation of the financial position and 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 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 "utility business" are to BGE.

Effects of Restatement on Interim Financial Statements

During the first quarter of 2003, in preparation for and following the implementation of changes in the market design in New England, our merchant energy business recorded certain transactions with the New England Independent System Operator (ISO) by computing gross sales and gross purchases by delivery location. This means that when our sources of power and ultimate load-serving customers were in different New England delivery locations, we recorded the transactions as a purchase from the third-party power provider in the source location and a sale to the New England ISO in that location. Then in the zone where our ultimate load-serving customer was served, we recorded a purchase from the New England ISO and a sale to the ultimate load-serving customer in that location. This gross reporting was consistent with the market design change in New England and ensured the appropriate capture of congestion and other costs in our systems necessary for risk management and settlement purposes. The New England ISO is however not a principal in these transactions; and as such, for financial reporting purposes we should have recorded these transactions on a net basis for the New England region as a whole and not on a gross basis.

As a result, we have restated our unaudited Consolidated Financial Statements for the quarter ended March 31, 2003, from amounts previously reported. The restatement has resulted in a reduction to "Nonregulated revenues" and "Operating expenses" of $282.9 million for the quarter ended March 31, 2003. The restatement does not affect income from operations, earnings, cash flows or common shareholders' equity, nor does it affect revenues or expenses for any period other than the quarter ended March 31, 2003. A summary of the effects of the change from accounting for these transactions on a gross basis to a net basis for the quarter ended March 31, 2003 on our unaudited Consolidated Statements of Income is as follows:

Three Months Ended March 31, 2003

	As Previously Reported	Adjustment	Restated
		(In millions)	
Revenues			
Nonregulated revenues	$ 1,828.4	$ (282.9)	$ 1,545.5
Regulated electric revenues	486.3		486.3
Regulated gas revenues	298.2		298.2
Total revenues	2,612.9	(282.9)	2,330.0
Expenses			
	2,256.4	(282.9)	1,973.5

Three Months Ended March 31, 2003

Operating expenses						
Workforce reduction costs		0.7				0.7
Depreciation and amortization		111.1				111.1
Accretion of asset retirement obligations		10.7				10.7
Taxes other than income taxes		72.1				72.1
Total expenses		2,451.0		(282.9)		2,168.1
Net Gain on Sales of Investments and Other Assets		13.7				13.7
Income from Operations	$	175.6	$		$	175.6
Income Before Cumulative Effects of Changes in Accounting Principles	$	67.0	$		$	67.0
Cumulative Effects of Changes in Accounting Principles		(198.4)				(198.4)
Net Loss	$	(131.4)	$		$	(131.4)
Loss Applicable to Common Stock	$	(131.4)	$		$	(131.4)

9

The effects of the adjustment on the Merchant Energy Business segment are as follows:

Three Months Ended March 31, 2003

		As Previously Reported		Adjustment		Restated
				(in millions)		
Unaffiliated revenues	$	1,672.8	$	(282.9)	$	1,389.9
Intersegment revenues		287.2				287.2
Total revenues		1,960.0		(282.9)		1,677.1
Loss from operations		(10.0)				(10.0)

Three Months Ended March 31, 2003

Cumulative effects of changes in accounting principles	(198.4)	(198.4)
Net loss	(218.9)	(218.9)

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. Stock options to purchase approximately 5.0 million shares during the quarter ended March 31, 2003 and approximately 1.5 million shares during the quarter ended March 31, 2002 were not dilutive and were excluded from the computation of diluted EPS for those periods.

Stock-Based Compensation

Under our long-term incentive plans, we granted stock options, performance and service-based restricted stock, and equity to officers, key employees, and members of the Board of Directors. As permitted by Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, we measure our stock-based compensation using the intrinsic value method in accordance with Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. We discuss these plans and accounting further in *Note 13* of our 2002 Annual Report on Form 10-K.

