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Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
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File Reference: No. 1890-100

Dear Board Members and FASB Staff:

Constellation Energy Group, Inc. (“Constellation Energy”) and its regulated affiliate, Baltimore Gas and Electric Company (“BGE”), respectfully submit comments on the Financial Accounting Standards Board (“FASB”) Discussion Paper *Effective Dates and Transition Methods*. A FORTUNE 500 company headquartered in Baltimore, Maryland, Constellation Energy had revenues of \$15.6 billion in 2009.

Constellation Energy is a leading competitive supplier of energy products and services to wholesale and retail electric and natural gas customers in the United States. In addition, we own a diversified fleet of generating units located throughout the United States and Canada. Constellation Energy also has a significant utility operation that is subject to rate regulation. BGE is a regulated electric transmission and distribution utility company and a regulated gas distribution utility company delivering electricity and natural gas to over 1.2 million electric customers and more than 650,000 gas customers in central Maryland.

We appreciate the opportunity to comment on the time and effort that will be involved in adapting to these new accounting and reporting standards and when and how those standards should become effective. This request for comment requires investigation of very practical, detailed implementation issues with numerous groups outside the accounting department. We entered into high level discussions with various business functions within our organization to assess the types of activities and costs associated with implementation of these new standards, though time constraints limit the nature, detail, and completeness of our response. Additionally, we are commenting on projects that are not yet final and for which substantive changes from the proposals in the Exposure Drafts are possible as a result of redeliberations over the next six months. Due to this uncertainty we have not undertaken a more formal detailed review of the implementation effort.

We participated in drafting the comment letter submitted by the Edison Electric Institute (“EEI”), and we generally support the recommendations communicated in those letters. In particular, we emphasize that letter’s conclusion that significant time and cost requirements will result from implementation of these new standards, and therefore we believe that a sequential approach for adoption is preferred. In particular, although there may be some benefits for a simultaneous effective date for the three most significant standards, we believe that sequenced effective dates is likely to produce the most cost-effective, accurate, and understandable implementation approach. Beyond the specific matters discussed below, we have not repeated EEI’s comments in our letter.

Question 1 – Relevant Standards

Please describe the entity (or the individual) responding to this Discussion Paper. For example:

- a. Please indicate whether you are primarily a preparer of financial statements, an auditor, or an investor, creditor, or other user of financial statements (such as a regulator). Please also indicate whether you primarily prepare, use, or audit financial information prepared in accordance with U.S. GAAP, IFRSs, or both.*
- b. If you are a preparer of financial statements, please describe your primary business or businesses, their size (in terms of the number of employees or other relevant metric), and whether you have securities registered on a securities exchange.*
- e. Please describe the degree to which each of the proposed new standards will likely affect you and the factors driving that effect (for example, preparers of financial statements might explain the frequency or materiality of the transactions to their business and investors might explain the significance of the transactions to the particular industries or sectors they follow).*

Response

As noted above, we participate in the energy industry, and we prepare our financial statements in accordance with U.S. GAAP. As disclosed in our 2009 Form 10-K, we have total assets of \$23.5 billion, with approximately 7,200 employees, and our common stock trades on the New York and Chicago stock exchanges. We will focus our comments on the following standards which will have the most impact on our company: Accounting for Financial Instruments, Revenue Recognition and Leases. We are also impacted by the Other Comprehensive Income and Financial Statement Presentation projects; however those standards will be addressed in a limited fashion. Following is a summary of the extent to which our activities include transactions within the scope of these standards.

Financial Instruments

The use of derivative instruments is integral to the conduct of our business, and derivative instruments are an important tool through which we manage and mitigate the risks that are inherent in our activities. For instance, given the volatility in energy commodity prices, we make extensive use of economic hedging strategies and when possible elect hedge accounting. We employ a dynamic hedging model that includes daily changes in our portfolio as well as completion of contemporaneous documentation and testing to support the use of hedge accounting. As indicated in the Notes to Consolidated Financial Statements in our 2009 Form 10-K, we use derivatives for substantial hedging activities. In addition to derivatives, our company also has other financial instruments including (as of December 31, 2009): equity method investments (\$5.6 billion) in a nuclear power generation joint venture, accounts receivable (\$2.1 billion), and long-term debt (\$4.8 billion).

Revenue Recognition

As previously noted, we have both a regulated operation as well as a merchant energy business that operates in unregulated markets and, as disclosed in our 2009 Form 10-K, we recognized \$15.6 billion in revenues for 2009. We earn revenues from the following business activities:

- Sale of energy and energy-related products, including electricity, natural gas, and other commodities, in nonregulated markets;

- Providing and delivering electricity and natural gas to customers of BGE;
- Trading energy and energy-related commodities;
- Providing other energy-related products and services in competitive markets.

