

# Third Quarter 2010 Financial Review

Finance Committee Meeting  
November 23, 2010



# Table of Contents

Protocol Section Reference	Topic	Slide(s)
9.a.	PJM's audited financial statements and management's discussion and analysis	Provided as separate document
9.a.	Comparison of allocated costs and actual revenues collected from stated rates for each service included in Schedules 9-1 through 9-5 of the PJM Tariff	3 - 4
9.b.	Intercompany charges or credits between PJM's non-FERC regulated subsidiaries and the FERC-regulated RTO	5
9.c.	Material variances in revenues, net operating expense and capital budget vs. actual results	7 - 10 and 5 - 18
9.d.	Material variances in revenues, net operating expense and capital forecast vs. actual results	11 - 14 and 19 - 22
9.e.	Summary of trends from the previous quarterly statements	24 - 25
9.f.	Status update on open major projects	Provided as separate presentation
9.g.	Analysis of any deferred regulatory liability balances	23
9.h.	Forecast of net operating expenses and capital for the full fiscal year	Provided as separate presentation



## 3Q10 Revenues / Expenses by Service Category

<i>(dollars in millions)</i>	9-1	9-2a	9-2b	9-3a	9-3b	9-4	9-5	Total
Revenues <sup>(1)</sup>	37	2	1	20	---	1	3	64
Allocated Expenses <sup>(2)</sup>	24	1	1	15	---	1	2	44
Revenues less Expenses <sup>(3)</sup>	13	1	---	5	---	---	1	20

- (1) Total agrees to third quarter 2010 unaudited financial statements.
- (2) Excludes \$3 million of expenses recovered through the AC<sup>2</sup> rider formula charges.
- (3) Under stated rates, revenues less expenses are reported in a deferred regulatory liability account.



# YTD 2Q10 Revenues / Expenses by Service Category

<i>(dollars in millions)</i>	9-1	9-2a	9-2b	9-3a	9-3b	9-4	9-5	Total
Revenues <sup>(1)</sup> <sup>(2)</sup>	102	4	4	56	1	3	8	178
Allocated Expenses <sup>(2)</sup>	75	4	3	46	1	2	5	136
Revenues less Expenses <sup>(3)</sup>	27	---	1	10	---	1	3	42

- (1) Total agrees to third quarter 2010 unaudited financial statements.
- (2) Excludes \$8 million of expenses recovered through the AC<sup>2</sup> rider formula charges.
- (3) Under stated rates, revenues less expenses are reported in a deferred regulatory liability account.

- For the three months and nine months ended September 30, 2010, the employees of the FERC-regulated RTO charged \$459,000 and \$1,431,000, respectively, for billing, collections and accounting services to PJM's non-FERC regulated subsidiaries, respectively.
- The credit for these services provided was recorded as a reduction in the compensation expense under PJM Tariff allocated to Schedules 9-1 through 9-5.
- For the three months ended September 30, 2010, the revenues and expenses of PJM's non-FERC regulated subsidiaries totaled \$662,000 and \$547,000, respectively, resulting in \$115,000 of net income for the period.
- For the nine months ended September 30, 2010, the revenues and expenses of PJM's non-FERC regulated subsidiaries totaled \$1,851,000 and \$1,564,000, respectively, resulting in \$287,000 of net income for the period.



# Description of Financial Categories

	<b>Financial Protocol Categories</b>	<b>Financial Statement Categories</b>
<b>Compensation</b>	Salaries, Benefits, Pension, Postretirement Healthcare Benefits	Compensation, Pension, Postretirement Healthcare Benefits
<b>Non-Employee Labor</b>	Contractors, Consultants, Legal, Auditors, Duplication	Included in Outside Services with Telecommunications and Insurance
<b>Technology</b>	Hardware Maintenance, Software Licenses, Hardware Leases, Telecommunications, Hardware/Software Purchases & Supplies	Software Licenses and Fees, Portion of Lease expenses, Portion of Computer Maintenance and Office Supplies, Portion of Outside Services
<b>Depreciation / Interest</b>	Depreciation and Amortization plus Interest Expense less Interest Income	Depreciation and Amortization plus Interest Expense less Interest Income
<b>Other</b>	Insurance, Facilities, Security, Employee related expenses, etc.	All Other Expenses
<b>Income Taxes</b>	Income Tax Expense	Income Tax Expense
<b>AC<sup>2</sup> Project</b>	AC <sup>2</sup> Project Expense	Consulting, Software Licenses, Compensation, Utilities, Insurance, Telecommunications, Contractors, Property Taxes, Training



