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# ***Finance Committee Update***

February 3, 2016

**Frank Czigler**  
*PSE&G*



# Current Members of the Finance Committee

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## Finance Committee

Electric Distributor Sector	Charlie Bayless, NCEMC (expires 2016) Steve Lieberman, ODEC (expires 2017)
End Use Customer Sector	<b><i>Dave Evrard, PA Office of the Consumer Advocate (expires 2018)</i></b> George Waidelich, Safeway, Inc. (expires 2017)
Generation Owner	<b><i>Michelle Greening, Talen (expires 2018)</i></b> Joe Kerecman, Calpine (expires 2016)
Other Supplier Sector	<b><i>Marguerite Miller, Credit Suisse (expires 2018)</i></b> Marji Philips, Direct Energy (expires 2017)
Transmission Owner Sector	<b><i>Jim Benchek, FirstEnergy (expires 2018)</i></b> Frank Czigler, PSEG (expires 2017)

## FC Meetings in CY 2015, and Upcoming in 2016

- **3/24/2015**
  - Prior year financial results (PJM and MA)
  - NERC/RFC Budgets
- **5/19/2015 (at the Annual Meeting)**
  - Q1 Financial Results
  - CY Expense and Capital Forecast
  - OPSI Budget
- **8/26/2015**
  - Q2 Financial Results
  - CY Expense and Capital Forecast
  - Next Year's Exp. & Cap. Budgets
  - 5-yr Revenue, Exp. & Cap Projections
- **9/17/2015**
  - Next Year's Proposed Budgets
  - 5-yr Revenue & Expense Projections
  - FC Recommendations to the BOD on Proposed 2016 Exp. & Cap. Budgets
- **10/21/2015 (short conference call)**
  - FC Recommendations to the BOD on Proposed 2016 Exp. & Cap. Budgets
- **11/24/2015**
  - Q3 Financial Results
  - Next Year's FC Work Plan
- **3/30/2016**
  - Prior year financial results (PJM and MA)
  - NERC/RFC Budgets
  - Stated Rates Discussion
- **5/17/2016 (at the Annual Meeting)**
  - Q1 Financial Results
  - CY Expense and Capital Forecast
  - OPSI Budget
  - Stated Rates Discussion
- **7/7/2016 (short conference call)**
  - Stated Rates Discussion
- **8/24/2016**
  - Q2 Financial Results
  - CY Expense and Capital Forecast
  - Next Year's Exp. & Cap. Budgets
  - 5-yr Revenue, Exp. & Cap Projections
  - Stated Rates Recommendation
- **9/28/2016**
  - Next Year's Proposed Budgets
  - 5-yr Revenue & Expense Projections
  - FC Recommendations to the BOD on Proposed 2017 Exp. & Cap. Budgets
- **10/26/2016 (short conference call)**
  - FC Recommendations to the BOD on Proposed 2016 Exp. & Cap. Budgets
- **11/22/2016**
  - Q3 Financial Results
  - Next Year's FC Work Plan



## New Issue in 2016 – Stated Rate Discussions

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- PJM looking to initiate discussions on administrative rates (Schedule 9 of PJM OATT)
- Potential change in rates not due to change Capital Improvement level
- Two drivers:
  - Sunset of the AC2 Rider (Schedule 9-6 of the PJM OATT)
  - Flat to low energy growth has reduced future revenue projections, and the majority of PJM revenue (cost recovery) is derived from energy transmitted on the bulk electric system
- The 2016 forecasted operating costs and revenues equal at \$280M
- Projections beyond 2016 indicate expenses will exceed revenue
  - By \$10M in 2017
  - By \$14M in 2018
  - By \$33M in 2019

## The AC2 Rider impact to the Stated Rates

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- the AC2 rider set to expire November 2018 (seven years from the in-service date of the AC2 EMS)
  - Matching the AC2 Rider with the depreciable/useful life of the EMS maxed PJM's ability to recover the AC2 project/program investment
- PJM has been recovering between \$23M – \$30M annually for the operating costs of the second control center via the AC2 Rider
- The expiration of the AC2 Rider in November 2018 causes a step down in revenue projections beginning in 2019
- Based on current projections, 2016 is the appropriate time to discuss PJM's administrative rates and expiration of the AC2 Rider, and perhaps combine this formula based rate into the Stated Rates
- Discussion will be initiated at the March 30<sup>th</sup> FC Meeting, and continue through August; targeting to develop a recommendation for the MC's consideration in Q3/late summer

# Highlights from the 2015 PJM Finance Committee Meetings

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## PJM

- 2015 expenses were projected to be \$276M (in line with the original budget)
- 2016 O&M Budget = \$280M
- 2016 Capital Budget = \$36M (\$6M higher than in 2015 due to IT system upgrades). Going forward, a \$30-\$40M range is anticipated annually.

## Monitoring Analytics

- 2016 budget is \$12.4 million (a 7.3% increase due to non-employee labor costs, technology costs, and increased depreciation costs).

## FERC Rate

- 2016 Schedule-9 FERC rate is \$0.0651 per MWh of load relative to PJM's projected transmission usage of 852 terawatt-hours for 2016

## OPSI

- 2016 budget is \$658,900 (a 2% increase from 2015).

## NERC

- 2016 assessments to PJM members is \$9.1 million

## RFC

- 2016 assessments to PJM members is \$14.8 million



## Highlights from the 2015 PJM Finance Committee Meetings (cont.)

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### 3<sup>rd</sup> Quarter Financials – Reviewed at the November 24<sup>th</sup> FC Meeting:

- Balance Sheet Highlights
  - Assets: Operating cash balance of \$10M at the end of Q3 2015 was 73% lower than at end of Q4 2014 due to decrease in member pre-payments.
  - Liabilities: \$53M was due to members at end of Q3 2015 (a 13% decrease compared to the end of 2014, caused by lower member pre-payments. The non-current portion of the deferred regulatory liability (that represents PJM's financial reserve) was \$15M.
- Income Statement Highlights
  - Compensation at 3Q 2015 was \$93M, which increased by \$5M (6%) from 3Q 2014.
  - Pension and post-retirement benefit increased by \$2M (40%) due to decrease in discount rate and revised mortality tables used to measure the associated liabilities.
- Cash Flow Statement Highlights
  - Operating Cash Flow was \$12M, which decreased during the first nine months of 2015 by \$87M (116%) as compared to the first nine months of 2014 principally driven by lower revenues, and also impacted by the timing of vendor payments.
  - Financing Cash Flow was \$309M, which increased by \$90M (41%) primarily due to higher customer deposits as a result of the FTR and RPM auctions.

The End

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Thank You!