Revenues from nonregulated activities result from contracts or other sales that generally reflect market prices in effect at the time we execute the contract or the sale occurred. Due to our active participation in both retail and wholesale markets, we have an extremely large number of contracts, and often many of these contracts will contain multiple deliverables, including power (which can be further broken down by the timing of delivery, e.g. peak vs. offpeak), natural gas, related commodities, and related service. As noted in our comment letter on the Revenue Recognition Exposure Draft, the performance obligation requirement in the revenue recognition standard will require significant effort to implement.

Leases

The proposed changes to accounting for Leases will have a significant impact on our company. We have a large volume of traditional leases of buildings, offices, vehicles, and equipment. Specifically, our regulated utility leases its utility and maintenance vehicles. In addition to these more traditional leases, we also enter into power purchase and sale contracts that we must evaluate for potential accounting as leases under current U.S. GAAP. These power purchase and sale agreements generally require us to make fixed capacity payments as well as variable payments based on actual output of the plant over terms that can exceed 10 years. The estimate of the output of the plant is driven by a number of factors including physical condition of the plant, real time supply-demand requirements of the electricity grid, and the cost to operate the plant. We addressed the complexity and difficulties around applying the proposed guidance to these power purchase and sale agreements in our comment letter on the Leases exposure draft, which we submitted in December 2010. As disclosed in our 2009 Form 10-K, we recognized expense related to our operating leases of \$422.8 million, and we owed future minimum payments for long-term, noncancelable, operating leases of \$1.4 billion as of December 31, 2009.

Question 2 – Costs of Implementation

Focusing only on those proposals that have been published as Exposure Drafts (accounting for financial instruments, other comprehensive income, revenue recognition, and leases):

- a. How much time will you need to learn about each proposal, appropriately train personnel, plan for, and implement or otherwise adapt to each the new standard?*
- b. What are the types of costs you expect to incur in planning for and adapting to the new requirements and what are the primary drivers of those costs? What is the relative significance of each cost component?*

Response

Implementation of these new complex standards will be a significant undertaking for our company and will require several years to complete. These adjustments in standards are technical and require significant time to fully comprehend the effect on our current processes. The primary types of costs we expect to incur relate to understanding the accounting implications, understanding process and system implementations, training, transaction review, and process and system implementation.

Considerations Common to All Standards

We held discussions with various business functions to determine the expected impacts of implementation. During these discussions, we considered the following:

- Key proposed changes related to each project and which parts of the organization will be the most significantly impacted.
- The different types of transactions that will be impacted by the proposed guidance in the projects as well as the pervasiveness and volume of activity around each transaction.

- The level of complexity around each project and the areas of significant judgment that would require time to work through.
- The capabilities of our current systems and processes in order to identify significant gaps that will exist upon adoption of these proposed standards.
- The immediate actions required to be completed prior to the adoption date as well as the on-going changes needed to maintain the financial information under the proposed guidance.
- Constraints on resources the implementation process will cause. Due to the pervasive nature of the proposed changes, many groups throughout our organization will be impacted and certain individuals will be impacted by more than one of the projects.
- The practical implications of the different adoption options discussed in this Exposure Draft.
- The level of training required to educate both internal and external users of the financial statements around the new information and requirements.

Based on these discussions, we determined that there are three primary areas driving the types of implementation costs we expect to incur: transaction-based costs, system-based costs, and external educational costs.

First, the transaction-based costs include significant operational and reporting costs for assessing accounting implications and internal training. Adjustments to general ledger accounts, legal entity structure, system-generated reports, and reconciliations are required. As highlighted in our response to Question One above, the proposed guidance will require us to review a large number of different types of transactions and significant accounts including leases, revenue generation contracts, allowance for doubtful accounts, and hedging relationships. Each of these standards is complex with regard to both the types of transactions addressed and the accounting required.

Second, the system-based costs will be significant with regard to system and process updates. Our current systems and processes are not capable of recording and maintaining financial information required under the proposed standards. We have included examples of these gaps below as we describe the specific impact of each of the three priority projects in greater detail. Significant overhaul of current systems and processes will be required for implementation, which involves either major revisions to current systems, or completely new systems. Once these system and process upgrades are identified and implemented, we will need to perform internal procedures around the integrity (i.e. completeness and accuracy) of the data produced.

