



# Fourth Quarter 2010 Financial Review

Finance Committee Meeting  
March 22, 2011



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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
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9.g.	Analysis of any deferred regulatory liability balances	23
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## 4Q10 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>	32	2	1	18	---	1	3	57
Allocated Expenses <sup>(2)</sup>	28	2	1	16	---	1	2	50
Revenues less Expenses <sup>(3)</sup>	4	---	---	2	---	---	1	7

- (1) Total agrees to fourth quarter 2010 unaudited financial statements.
- (2) Excludes \$2 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 4Q10 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>	135	6	6	74	1	3	11	236
Allocated Expenses <sup>(2)</sup>	103	5	3	63	1	3	8	186
Revenues less Expenses <sup>(3)</sup>	32	1	3	11	---	---	3	50

- (1) Total agrees to 2010 audited financial statements.
- (2) Excludes \$9 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 twelve months ended December 31, 2010, the employees of the FERC-regulated RTO charged \$336,000 and \$1,767,000, 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 December 31, 2010, the revenues and expenses of PJM's non-FERC regulated subsidiaries totaled \$368,000 and \$190,000, respectively, resulting in \$178,000 of net income for the period.
- For the twelve months ended December 31, 2010, the revenues and expenses of PJM's non-FERC regulated subsidiaries totaled \$2,219,000 and \$1,754,000, respectively, resulting in \$465,000 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



## 4Q10 Expense Variances - Actual vs. Budget

<i>(dollars in millions)</i>	Actual	Budget	Variance	
			\$	%
Compensation <sup>(1)</sup>	25	27	(2)	(7)
Non-Employee Labor <sup>(2)</sup>	6	6	---	---
Technology <sup>(1)</sup>	6	4	2	50
Depreciation / Interest <sup>(1)</sup>	4	7	(3)	(43)
Other <sup>(2)</sup>	5	5	---	---
Income Taxes <sup>(2)</sup>	---	---	---	---
AC <sup>2</sup> Project Expense <sup>(1)</sup>	2	1	1	100
AC <sup>2</sup> Rider <sup>(1)</sup>	2	10	(8)	(80)
<b>Total Expenses <sup>(3)</sup></b>	<b>50</b>	<b>60</b>	<b>(10)</b>	<b>(17)</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>				



## 4Q10 Material Expense Variances - Actual vs. Budget

- **Compensation** - Lower average staff than projected (-\$2.0M)
- **Technology** – Primarily timing of software licenses & maintenance (+\$0.8M), H/W maintenance (+\$0.4M), H/W purchases (+\$0.2M) and telecommunications (+\$0.2M)
- **Depreciation / Interest** – Depreciation (-\$2.0M) and interest (-\$0.6M) due to timing of projects
- **AC<sup>2</sup> Project Expense** – Hardware and software maintenance (+0.3M), travel and meals (+0.3M), and timing of consulting work (+0.2M)
- **AC<sup>2</sup> Rider** – Lower depreciation (-\$5.9M) and technology (-\$0.9M) costs due to timing of AC<sup>2</sup> go-live date, mark to market of the interest rate swap (-\$0.9M), and lower interest expense (-0.6M)



## 4Q10 YTD Expense Variances - Actual vs. Budget

<i>(dollars in millions)</i>	Actual	Budget	Variance	
			\$	%
Compensation <sup>(1)</sup>	103	107	(4)	(4)
Non-Employee Labor <sup>(2)</sup>	25	25	---	---
Technology <sup>(1)</sup>	19	18	1	6
Depreciation / Interest <sup>(1)</sup>	17	23	(6)	(26)
Other <sup>(1)</sup>	16	21	(5)	(24)
Income Taxes <sup>(2)</sup>	1	1	---	---
AC <sup>2</sup> Project Expense <sup>(1)</sup>	5	6	(1)	(17)
AC <sup>2</sup> Rider <sup>(1)</sup>	9	27	(18)	(67)
<b>Total Expenses <sup>(3)</sup></b>	<b>195</b>	<b>228</b>	<b>(33)</b>	<b>(14)</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>				