The following table illustrates the effect on net income and earnings per share had we applied the fair value recognition provision of SFAS No. 123 to all outstanding stock options and stock awards in each period.

Quarter Ended March 31,

	2003	**2002**
	(In millions, except per share amounts)	
Net (loss) income, as reported	**$ (131.4)**	$ 228.6
Add: Stock-based compensation expense determined under intrinsic value method and included in reported net (loss) income, net of related tax effects	**0.9**	0.4
Deduct: Stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	**(3.0)**	(1.7)
Pro-forma net (loss) income	**$ (133.5)**	$ 227.3
(Loss) earnings per share:		
Basic as reported	**$ (.80)**	$ 1.40
Basic pro forma	**$ (.81)**	$ 1.39
Diluted as reported	**$ (.80)**	$ 1.40
Diluted pro forma	**$ (.81)**	$ 1.39

Workforce Reduction Costs

We incurred costs related to workforce reduction efforts initiated in previous years. We discuss these costs in more detail below and in *Note 2* of our 2002 Annual Report on Form 10-K.

2003

We recorded $0.7 million in expense, of which BGE recorded $0.3 million, associated with deferred payments to employees eligible for the 2001 Voluntary Special Early Retirement Program.

2002

In the first quarter of 2002, we recorded $35.1 million of net workforce reduction costs associated with our 2001 workforce reduction initiatives. The $35.1 million of net workforce reduction costs recorded during the first quarter of 2002 consisted of $25.9 million recognized as expense, of which BGE recognized $20.9 million. The remaining $9.2 million was recognized by BGE as a regulatory asset related to its gas business.

10

In 2002, we completed involuntary severances under the 2001 workforce reduction programs. Accordingly, no involuntary severance liability recorded under EITF 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring),* remained at December 31, 2002.

In 2002, we recorded $14.9 million of expenses for anticipated involuntary severance costs in accordance with EITF 94-3 associated with new workforce reduction initiatives in that year. The following table summarizes the status of the involuntary severance liability recorded under EITF 94-3.

	(In millions)	
Severance liability balance at December 31, 2002	$	14.9
Cash severance payments		(10.5)
Severance liability balance at March 31, 2003	$	4.4

Net Gain on Sales of Investments and Other Assets

2003

During the first quarter of 2003, our other nonregulated businesses recognized $13.7 million pre-tax, or $8.3 million after-tax, gains on the sale of non-core assets as follows:

- a $7.2 million pre-tax gain on the sale of an oil tanker to the U.S. Navy,
- a $5.3 million pre-tax gain on the favorable settlement of a contingent obligation we had previously reserved relating to the sale of our Guatemalan power plant operation in the fourth quarter of 2001, and
- a $1.2 million pre-tax gain on an installment sale of a parcel of real estate.

2002

During the first quarter of 2002, our other nonregulated businesses recognized $257.1 million on the sale of financial investments, including the gain on the sale of our investment in Orion Power Holdings, Inc. (Orion). In February 2002, Reliant Resources, Inc. acquired all of the outstanding shares of Orion for $26.80 per share, including the shares of Orion we owned. We received cash proceeds of $454.1 million and recognized a gain of $255.5 million pre-tax, or $163.3 million after-tax, on the sale of our investment.

Information by Operating Segment

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

Our nonregulated merchant energy business in North America includes:

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

origination of structured transactions (such as load-serving, tolling contracts, and power purchase agreements), and risk management services to various customers (including hedging of output from generating facilities and fuel costs),

electric and gas retail energy services to large commercial and industrial customers, and

generation and consulting services.

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

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

Our remaining nonregulated businesses:

design, construct, and operate single-site heating, cooling, and cogeneration facilities for commercial and industrial customers,

service electric and gas appliances, and heating and air conditioning systems, engage in home improvements, and sell electricity and natural gas, and

own and operate a district cooling system for commercial customers.