- We will need to perform pre-and post-implementation reviews.
- Our internal controls group will be required to perform an assessment to determine if modification of existing internal controls, or additional controls, will be needed. This assessment includes approval of new system and baseline testing of all system-generated reports.
- There will be judgments in establishing these processes which will need to be reviewed by our external auditor.

Third, the educational costs will involve working with external users of financial information in order to ensure proper and timely understanding of the changes.

- It will be vital to update our investors of all changes being made to the financial statements. Our investor relations group will need to be properly educated prior to presenting our revised financial statements to the investing community.
- Such changes could have potentially significant impacts on our ability to comply with existing debt covenants. Our treasury group would need to have discussions with our lenders and credit rating agencies, which could possibly require renegotiations of debt covenants and credit terms.
- It will be necessary to understand the impact of these new standards on our financial forecasts, which are presented to the investing community and are used to gauge company performance and ratings in the market.

Below are the more specific impacts for each standard for which an exposure draft has been issued.

Accounting for Financial Instruments

The portions of the financial instruments project related to hedge accounting would have a substantial impact on our company if the final standard reflects the proposals in the exposure draft.

- Transaction-based costs: Accounting for derivatives, and particularly hedge accounting is a daily process that involves multiple individuals, systems, processes, and controls. Due to the highly technical nature of hedge accounting, a significant amount of time would be spent understanding the standard and how our hedging program aligns with the new accounting requirements.
- System-based costs: Our systems and processes have been developed over multiple years to meet the technical requirements of the standard in the context of our economic hedging program. The tentative decisions included in the Exposure Draft would have a significant impact on our processes and could possibly require implementation of new systems or significant changes to existing systems, as it is unclear that our current systems would allow for compliance with the new requirements.
- Educational costs: The potential changes to hedge accounting, particularly the elimination of the ability to dedesignate and redesignate, could significantly change our accounting results and thus impact education needed for rating agencies and investors. The updated hedge model will create a significant increase in time needed to forecast accounting results, and likely cause us to create Non-GAAP measures in order to accurately describe results to outside stakeholders.

The primary driver for implementation costs for this standard is the volume and technical nature of the transactions included within its scope. Compliance with the new standard will require that final systems and processes are in place to comply with any revised requirements related to hedge accounting.

Revenue Recognition

We engage in a variety of revenue generating activities, and implementation of this standard will have the potential to result in substantial changes to our current accounting processes.

- Transaction-based costs: Currently, we negotiate contracts that contain multiple deliverables as a group with the objective of achieving a targeted margin on the overall contract. The comprehensive review of all of these contracts for implementation of the new standard will take a considerable amount of time and effort. Additionally, the standard requires modification of contract assets and liabilities, and amounts recorded to revenue and bad debt expense, as well as significant new disclosures. We will need to implement a process to match revenues and expenses at the performance obligation level in order to identify the existence of onerous performance obligations.
- System-based costs: The assessment of onerous performance obligations will require utilizing information in the various risk systems and applying an allocation to link the expected costs of satisfying performance obligations with the expected revenues associated with each performance obligation. To the extent contracts are not fully economically hedged with supply contracts, the process would be forced to use market values for such supply which will fluctuate over time and would likely lead to income statement volatility related to modeled activity. Substantial up-front time, effort, and cost to implement and maintain such a process, as well as ongoing monitoring, will be required.
- Educational costs: Investors focus on evaluation of a company's earnings, and changes to accounting for revenue could significantly alter reported earnings. For instance, the proposed guidance related to onerous performance obligations could result in income statement volatility, which would require explanation to investors.

The primary driver for implementation costs for this standard is the volume and complexity of the transactions included in this standard. We currently have a significant number of revenue contracts, each of which has several performance obligations which would require evaluation in order to comply with the new standard.

Leases

We have significant volumes of contracts that will qualify as leases under the proposed guidance, and thus we will incur substantial costs to implement this new standard.

- Transaction-based costs: We will have a large number of contracts and arrangements to assess for the implementation date. This assessment will be very time consuming as it involves the following steps, all of which require judgment, including: determining whether the contract qualifies as a lease, identifying the leasing element, determining the minimum lease term, determining the discount rate, and determining contingent rentals.
- System-based costs: In addition, calculating the leasing liabilities and assets will require significant system changes. Our current systems do not have the functionality to calculate and amortize leasing assets and liabilities, and the vendors of our current systems have not designed this functionality. We may need separate systems and processes for this as the power purchase agreements and tolling arrangements are very different from the other leasing arrangements. Prior implementation experiences indicate that these newly designed functions will have flaws that will take time to identify and resolve.
- Educational costs: The requirement to record all leases on the balance sheet will result in a significant gross up of total assets and liabilities, which could have an impact on credit metrics and compliance with debt covenants. As such, discussions with credit rating agencies and our lenders will need to occur.