## 4Q10 YTD Material Expense Variances - Actual vs. Budget

- **Compensation** – Fewer average staff than projected (-\$4.0M) and timing of projects (-\$0.8M)
- **Technology** – Software maintenance (+\$0.8M) and hardware maintenance (+\$0.7M); offset by telecommunications, hardware leases and software purchases (-\$0.5)
- **Depreciation/Interest** – Depreciation (-\$5.5M) due to timing of projects and lower interest (-\$0.9M)
- **Other** – Intercompany credits for services to subsidiaries (-\$2.4M); savings of employee related expenses (-\$1.7M) and meeting, insurance, building lease and bank charges (-\$1.2M)
- **AC<sup>2</sup> Project Expense** – (-1.6M) timing of post-production labor, (-1.4M) timing of vendor work, (+1.4M) hardware/software maintenance, and (+0.5M) travel and meal expenses due to timing of AC<sup>2</sup> go-live
- **AC<sup>2</sup> Rider** – Lower depreciation and interest (-\$15.6M) and technology (-\$2.6M) due to timing of AC<sup>2</sup> go-live date, partially offset by mark to market of the interest rate swap (+\$1.3M)



## 4Q10 Expense Variances - Actual vs. Forecast

<i>(dollars in millions)</i>	Actual	Forecast	Variance	
			\$	%
Compensation <sup>(2)</sup>	25	25	---	---
Non-Employee Labor <sup>(1)</sup>	6	7	(1)	(14)
Technology <sup>(1)</sup>	6	5	1	20
Depreciation / Interest <sup>(2)</sup>	4	4	---	---
Other <sup>(1)</sup>	5	6	(1)	(17)
Income Taxes <sup>(2)</sup>	---	---	---	---
AC <sup>2</sup> Project Expense <sup>(1)</sup>	2	1	1	100
AC <sup>2</sup> Rider <sup>(1)</sup>	2	3	(1)	(33)
<b>Total Expenses <sup>(3)</sup></b>	<b>50</b>	<b>51</b>	<b>(1)</b>	<b>(2)</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>				



## 4Q10 Material Expense Variances - Actual vs. Forecast

- **Non-Employee Labor** – Savings of consulting (-\$0.5M) and contract employees (-\$0.2M)
- **Technology** – Software licenses & maintenance (+\$0.3M) and hardware purchases, computer maintenance and computer supplies (+\$0.2M)
- **Other** - Intercompany credits for services to subsidiaries (-\$0.9M) and savings of employee related expenses (-\$0.3M)
- **AC<sup>2</sup> Project Expense** – (+0.4M) Hardware and software maintenance, (+0.2M) timing of vendor work, and (+0.1M) travel/meals
- **AC<sup>2</sup> Rider** – Mark to market of the interest rate swap (-\$0.9M)



## 4Q10 YTD Expense Variances - Actual vs. Forecast

<i>(dollars in millions)</i>	Actual	Forecast	Variance	
			\$	%
Compensation <sup>(2)</sup>	103	102	1	1
Non-Employee Labor <sup>(2)</sup>	25	25	---	---
Technology <sup>(2)</sup>	19	19	---	---
Depreciation / Interest <sup>(2)</sup>	17	17	---	---
Other <sup>(2)</sup>	16	16	---	---
Income Taxes <sup>(2)</sup>	1	1	---	---
AC <sup>2</sup> Project Expense <sup>(1)</sup>	5	4	1	25
AC <sup>2</sup> Rider <sup>(1)</sup>	9	10	(1)	(10)
<b>Total Expenses <sup>(3)</sup></b>	<b>195</b>	<b>194</b>	<b>1</b>	<b>1</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>				



## 4Q10 YTD Material Expense Variances - Actual vs. Forecast

- **AC<sup>2</sup> Project Expense** – (+0.4M) Hardware and software maintenance, (+0.2M) timing of vendor work, and (+0.1M) travel/meals
- **AC<sup>2</sup> Rider** – Mark to market of the interest rate swap (-\$0.9M)



## 4Q10 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>	8	1	7	700
New Products / Services <sup>(2)</sup>	---	---	---	---
Risk Management <sup>(2)</sup>	---	---	---	---
Interregional Coordination <sup>(2)</sup>	---	---	---	---
<b>Total Capital</b>	<b>9</b>	<b>1</b>	<b>8</b>	<b>800</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>				