## 3Q10 Expense Variances - Actual vs. Budget

<i>(dollars in millions)</i>	Actual	Budget	Variance	
			\$	%
Compensation <sup>(2)</sup>	25	27	(2)	(4)
Non-Employee Labor <sup>(1)</sup>	6	7	(1)	(14)
Technology <sup>(2)</sup>	5	5	---	---
Depreciation / Interest <sup>(1)</sup>	4	7	(3)	(43)
Other <sup>(1)</sup>	3	4	(1)	(40)
Income Taxes <sup>(2)</sup>	---	---	---	---
AC <sup>2</sup> Project Expense <sup>(2)</sup>	1	1	---	---
AC <sup>2</sup> Rider <sup>(1)</sup>	3	10	(7)	(70)
<b>Total Expenses <sup>(3)</sup></b>	<b>47</b>	<b>61</b>	<b>(14)</b>	<b>(23)</b>
<p><sup>(1)</sup> See additional information on expense variances on slide 8.</p> <p><sup>(2)</sup> For this period, there were no material variances in this expense category in total or within the components of this expense category.</p> <p><sup>(3)</sup> Excludes expenses related to Tariff Schedule 9-FERC.</p>				



## 3Q10 Material Expense Variances - Actual vs. Budget

- **Non-Employee Labor** - Timing of project and department initiatives (-\$0.8M)
- **Depreciation / Interest** – Depreciation (-\$1.9M) and interest (-\$0.8M) due to timing of projects
- **Other** – Timing and some savings of employee related expenses (-\$0.4M); intercompany credits for services to subsidiaries (-\$0.4M); and savings from meeting expense and insurance expense (-\$0.2M)
- **AC<sup>2</sup> Rider** – Lower depreciation (-\$6.5M) and technology (-\$1.0M) costs due to timing of AC<sup>2</sup> go-live date, partially offset by higher interest expense (+\$0.7M).



## 3Q10 YTD Expense Variances - Actual vs. Budget

<i>(dollars in millions)</i>	Actual	Budget	Variance	
			\$	%
Compensation <sup>(2)</sup>	75	78	(3)	(4)
Non-Employee Labor <sup>(1)</sup>	19	21	(2)	(9)
Technology <sup>(2)</sup>	14	14	---	---
Depreciation / Interest <sup>(1)</sup>	13	16	(3)	(19)
Other <sup>(1)</sup>	11	16	(5)	(31)
Income Taxes <sup>(1)</sup>	---	1	(1)	(100)
AC <sup>2</sup> Project Expense <sup>(1)</sup>	3	5	(2)	(40)
AC <sup>2</sup> Rider <sup>(1)</sup>	8	17	(9)	(53)
<b>Total Expenses <sup>(3)</sup></b>	<b>143</b>	<b>168</b>	<b>(25)</b>	<b>(15)</b>
<p><sup>(1)</sup> See additional information on expense variances on slide 10.</p> <p><sup>(2)</sup> For this period, there were no material variances in this expense category in total or within the components of this expense category.</p> <p><sup>(3)</sup> Excludes expenses related to Tariff Schedule 9-FERC.</p>				



