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 Electric Companies  
 Research Note

**Rating: Maintain Hold**

## Constellation Energy (NYSE-CEG)

**“Think Abouts” for the Analysts’ Meeting on January 31, 2007**

|                        |             |      |       |                      |        |         |           |
|------------------------|-------------|------|-------|----------------------|--------|---------|-----------|
| Constellation Energy   | <u>1/22</u> |      |       |                      |        |         |           |
| Price                  | 71          |      |       |                      |        |         |           |
| 52-week range          | 71-51       |      |       |                      |        |         |           |
| Book Value (9/30/06)   | 24.06       | 296% | P/b   | Relative Performance | Price  | Y-t-d % | 12 Mos. % |
| Reported Ongoing       |             |      |       | Constellation        | 71     | 3       | 20        |
| 2002                   | 2.52        |      |       | Phil. Electric Index | 484    | (2)     | 10        |
| 2003                   | 2.76        |      | P/e   | Dow Industrials      | 12,566 | 1       | 18        |
| 2004                   | 3.24        | 22.0 |       | Analyst Coverage     |        |         |           |
| 2005                   | 3.62        | 19.7 |       | Total                | 8      |         |           |
| 2006 Mid. Pt. Guidance | 3.38        | 21.1 |       | No. Buys             | 7      |         |           |
| 2007 Mid. Pt. Guidance | 4.48        | 15.9 |       | Shares (millions)    | 178    |         |           |
| 2008 Mid. Pt. Guidance | 5.50        | 13.0 |       | Market - \$Bil       | 13     |         |           |
| Dividend Per Share     | 1.51        | 2.1% | Yield |                      |        |         |           |

\*GAAP EPS - 2005-\$3.47; 2004- \$3.12; 2003- \$1.66; 2002-\$3.20.

### Market Perception

During the five years ended December 31, 2006, CEG’s stock price rose 159%, more than three times the 49% advance registered by the Philadelphia 22 Electric Stock Index and over 6 times the 24% gain posted by the Dow Industrials. Termination (October 24th) of the FPL Group deal saw Constellation’s price initially dip to \$59.55 a share, but recover to \$62.37 a share, off only 1% for the day. Since then, Constellation’s price increased 14% versus 3% for the Dow Industrials, zero for the Philadelphia 22 Index and 10% for FPL Group. According to Bloomberg Financial Service, Constellation Energy has 8 active sell-side recommendations: 7 buys (Deutsche Bank, Banc of America, UBS, Jefferies, Lehman, Matrix and Citi) and 1 hold (BMO Capital). Our rating remains Hold with an estimated price range of \$68-\$75 a share, pending review of 2006, and risk components in its business profile that support management earnings forecast.

(Continued)

See page 3 of report for Analyst’s Certification, pages 3-4 for Important Disclosures and page 4 for Other Disclosures and Disclaimers

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## Topics

Management is scheduled to meet with the New York investment community on January 31, 2007 (8:00 AM-St. Regis Hotel). Traditionally, the meeting is upbeat and followed by good stock performance. Topics should include:

- 1) Potential resolution to the turmoil surrounding rate increases at Baltimore Gas & Electric scheduled for June 1, 2007. The Maryland commission staff recently estimated that the decline in energy prices could cut the average increase per customer to 47% (roughly \$950 million), down from prior forecasts of 72% (\$1,450 million).
- 2) Hedging strategies in a declining energy price environment. At last year's session management indicated that higher prices, net of reductions in Competition Transition Credits (CTC), would contribute \$0.79 a share in 2007 and another \$0.70+ a share in 2008.
- 3) Changing profile of the wholesale competitive business. Portfolio management and trading gross margin have far exceeded budgets, increasing to \$204 million in 2005, more than double the budgeted \$96 million. In the January 2006 presentation, management estimated the gross margin at \$173 million for 2006, but year to date through September 30, 2006, it exceeded \$460 million.

## Earnings

In 2006, management adjusted actual and estimated ongoing earnings for the exclusion of synfuel results and, later, for the sale of gas generation but left unchanged 2008 guidance of \$5.25 to \$5.75 a share. Management began 2006 with guidance of \$3.65-\$3.75 a share versus \$3.62 a share in 2005 and \$4.75 to \$5.00 a share in 2007. Following the October earnings release, profits net of synfuel credits were forecast at \$3.65 to \$3.80 a share in 2006, versus \$3.28 a share, and \$4.40 to \$4.65 a share in 2007. Finally, pro forma guidance net of the sale of gas generation cut earnings to \$3.30 to \$3.45 a share in 2006 (versus \$2.90 a share in 2005), and to \$4.30 to \$4.65 a share in 2007.