## 4Q10 Material Capital Variances – Actual vs. Budget

- **Applications Replacement**
  - Technology Infrastructure C1 Conversion to AC1 (TICTAC): (\$0.6M) Timing, hardware and software purchases originally scheduled for the first half of 2010
- **Current Applications & System Reliability**
  - 2010 Enterprise Technology Infrastructure Master Project (ETIMP): (\$3.6M) Timing, accelerated hardware and software purchases and Oracle License
  - Milford M1 Retrofit 2010: (\$0.8M) Fit out of space for incident response, information technology restoration lab and meetings not included in original budget
  - Shortage Pricing: (\$0.7M) Timing, FERC ruling and associated vendor deliverables
  - Milford M2 Retrofit 2010: (\$0.4M) Security enhancements not in original budget



## 4Q10 YTD Capital Variances – Actual vs. Budget

<i>(dollars in millions)</i>	Actual	Budget	Variance	
			\$	%
Application Replacements <sup>(1)</sup>	3	3	---	---
Current Applications & System Reliability <sup>(1)</sup>	20	23	(3)	(13)
New Products / Services <sup>(1)</sup>	1	3	(2)	(67)
Risk Management <sup>(2)</sup>	---	---	---	---
Interregional Coordination <sup>(2)</sup>	---	---	---	---
<b>Total Capital</b>	<b>24</b>	<b>29</b>	<b>(5)</b>	<b>(17)</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>				



## 4Q10 YTD Material Capital Variances – Actual vs. Budget

- **Current Applications and System Reliability**
  - 2010 Enterprise Technology Infrastructure Master Project (ETIMP): (\$4.8M) Timing, accelerated hardware and software purchases and Oracle License.
  - Milford M1 Retrofit 2010: (\$0.8M) Fit out of space for incident response, information technology restoration lab and meetings not included in original budget
  - Market Systems, RPM and GCA Enhancements: (-\$2.1M) Timing, project starts dates
  - Milford Business Continuity Implementation: (-\$1.8M) Savings, scope and hardware reductions
  - Price Response Demand: (-\$1.4M) Timing
  - GCA Enhancements 2010: (-\$1.0M) Timing, project startup deferred to December 2010
  - Milford Back Office Network Infrastructure: (-\$0.8M) Timing, project startup deferred to 2011
  - Interface Pricing: (-\$0.6M) Savings, used In-House Resources vs. Consultants
  - UEV – Phase 2: (-\$0.6M) Timing, project startup deferred to 2011
  - Balance of the variance is comprised of variances that are \$500K or less
- **New Products / Services**
  - PJM SynchroPhasor Technology Deployment / DOE Grant: (-\$1.7M) Timing, project started later than expected



## 4Q10 Capital Variances – Actual vs. Forecast

<i>(dollars in millions)</i>	Actual	Forecast	Variance	
			\$	%
Application Replacements <sup>(1)</sup>	1	1	---	---
Current Applications & System Reliability <sup>(1)</sup>	8	10	(2)	(20)
New Products / Services <sup>(2)</sup>	---	---	---	---
Risk Management <sup>(2)</sup>	---	---	---	---
Interregional Coordination <sup>(1)</sup>	---	1	(1)	(100)
<b>Total Capital</b>	<b>9</b>	<b>12</b>	<b>(3)</b>	<b>(25)</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>				



## 4Q10 Material Capital Variances – Actual vs. Forecast

- **Current Applications & System Reliability**
  - Shortage Pricing: (-\$0.8M) Timing, implementation contingent upon response to FERC Filing
  - Intranet Redesign Project 2010: (-\$0.2M) Savings, utilized same vendor for both Phase I and II
  - Balance of the variance is comprised of variances that are \$200K or less
- **Interregional Coordination**
  - First Energy and Duke Integration: (-\$0.9M) savings



## 4Q10 YTD Capital Variances – Actual vs. Forecast

<i>(dollars in millions)</i>	Actual	Forecast	Variance	
			\$	%
Application Replacements <sup>(2)</sup>	3	3	---	---
Current Applications & System Reliability <sup>(1)</sup>	20	22	(2)	(9)
New Products / Services <sup>(2)</sup>	1	1	---	---
Risk Management <sup>(2)</sup>	---	---	---	---
Interregional Coordination <sup>(1)</sup>	---	1	(1)	(100)
<b>Total Capital</b>	<b>24</b>	<b>27</b>	<b>(3)</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>				



## 4Q10 YTD Material Capital Variances – Actual vs. Forecast

- **Current Applications & System Reliability**
  - Shortage Pricing: (-\$0.8M) Timing, implementation contingent upon response to FERC Filing
  - Intranet Redesign Project 2010: (-\$0.2M) Savings, utilized same vendor for both Phase I and II
  - Balance of the variance is comprised of variances that are \$200K or less
- **Interregional Coordination**
  - First Energy and Duke Integration: (-\$0.9M) savings