In addition, we own several investments that we do not consider to be core operations. These include financial investments, real estate projects, and interests in a Latin American power distribution project and in a fund that holds interests in two South American energy projects.

These 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 on the next page.

	Merchant Energy Business	Regulated Electric Business	Regulated Gas Business	Other Nonregulated Businesses	Unallocated Corporate Items and Eliminations	Consolidated
For the three months ended March 31,						
				(In millions)		
2003 *(Restated)*						
Unaffiliated revenues	**$ 1,389.9**	**$ 486.3**	**$ 298.2**	**$ 155.6**	**$**	**$ 2,330.0**
Intersegment revenues	**287.2**		**5.3**		**(292.5)**	
Total revenues	**1,677.1**	**486.3**	**303.5**	**155.6**	**(292.5)**	**2,330.0**
(Loss) income from operations	**(10.0)**	**109.0**	**55.6**	**21.0**		**175.6**

	Merchant Energy Business	Regulated Electric Business	Regulated Gas Business	Other Nonregulated Businesses	Unallocated Corporate Items and Eliminations	Consolidated
Cumulative effects of changes in accounting principles	**(198.4)**					**(198.4)**
Net (loss) income	**(218.9)**	**50.2**	**28.6**	**8.7**		**(131.4)**
2002						
Unaffiliated revenues	$ 250.8	$ 460.3	$ 220.8	$ 120.4	$	$ 1,052.3
Intersegment revenues	239.2	0.1	2.5		(241.8)	
Total revenues	490.0	460.4	223.3	120.4	(241.8)	1,052.3
Income from operations	49.4	59.7	53.3	256.2		418.6
Net income	27.0	16.4	27.8	157.4		228.6

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

Commitments, Guarantees, and Contingencies

Our merchant energy business enters into long-term contracts for:

- the purchase of electric generating capacity and energy,
- the procurement and delivery of fuels to supply our generating plant requirements,
- the capacity and transmission rights for the physical delivery of energy to meet our obligations to our customers, and
- other capital requirements.

Our regulated gas business enters into various long-term contracts for the procurement, transportation, and storage of gas.

BGE Home Products & Services also has gas and electric purchase commitments related to sales programs which expire in 2004.

At March 31, 2003, the total amount of commitments was $4,082.2 million, which are primarily related to our merchant energy business.

Long-Term Power Sales Contracts

We entered into long-term power sales contracts in connection with our load-serving activities. We also entered into long-term power sales contracts associated with certain of our power plants. Our load-serving power sales contracts extend for terms through 2012 and provide for the sale of full requirements energy to electricity distribution utilities and certain retail customers. Our power sales contracts associated with our power plants extend for terms into 2011 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:

	Payments/Expiration				
	2003	2004-2005	2006-2007	Thereafter	Total
			(In millions)		

	Payments/Expiration				
Competitive Supply	$ 2,345.3	$ 232.6	$ 40.8	$ 178.8	$ 2,797.5
Other	5.2	6.6	602.9	517.3	1,132.0
Total	$ 2,350.5	$ 239.2	$ 643.7	$ 696.1	$ 3,929.5

At March 31, 2003, Constellation Energy had a total of $3,929.5 million in guarantees outstanding related to loans, credit facilities, and contractual performance of certain of its subsidiaries as described below. These guarantees do not represent incremental consolidated Constellation Energy obligations; rather, they primarily represent guarantees from one Constellation entity for another. We do not expect to fund the full amount under these guarantees.

Constellation Energy guaranteed $2,797.5 million on behalf of its subsidiaries for competitive supply activities. These guarantees are put into place in order to allow the subsidiaries the flexibility needed to conduct business with counterparties without having to post substantial cash collateral. While the face amount of these guarantees is $2,797.5 million, we do not expect to fund the full amount as our calculated fair value of obligations covered by these guarantees was $812.7 million at March 31, 2003. The recorded fair value of obligations in our Consolidated Balance Sheets for these guarantees was $560.6 million at March 31, 2003.

