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Constellation Energy

December 14, 2011

Public Company Accounting Oversight Board
Office of the Secretary
1666 K Street, NW
Washington, DC 20006-2803

Rulemaking Docket Matter No. 37

Dear Board Members and PCAOB Staff:

Constellation Energy Group, Inc. ("Constellation Energy") and its regulated affiliate, Baltimore Gas and Electric Company ("BGE"), respectfully submit comments on the Public Company Accounting Oversight Board (the "Board") *Concept Release on Auditor Independence and Audit Firm Rotation* (the "Release"). A FORTUNE 500 company headquartered in Baltimore, Maryland, Constellation Energy had revenues of $14.3 billion in 2010.

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. Through BGE, 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 Release in which the Board seeks comment on the proposal to enhance auditor independence, objectivity, and skepticism utilizing mandatory audit firm rotation. While we recognize the importance of auditor independence, objectivity, and skepticism, we do not agree with the proposal for mandatory firm rotation. Please note that the Edison Electric Institute (EEI) is also submitting a comment letter that reflects the views of its members on the Release. Constellation Energy participated in developing and supports the comments provided by EEI. Specifically, we would like to highlight the following recommendations as alternative approaches:

- Modification of the composition of the audit committee to enhance the level of representation of financial or accounting expertise.
- Modification of auditors' required communications to the audit committee, including enhanced documentation of the independent corroboration and evidence evaluated by the audit team.

- Disclosure of the PCAOB's findings to the public, which would allow companies, auditors, and audit committees to see which audit quality issues are prevalent and to take any remedial steps necessary.

It is clear that mandatory audit firm rotation would create substantial additional costs, yet the benefits to investors are unknown, and there is no empirical evidence to support the proposal that mandatory audit firm rotation would improve auditor independence.

For multinational companies and companies operating in complex industries, such as the energy industry, educating a new audit firm periodically regarding specific transactions and judgments would be a time consuming and costly endeavor. Further, since the time that prior studies of mandatory rotation were undertaken, the group of accounting firms with sufficient expertise to audit many large public entities has been reduced to four, and those firms often perform non-audit accounting services for public entities who are not their clients. As a result, it would be quite difficult, if not impossible, to select a sufficiently qualified independent Big Four firm eligible to undertake the number of rotations that could be required.

We believe that the audit committee is in the best position to execute the responsibility of assuring auditor independence, evaluate the effectiveness of the audit firm and decide if it is appropriate to rotate firms. There are currently several processes in place to sufficiently address the issue of auditor independence. The audit committee is responsible for monitoring the independence of the auditor, which is accomplished through the following:

- Annual Auditor Appointment – Prior to the performance of the annual audit and as part of discharging its duty to appoint the auditor, the audit committee reviews the cost, scope, and general plans for the audit, including the adequacy of staffing and other factors that may affect the effectiveness of the audit. Review of the audit plan allows the audit committee to determine if the audit is thorough and addresses important risks of the company, and allows the committee to get a sense of how the auditor is acting objectively and evaluating significant accounting judgments made by management. Critical examination of the audit plan, allows the committee to draw their own conclusions as to whether the auditor is approaching the audit and its interactions with management in a way that tangibly demonstrates that it is acting independently.
- Ongoing Auditor Interaction – The audit committee routinely questions the auditor regarding the financial reports, judgments, and accounting principles applied by management. Evaluating both the substance as well as the thoroughness of the auditor's responses gives the committee further insight into the independence in thought exercised by the auditor.
- Annual Auditor's Statement – This report provided to the audit committee describes 1) the auditor's internal quality-control procedures, 2) any material issues raised by the most recent internal reviews or investigations, and the steps taken to deal with these issues, and 3) the relationships between the independent auditor and the company. Upon review of the report, the committee takes the appropriate action necessary to ensure auditor independence.
- Audit Partner Rotation – The audit committee reviews and evaluates the qualifications, performance, and independence of lead audit partners. In addition, there are regular discussions around consideration of whether the incumbent audit partner should be retained.

All of these policies and procedures allow the audit committee to appropriately evaluate the independence of the audit firm. It is our belief that mandatory auditor rotation would not lead to more independent auditors performing better audits, but rather that the constant rotation of audit firms would result in inferior audit performance.

For these reasons, we are not in favor of any requirement for mandatory auditor rotation.

Very truly yours,

/s/ James T. Brady
Chairman of the Audit Committee for Constellation Energy

/s/ Bryan P. Wright
Vice President, Chief Accounting Officer, and Controller for Constellation Energy

/s/ Anne A. Hahn
Vice President and Controller for Baltimore Gas and Electric