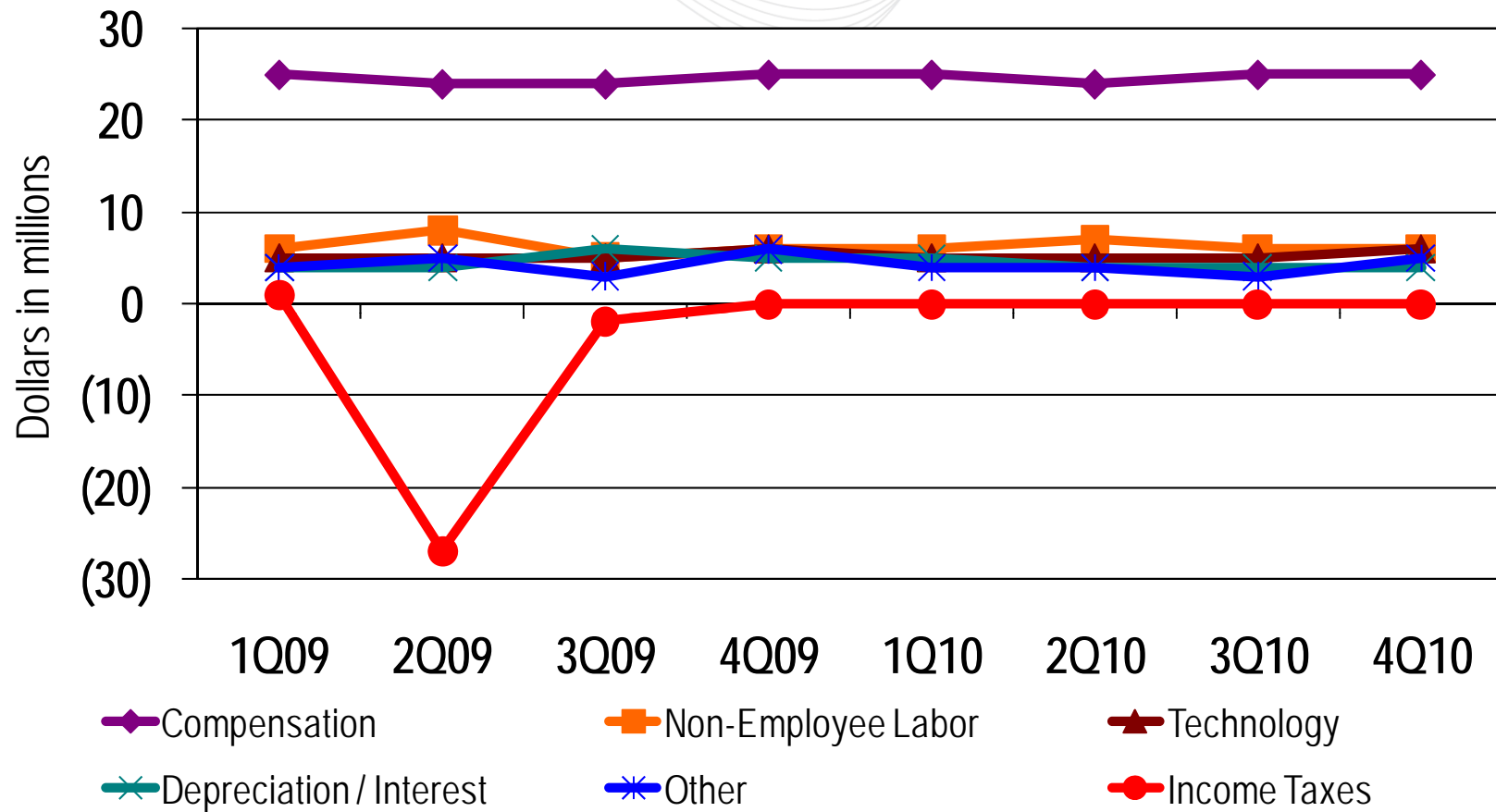


## 2010 YTD Deferred Regulatory Liability Activity

<i>(dollars in millions)</i>	Deferred Regulatory Liability
Beginning Balance, January 1, 2010	21
2010 Revenues Less Expenses	50
Refunds	(51)
Ending Balance, December 31, 2010	20



# Summary of Quarterly Expense Trends



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