## 3Q10 YTD Material Expense Variances - Actual vs. Budget

- **Non-Employee Labor** – Timing of project and department initiatives (-\$3.5M), partially offset by higher legal fees (+\$2.0M) due to default litigation
- **Depreciation** – Depreciation (-\$3.5M) due to timing of projects
- **Other** – Intercompany credits for services to subsidiaries (-\$1.7M); timing and some savings of employee related expenses and facilities maintenance (-\$1.6M); and insurance, meeting, building lease and recruiting expense savings (-\$0.9M)
- **Income Taxes** – Timing
- **AC<sup>2</sup> Project Expense** – Timing of vendor deliverables and associated PJM efforts (-\$2.0M)
- **AC<sup>2</sup> Rider** – Lower depreciation and interest (-\$9.1M) and technology (-\$1.7M) due to timing of AC<sup>2</sup> go-live date, partially offset by higher interest expense (+\$2.1M)



## 3Q10 Expense Variances - Actual vs. Forecast

<i>(dollars in millions)</i>	Actual	Forecast	Variance	
			\$	%
Compensation <sup>(2)</sup>	25	26	(1)	(4)
Non-Employee Labor <sup>(1)</sup>	6	9	(3)	(33)
Technology <sup>(2)</sup>	5	5	---	---
Depreciation / Interest <sup>(2)</sup>	4	5	(1)	(20)
Other <sup>(1)</sup>	3	5	(2)	(40)
Income Taxes <sup>(2)</sup>	---	---	---	---
AC <sup>2</sup> Project Expense <sup>(1)</sup>	1	2	(1)	(50)
AC <sup>2</sup> Rider <sup>(1)</sup>	3	2	1	50
<b>Total Expenses <sup>(3)</sup></b>	<b>47</b>	<b>54</b>	<b>(7)</b>	<b>(13)</b>
<p><sup>(1)</sup> See additional information on expense variances on slide 12.</p> <p><sup>(2)</sup> For this period, there were no material variances in this expense category in total or within the components of this expense category.</p> <p><sup>(3)</sup> Excludes expenses related to Tariff Schedule 9-FERC.</p>				



## 3Q10 Material Expense Variances - Actual vs. Forecast

- **Non-Employee Labor** – Timing of projects (-\$1.3M); and timing and some savings of legal fees (-\$0.8M) and consulting (-\$0.7M)
- **Other** - Intercompany credits for services to subsidiaries (-\$0.4M); timing and some savings for employee related expenses (-\$0.6M); and meeting expense savings (-\$0.2M)
- **AC<sup>2</sup> Project Expense** – Timing of PJM efforts for post production support (-\$1.0M)
- **AC<sup>2</sup> Rider** – Higher interest expense (\$0.7M)



## 3Q10 YTD Expense Variances - Actual vs. Forecast

<i>(dollars in millions)</i>	Actual	Forecast	Variance	
			\$	%
Compensation <sup>(2)</sup>	75	77	(2)	(3)
Non-Employee Labor <sup>(1)</sup>	19	24	(5)	(21)
Technology <sup>(2)</sup>	14	14	---	---
Depreciation / Interest <sup>(1)</sup>	13	14	(1)	(7)
Other <sup>(1)</sup>	11	14	(3)	(21)
Income Taxes <sup>(2)</sup>	---	---	---	---
AC <sup>2</sup> Project Expense <sup>(1)</sup>	3	5	(2)	(40)
AC <sup>2</sup> Rider <sup>(1)</sup>	8	6	2	33
<b>Total Expenses <sup>(3)</sup></b>	<b>143</b>	<b>154</b>	<b>(11)</b>	<b>(7)</b>
<p><sup>(1)</sup> See additional information on expense variances on slide 14.</p> <p><sup>(2)</sup> For this period, there were no material variances in this expense category in total or within the components of this expense category.</p> <p><sup>(3)</sup> Excludes expenses related to Tariff Schedule 9-FERC.</p>				



## 3Q10 YTD Material Expense Variances - Actual vs. Forecast

- **Non-Employee Labor** - Timing of projects (-\$1.8M); and timing and some savings of consulting (-\$1.1M), contractors (-\$0.6M) and legal fees (-\$0.6M)
- **Depreciation / Interest** - Interest (-\$0.7M) and depreciation (-\$0.6M) due to timing of projects
- **Other** - Intercompany credits for services to subsidiaries (-\$1.0M); timing and some savings for employee related expenses (-\$0.7M); and meetings, building lease and security expense savings (-\$0.6M)
- **AC<sup>2</sup> Project Expense** – Timing of vendor deliverables (\$1.0) and associated PJM effort (-\$1.1M)
- **AC<sup>2</sup> Rider** – Higher interest expense (+\$1.7M).