Constellation Energy guaranteed $206.6 million primarily on behalf of Nine Mile Point related to nuclear decommissioning.

Constellation Energy guaranteed $54.4 million on behalf of our other nonregulated businesses primarily for loans and performance bonds of which $25.6 million was recorded in our Consolidated Balance Sheets at March 31, 2003.

Constellation Energy guaranteed up to $600.0 million relating to the High Desert project. This amount is included in the "Other" guarantees for 2006 in the preceding table.

Our merchant energy business guaranteed $7.7 million for loans related to certain power projects in which we have an investment.

BGE guaranteed two-thirds of certain debt of Safe Harbor Water Power Corporation, an unconsolidated investment. At March 31, 2003, 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 Originated Preferred Securities (TOPrS) of $250.0 million. We discuss TOPrS in more detail in our 2002 Annual Report on Form 10-K.

The total fair value of the obligations for our guarantees recorded in our Consolidated Balance Sheets was $836.2 million and not the $3,929.5 million of total guarantees. We assess the risk of loss from these guarantees to be minimal.

Environmental Matters

We are subject to regulation by various federal, state and local authorities with regard to:

- air quality,
- water quality, and
- disposal of hazardous substances.

As new laws or regulations are promulgated, we assess their applicability and implement the necessary modifications to our facilities or their operation, as required.

We discuss the significant matters below.

Clean Air

The Clean Air Act affects both existing generating facilities and new projects. The Clean Air Act and many state laws impose significant requirements relating to emissions of SO_2 (sulfur dioxide), NOx (nitrogen oxide), particulate matter, and other pollutants that result from burning fossil fuels. The Clean Air Act also contains other provisions that could materially affect some of our projects. Various provisions may require permits, inspections, or installation of additional pollution control technology or may require the purchase of emission allowances.

Certain of these provisions are described in more detail below.

On October 27, 1998, the Environmental Protection Agency (EPA) issued a rule requiring 22 Eastern states and the District of Columbia to reduce emissions of NOx. The EPA rule requires states to implement controls sufficient to meet their NOx budget by May 30, 2004. However, the Northeast states decided to require compliance in 2003. Coal-fired power plants are a principal target of NOx reductions under this initiative.

Many of our generation facilities are subject to NOx reduction requirements under the EPA rule, including those located in Maryland and Pennsylvania. At the Brandon Shores and Wagner facilities, we installed emission reduction equipment to meet Maryland regulations issued pursuant to EPA's rule. The owners of the Keystone plant in Pennsylvania are installing emissions reduction equipment by July 2003 to meet Pennsylvania regulations issued pursuant to EPA's rule. We estimate our costs for the equipment needed at this plant will be approximately $35 million. Through March 31, 2003, we have spent approximately $32 million.

The EPA established new National Ambient Air Quality Standards for very fine particulates and revised standards for ozone attainment that were upheld after various court appeals. While these standards may require increased controls at some of our fossil generating plants in the future, implementation could be delayed for several years. We cannot estimate the cost of these increased controls at this time because the states, including Maryland, Pennsylvania, and California, still need to determine what reductions in pollutants will be necessary to meet the EPA standards.

The EPA and several states filed suits against a number of coal-fired power plants in Mid-Western and Southern states alleging violations of the Prevention of Significant Deterioration and non-attainment provisions of the Clean Air Act's new source review requirements. The EPA requested information relating to modifications made to our Brandon Shores, Crane, and Wagner plants in Baltimore, Maryland. The EPA also sent similar, but narrower, information requests to two of our newer Pennsylvania waste-coal burning plants. We have responded to the EPA, and as of the date of this report the EPA has taken no further action.

Based on the levels of emissions control that the EPA and states are seeking in these new source review enforcement actions, we believe that material additional costs and penalties could be incurred, and planned capital expenditures could be accelerated, if the EPA was successful in any future actions regarding our facilities.