### Earnings Actual and Estimated

|          | 1/31/06*  | 7/28/06*  | 10/27/06  |
|----------|-----------|-----------|-----------|
| 2008est. |           | 5.25-5.75 | 5.25-5.75 |
| 2007est. | 4.75-5.00 | 4.40-4.65 | 4.30-4.65 |
| 2006est. | 3.65-3.75 | 3.65-3.80 | 3.30-3.45 |
| 2005     | 3.62      | 3.28      | 2.90      |
| 2004     | 3.12      | 2.83      |           |
| 2003     | 2.84      | 2.82      |           |
| 2002     | 2.46      | 2.42      |           |

\*Earnings for 2002-2005 are restated as per management. Earnings on page 1 are ongoing earnings as reported in Annual Reports

## Analyst's Certification

I Raymond E. Moore certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I also certify that I have not been and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report. Other Constellation Energy reports issued by me are: 2/24/06 (\$58) - Hold; 1/9/06 (\$58) - Hold; 9/13/05 (\$60) - Hold; 5/12/05 (\$54) - Hold.

## Important Disclosures

### Guide to Investment Ratings:

**Buy** Total return is expected to exceed significantly the average total return of the analyst's industry coverage universe over the next 12 months.

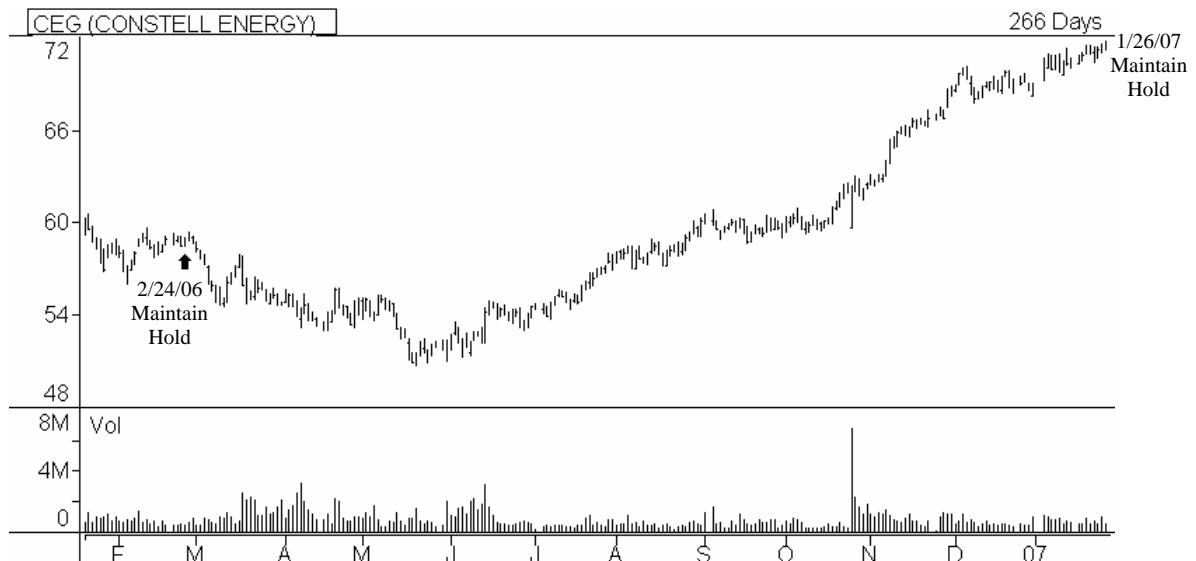
**Market Perform & Hold** Total return is expected to equal the average total return of the analyst's industry coverage universe over the next 12 months.

**Sell** Total return is expected to significantly under perform (15% plus) the total return of the industry coverage universe over the next 12 months.

### Analyst's Ratings Distribution

|      |     | % Investment Banking |
|------|-----|----------------------|
| Buy  | 12% | 0%                   |
| Hold | 82% | 0%                   |
| Sell | 6%  | 0%                   |

The principal risks to the achievement of our price targets include general market trends, disappointing earnings and lower energy prices and adverse regulatory developments



## Important Disclosures, continued

Neither Shields nor a director, officer or the research analyst has received any compensation for products or services from the subject company in the past 12 months.

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