## 3Q10 Capital Variances – Actual vs. Budget

<i>(dollars in millions)</i>	Actual	Budget	Variance	
			\$	%
Application Replacements <sup>(1)</sup>	1	---	1	100
Current Applications & System Reliability <sup>(1)</sup>	4	6	(2)	(33)
New Products / Services <sup>(2)</sup>	---	---	---	---
Risk Management <sup>(2)</sup>	---	---	---	---
Interregional Coordination <sup>(2)</sup>	---	---	---	---
<b>Total Capital</b>	<b>5</b>	<b>6</b>	<b>(1)</b>	<b>(17)</b>
<p><sup>(1)</sup> See additional information on capital variances on slide 16.</p> <p><sup>(2)</sup> For this period, there were no material variances in this capital expenditure category in total or within the components of this capital expenditure category.</p>				



## 3Q10 Material Capital Variances – Actual vs. Budget

- **Applications Replacement**
  - Technology Infrastructure C1 Conversion to AC1: (\$1.0M) Timing, hardware purchases originally planned for first quarter 2010.
- **Current Applications & System Reliability**
  - C1 Control Room Retrofit: (-\$2.5M) Timing and scope acceleration. Work completed ahead of Schedule.
  - Shortage Pricing: (\$0.5M): Timing, hardware purchases were budgeted for second quarter 2010.



## 3Q10 YTD Capital Variances – Actual vs. Budget

<i>(dollars in millions)</i>	Actual	Budget	Variance	
			\$	%
Application Replacements <sup>(1)</sup>	2	3	(1)	(33)
Current Applications & System Reliability <sup>(1)</sup>	12	22	(10)	(46)
New Products / Services <sup>(1)</sup>	---	3	(3)	(100)
Risk Management <sup>(2)</sup>	---	---	---	---
Interregional Coordination <sup>(2)</sup>	---	---	---	---
<b>Total Capital</b>	<b>14</b>	<b>28</b>	<b>(14)</b>	<b>(50)</b>
<p><sup>(1)</sup> See additional information on capital variances on slide 18.</p> <p><sup>(2)</sup> For this period, there were no material variances in this capital expenditure category in total or within the components of this capital expenditure category.</p>				



## 3Q10 YTD Material Capital Variances – Actual vs. Budget

- **Application Replacements**

- Technology Infrastructure C1 Conversion to AC1: (-\$0.3M) Some hardware and software purchases deferred to fourth quarter of 2010
- Balance of the variance is comprised of variances that are less than \$300K

- **Current Applications and System Reliability**

- Market Systems Enhancements: (-\$2.1M) Timing, PJM and vendor resource availability
- Milford Business Continuity Implementation: (-\$1.7M) Timing and savings, scope reduction
- Price Response Demand: (-\$1.4M) Timing, pending committee process
- Shortage Pricing: (-\$1.0M) Timing, project is on track to complete in second quarter 2011
- Milford Back Office Network Infrastructure: (-\$0.8M) Timing, deferred to 2011
- Interface Pricing: (-\$0.7M) Timing
- 2010 Enterprise Technology Infrastructure Master Project (eTIMP): (\$1.2M) Oracle Software License
- Balance of the variance is comprised of variances that are \$500K or less

- **New Products / Services**

- PJM SynchroPhasor Technology Deployment / DOE Grant: (-\$1.9M) Timing, hardware purchases deferred to fall of 2010.
- Balance of the variance is less than \$300K