The primary driver for implementation costs for this standard is the volume of the transactions included in this standard. There are significant judgments in the inputs that will be used in making the assessments noted above which will need to be monitored for accuracy and completeness.

Conclusion

As noted from the discussions above, implementation of these standards will require significant time and capital to implement. Due to the relatively limited time available for preparing our response to these questions as well as the fact that the actual provisions of the final standards remain uncertain in numerous significant respects, we are unable to provide specific dollar and hour estimates for implementation. However, it is clear that substantial resources will be required, as the standards are complex and multiple business functions will be affected by the implementation process and the proposed guidance once it is finalized.

Question 4 – Proposed and Recommended Transition Methods

In the context of a broad implementation plan covering all the new requirements, do you agree with the transition method as proposed for each project? If not, what changes would you recommend and why? In particular, please explain the primary advantages of your recommended changes and their affect on the cost of adapting to the new reporting requirements.

Response

Currently each standard proposes some form of retrospective adoption, which is significantly more costly than other methods, and in some instances not practical. Retrospective application involves application of the new accounting standard to one or more previously issued financial statement periods as if that standard had always been used. Compliance with this approach would require maintaining two versions of financial reporting records for the entire retrospective period.

Dual reporting (that is, capturing transaction data under the new standards while continuing to report externally under the old standards prior to the effective date) involves using two different sets of accounting principles and interpretations, would necessitate significant changes to information systems to capture the appropriate data, and would involve duplicative costs to audit those dual amounts and the related internal controls. For instance, if retrospective adoption was required for 12/31/15 financial statements, we would have to implement the new standard on 1/1/13 in order to begin capturing transactions under both existing and new standards, and perform dual reporting for years 2013, 2014, and 2015.

Restatement of prior reported financial statements as of the implementation date is burdensome, as it would involve recreating records, and in other cases is not possible for transactions requiring contemporaneous documentation, such as subjective fair value or impairment judgments. For instance, recreation of prior year financial statements as of 12/31/15 would present practical limitations for making judgments about past transactions. As such, a retrospective approach is significantly costly and could present several problems amongst the various standards.

Retrospective application may have a theoretical appeal in spite of its costs, but in our view the perceived benefits of this approach are modest. Based on discussions with our Investor Relations department, we believe that most financial statement users are primarily interested in understanding and predicting future revenues and cash flows and how the current period results compare to expectations. While we understand that one year of comparative data under revised standards may be considered useful, further prior period restatement often is not helpful to users. Under the proposed approach, three years of historical income statements would have to be restated, yet comparisons to more than one year would likely be stale. Accordingly, we believe that retrospective application is likely to produce only modest benefits that, in our view, do not outweigh the substantial costs of implementation.

For Financial Instruments, excluding hedge accounting, changes in fair value are not ‘comparable,’ and thus we believe that restating prior periods would not provide investors with useful information. Additionally, it is subjective to estimate fair value as of prior period ends to the extent they are not based on Level 1 or 2 inputs. For the hedge accounting portion of financial instruments, application of a retrospective method is impossible. Hedge accounting is an elective treatment which requires contemporaneous documentation, and thus attempting to recast prior elections based on newly changed rules would be a futile and unhelpful exercise. Decisions to dedesignate or redesignate a hedge were made in real time and trying to determine what judgments would have been made given a different set of rules is arbitrary, subjective, and ultimately does not provide credible information.

An alternative, and we believe preferable, approach for Revenue Recognition and Leases is a “modified prospective approach,” which would essentially require retrospective adjustment for the new standards for no more than one comparative balance sheet date and income statement, along with the corresponding information for the current year, upon implementation. This modified prospective approach would provide data in the current period on the updated basis that investors could compare to their expectations along with one comparative historical period for purposes of trend analysis. We discuss our preferred approach for each of the three standards below.

Retrospective application of the new revenue recognition guidance would be highly burdensome and would be extremely difficult to operationalize as we would need to monitor and potentially restate an extremely high volume of contracts over a multiple-year period. For preparers with a high volume of contracts that expire prior to the effective date of the new standard, the costs of a full retrospective application would be quite substantial. Further, the requisite restatement of quarterly data, even for expired contracts, provides an added layer of complexity with little incremental benefit. Reduction of the volume of contracts subject to the proposed standard as a result of limiting the application to only those

open contracts with unfulfilled performance obligations as of the latest balance sheet date will limit the costs of implementation.