The Clean Air Act requires the EPA to evaluate the public health impacts of emissions of mercury, a hazardous air pollutant, from coal-fired plants. The EPA decided to control mercury emissions from coal-fired plants. Compliance could be required by approximately 2007. We believe final regulations could be issued in 2004 and would affect all coal-fired boilers. The cost of compliance with the final regulations could be material.

Future initiatives regarding greenhouse gas emissions and global warming continue to be the subject of much debate. As a result of our diverse fuel portfolio, our contribution to greenhouse gases varies by plant type. Fossil fuel-fired power plants are significant sources of carbon dioxide emissions, a principal greenhouse gas. Our compliance costs with any mandated federal greenhouse gas reductions in the future could be material.

Clean Water Act

Our facilities are subject to a variety of federal and state regulations governing existing and potential water/wastewater and stormwater discharges.

In April 2002, the EPA proposed rules under the Clean Water Act that require that cooling water intake structures reflect the best technology available for minimizing adverse environmental impacts. A final action on the proposed rules is expected by February 2004. The proposed rule may require the installation of additional intake screens or other protective measures, as well as extensive site-specific study and monitoring requirements. There is also the possibility that the proposed rules may lead to the installation of cooling towers on four of our fossil and both of our nuclear facilities. Our compliance costs associated with the final rules could be material.

Waste Disposal

The EPA and several state agencies have notified us that we are considered a potentially responsible party with respect to the cleanup of certain environmentally contaminated sites owned and operated by others. We cannot estimate the cleanup costs for all of these sites.

However, based on a Record of Decision issued by the EPA in 1997, we can estimate that BGE's current 15.47% share of the reasonably possible cleanup costs at one of these sites, Metal Bank of America, a metal reclaimer in Philadelphia, could be as much as $1.3 million higher than amounts we believe are probable and have recorded as a liability in our Consolidated Balance Sheets. There has been no significant activity with respect to this site since the EPA's Record of Decision in 1997.

In 1999, the EPA proposed to add the 68^{th} Street Dump in Baltimore, Maryland to the Comprehensive Environmental Response, Compensation and Liability Act ("Superfund") National Priorities List ("NPL") and sent a general notice letter to BGE and 19 other parties identifying them as potentially liable parties at the 68^{th} Street Dump site. In April 2003, EPA re-proposed the 68^{th} Street site to the NPL, EPA's list of sites targeted for cleanup and enforcement. At this stage, it is not possible to predict the cleanup cost of the site or BGE's share of the liability, but the costs could be material.

In late December 1996, BGE signed a consent order with the Maryland Department of the Environment that required 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 manufacture gas from coal and oil. Based on the remedial action plans, the costs BGE considers to be probable to remedy the contamination are estimated to total $47 million. BGE recorded these costs as a liability on its Consolidated Balance Sheets and deferred these costs, net of accumulated amortization and amounts it recovered from insurance companies, as a regulatory asset. Because of the results of studies at this site, it is reasonably possible that additional costs could exceed the amount BGE recognized by approximately $14 million. Through March 31, 2003, BGE spent approximately $39 million for remediation at this site. BGE also investigated other small sites where gas was manufactured in the past. We do not expect the cleanup costs of the remaining smaller sites to have a material effect on our financial results.

Nuclear Insurance

We maintain nuclear insurance coverage for Calvert Cliffs and Nine Mile Point in four program areas: liability, worker radiation, property, and accidental outage. These policies contain certain industry standard exclusions, including, but not limited to, ordinary wear and tear, and war. We discuss our insurance programs in *Note 11* of our 2002 Annual Report on Form 10-K.

Non-nuclear Insurance

Our conventional property insurance provides coverage of $1.0 billion per occurrence for Certified acts of terrorism as defined under the Terrorism Risk Insurance Act. Certified acts of terrorism are determined by the Secretary of State and Attorney General of the United States and primarily are based upon the occurrence