## 3Q10 Capital Variances – Actual vs. Forecast

<i>(dollars in millions)</i>	Actual	Forecast	Variance	
			\$	%
Application Replacements <sup>(1)</sup>	1	2	(1)	(50)
Current Applications & System Reliability <sup>(1)</sup>	4	7	(3)	(43)
New Products / Services <sup>(2)</sup>	---	---	---	---
Risk Management <sup>(2)</sup>	---	---	---	---
Interregional Coordination <sup>(2)</sup>	---	---	---	---
<b>Total Capital</b>	<b>5</b>	<b>9</b>	<b>(4)</b>	<b>(44)</b>
<p><sup>(1)</sup> See additional information on capital variances on slide 20.</p> <p><sup>(2)</sup> For this period, there were no material variances in this capital expenditure category in total or within the components of this capital expenditure category.</p>				



## 3Q10 Material Capital Variances – Actual vs. Forecast

- **Application Replacements**

- Technology Infrastructure C1 Conversion to AC1: (-\$0.4M) Some hardware and software purchases deferred to fourth quarter of 2010
- Card Reader Replacement: (-\$0.3M) Timing, project started later than forecasted
- Balance of the variance is comprised of variances that are \$300K or less

- **Current Applications & System Reliability**

- Shortage Pricing: (-\$0.4M) Timing
- NetApp Storage Expansion 2010: (-\$0.3M) Timing and possible savings
- Market System Enhancements 2010: (-\$0.3M) Timing, PJM and vendor resource availability
- 2010 Network Equipment Network Lifecycle Remediation: (-\$0.3M) Timing, hardware purchases
- Rational Tools Upgrade: (-\$0.3M) Timing
- Balance of the variance is comprised of variances that are \$300K or less



## 3Q10 YTD Capital Variances – Actual vs. Forecast

<i>(dollars in millions)</i>	Actual	Forecast	Variance	
			\$	%
Application Replacements <sup>(1)</sup>	2	3	(1)	(33)
Current Applications & System Reliability <sup>(1)</sup>	12	16	(4)	(33)
New Products / Services <sup>(2)</sup>	---	---	---	---
Risk Management <sup>(2)</sup>	---	---	---	---
Interregional Coordination <sup>(1)</sup>	---	1	(1)	(100)
<b>Total Capital</b>	<b>14</b>	<b>20</b>	<b>(6)</b>	<b>(30)</b>
<p><sup>(1)</sup> See additional information on capital variances on slide 22.</p> <p><sup>(2)</sup> For this period, there were no material variances in this capital expenditure category in total or within the components of this capital expenditure category.</p>				



## 3Q10 YTD Material Capital Variances – Actual vs. Forecast

- **Application Replacements**
  - Card Reader Replacement: (-\$0.3M) Timing, project started later than forecasted
  - Technology Infrastructure C1 Conversion to AC1: (-\$0.3M) Some purchases deferred to fourth quarter of 2010.
  - Balance of the variance is comprised of variances that are \$100K or less
- **Current Applications & System Reliability**
  - Shortage Pricing: (-\$0.7M) Timing
  - Market System Enhancements 2010: (-\$0.4M) Timing, PJM and vendor resource availability
  - NetApp Storage Expansion 2010: (-\$0.3M) Timing and possible savings
  - DSR Enhancements 2010: (-\$0.3M) Timing, delayed six months due to completion of 2009 work
  - 2010 Network Equipment Network Lifecycle Remediation: (-\$0.3M) Timing, hardware purchases
  - Balance of the variance is comprised of variances that are less than \$300K
- **Interregional Coordination**
  - First Energy Integration: (-\$0.6M) Timing and savings

