



# 2014 Audited Financial Statement Highlights

Finance Committee  
March 24, 2015



## 2014 Balance Sheet Highlights - Assets

<i>(dollars in millions)</i>	12/31/14 Balance	12/31/13 Balance	Change	
			\$	%
Deposits on hand <sup>(1)</sup>	1,088	862	226	26
Operating cash <sup>(2)</sup>	37	15	22	147
Deferred recovery of pension and postretirement costs <sup>(3)</sup>	22	-	22	100

(1) Increase in deposits on hand is primarily driven by higher customer credit deposits for peak market activity during 2014 as compared with 2013.

(2) Increase in operating cash is primarily due to approximately \$32 million of FTR excess congestion revenue collected but not yet remitted to members at December 31, 2014. There was also a slight increase of \$4.7 million in member prepayments at December 31, 2014 as compared to December 31, 2013. The remaining difference is due to the timing of collections vs. expenditures.

(3) Increase in deferred recovery of pension and postretirement costs is due to following: (1) decrease in discount rate to 4.10% at December 31, 2014 as compared to 4.95% at December 31, 2013; and, (2) movement to new mortality tables to measure the associated liabilities at December 31, 2014. The revised mortality table is based on new guidance published by the Society of Actuaries. This balance was a liability at December 31, 2013, instead of an asset at December 31, 2014..



## 2014 Balance Sheet Highlights - Liabilities

<i>(dollars in millions)</i>	12/31/14 Balance	12/31/13 Balance	Change	
			\$	%
Due to members <sup>(1)</sup>	61	15	46	307
Deferred regulatory liability – current <sup>(2)</sup>	-	10	(10)	(100)
Deferred regulatory liability – non-current <sup>(3)</sup>	11	5	6	120
Long-term debt <sup>(4)</sup>	35	48	(13)	(27)

(1) Increase is primarily due to FTR excess congestion revenue collected but not yet remitted to members at December 31, 2014.

(2) At December 31, 2013, PJM was required to lower the non-current portion of the deferred regulatory liability to 2% of revenues according to the stated rate tariff thus causing the \$10 million current deferred regulatory balance refunding to members during first quarter 2014. The current deferred regulatory balance is zero at December 31, 2014 as there are no refunds due to members in first quarter 2015 since the non-current reserve was not fully funded at the end of 2014.

(3) The non-current portion reflects PJM's financial reserve at December 31, 2014 as defined in the stated rate tariff. The increase in the non-current portion of the deferred regulatory liability is due to replenishing this "reserve" to 6% of annual stated rate revenues during 2014 after the triennial additional refunds were paid to members during 2014 in accordance with the stated rate settlement for income tax deductibility purposes.

(4) Decrease in long-term debt reflects the scheduled semi-annual debt payments under the seven-year private placement and the term loan. These payments are due March 15<sup>th</sup> and September 15<sup>th</sup> through 2016 for the private placement and through 2021 for the term loan.

## Change in Deferred Regulatory Liability

<i>\$ in millions)</i>	Three Months Ended December 31, 2014	Twelve Months Ended December 31, 2014
Service Fees	66	288
Expenses, net	(70)	(267)
Contribution to Deferred Regulatory Liability	(4)	21



## 2014 Income Statement Highlights

<i>(dollars in millions)</i>	2014	2013	Change	
			\$	%
Compensation <sup>(1)</sup>	119	114	5	4
Pension and postretirement healthcare benefits <sup>(2)</sup>	7	14	(7)	(50)
Income tax expense (benefit) <sup>(3)</sup>	1	(5)	6	120

- (1) Increase in compensation expense is a result of year-over-year benefit premium and merit increases as well as the timing of labor being capitalized into projects.
- (2) Decrease in pension and postretirement healthcare benefits is due to strong pension plan asset performance in 2013 as well as an increase in the discount rate used to measure liabilities at December 31, 2013.
- (3) The income tax benefit in 2013 was a result of changes enacted by the Pennsylvania regarding the utilization of PA net operating losses (NOLs) for future years. As a result of this law change the Company re-evaluated the need for a valuation allowance based on all available evidence. As a result of this analysis, the Company believed it was more likely than not that the PA NOLs would be utilized before they expire and had reversed the associated valuation allowance. The impact of this reversal was a \$6.2 million reduction in tax expense recorded in the third quarter of 2013.



## 2014 Cash Flow Statement Highlights

<i>(dollars in millions)</i>	2014	2013	Change	
			\$	%
Operating Cash Flows <sup>(1)</sup>	95	52	43	83
Investing Cash Flows <sup>(2)</sup>	(34)	(34)	-	-
Financing Cash Flows	187	(261)	448	172
<p>(1) The change in net cash provided by operating activities was principally driven by congestion revenue collected during 2014 that has not been distributed to members yet.</p> <p>(2) The change in net cash provided by financing activities is primarily due to higher customer deposits as a result of increased market activity during 2014 as compared to 2013.</p>				

## Footnotes:

- Footnote 13 provides a summary of ongoing legal and regulatory matters.
  - Lehman Brothers Commodities Services Default – Cumulative \$15.4 million recovery to date against \$17 million claim. Additional bankruptcy payments anticipated.
  - Marginal Line Loss Surplus Payment Re-allocation – DC Circuit Court of Appeals remand order in August 2013 directed FERC to provide additional support for its determination to recoup the previously ordered refunds.