The transition guidance for Leases requires entities to “recognize and measure all outstanding contracts within the scope of this guidance as of the date of initial application,” which would include comparative periods. This retrospective application will potentially require entities to evaluate arrangements that qualify as leases that no longer exist on the date of adoption. We question the relevance of this prior year information, especially contracts that no longer exist. This complexity is eliminated under our modified retrospective approach.

Question 5 – Sequential Approach

In thinking about an overall implementation plan covering all of the standards that are the subject of this Discussion Paper:

- a. Do you prefer the single date approach or the sequential approach? Why? What are the advantages and disadvantages of your preferred approach? How would your preferred approach minimize the cost of implementation or bring other benefits? Please describe the sources of those benefits (for example, economies of scale, minimizing disruption, or other synergistic benefits).*
- b. Under a single date approach, what should the mandatory effective date be and why?*
- c. Under the sequential approach, how should the new standards be sequenced (or grouped) and what should the mandatory effective dates for each group be? Please explain the primary factors that drive your recommended adoption sequence, such as the impact of interdependencies among the new standards.*
- d. Do you think another approach would be viable and preferable? If so, please describe that approach and its advantages.*

Response

We recommend a sequential approach for implementation of these new standards. Each of the standards addressed above will result in significant changes resulting in complex new accounting rules. The three standards will require significant time and resources to implement, including understanding accounting implications, systems updates, internal and external training, etc. Additionally, the standards are generally unrelated (that is, they cover, mutually exclusive transactions and accounting principles) and thus we do not expect to gain efficiencies in adopting them at once. Further, many of the resources required to implement the different standards will overlap, resulting in significant resource constraints. Implementation of one standard at a time will allow us to devote the necessary resources to each project, while minimizing the interruption to our normal operations. As such, we recommend implementation in the year indicated below (for calendar year-end companies):

The recommendations assume the following:

- All final proposed standards are issued by June 30, 2011 (excluding Financial Statement Presentation).
- The proposed FASB transition method is adopted, including three years of comparative financial statements.
- Provisions included in exposure drafts for each standard remain materially unchanged.

Other Comprehensive Income	2012
Financial Instruments, Other Than Hedge Accounting	2013
Leases	2014
Financial Instruments, Hedge Accounting	2015
Revenue Recognition	2016
Financial Statement Presentation	2017

We do not anticipate adoption of the Other Comprehensive Income standard will require significant time or additional costs. As such, we would be ready to adopt this standard first. The majority of implementation costs will be related to Financial Instruments, Leases and Revenue Recognition. Depending on the final standard that is issued, each of the three standards discussed in this letter will require a 1-2 year implementation period, along with anywhere from a 1-3 year dual reporting period. To provide for an adequate implementation period, we staggered each of the standards a year apart. As the Hedge Accounting and Revenue Recognition standards are the most complex of these standards, we have recommended implementing these last. We recommend that Financial Statement Presentation is adopted last, as this standard will have significant and overarching implications for all financial statements issued.

An alternative recommendation outlined below assumes the following:

- All final proposed standards are issued by June 30, 2011 (excluding Financial Statement Presentation).
- Our preferred method is adopted, including only one year of comparative financials for leases and revenue recognition.
- Provisions included in exposure drafts for each standard reflect all of our comments from prior comment letters.

Other Comprehensive Income	2012
Financial Instruments, Other Than Hedge Accounting	2012
Leases	2013
Financial Instruments, Hedge Accounting	2014
Revenue Recognition	2015
Financial Statement Presentation	2015

Adoption of the standards in accordance with our recommendations as noted in prior comment letters on issued Exposure Drafts, and in accordance with the sequence noted above, would allow for a shorter implementation timeframe.

For the reasons described in the responses to your questions above, we believe a sequential adoption would be the more effective and reasonable approach for implementation of the final standards. Should the Board choose the single date approach, we recommend an implementation date of no earlier than 12/31/17. Companies will require significant resources to implement all of the above standards on a single date, and sufficient lead-time will be necessary.

Conclusion

Constellation Energy appreciates the opportunity to provide comments on these important issues. The proper timing of implementation of these proposed standards will have a significant impact on our business. Retrospective application is significantly more costly to implement due to the need to capture multiple sets of SOX compliant, audited data or recreate prior data and thus the FASB should weigh the cost to preparers with the perceived benefit to users.

Very truly yours,

/s/ Bryan P. Wright

Vice President, Chief Accounting Officer, and Controller for Constellation Energy