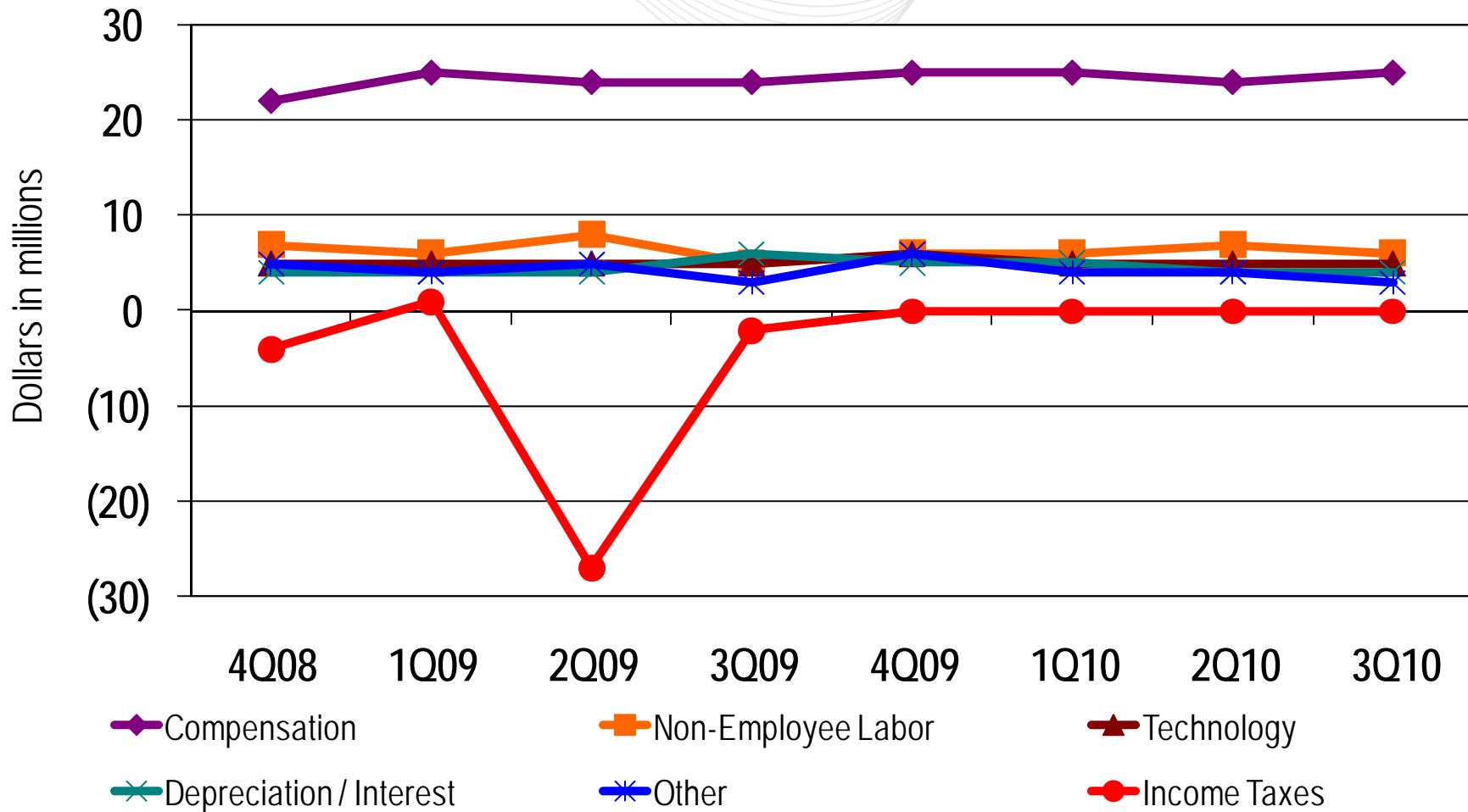


## 2010 YTD Deferred Regulatory Liability Activity

<i>(dollars in millions)</i>	Deferred Regulatory Liability
Beginning Balance, January 1, 2010	21
2010 Revenues Less Expenses	42
Refunds	(30)
Ending Balance, September 30, 2010	33



# Summary of Quarterly Expense Trends



\* Does not include AC<sup>2</sup> Rider Expenses

