

Talen Energy Corp
Form 10-Q
May 10, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934 for the quarterly period ended March 31, 2016

OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934 for the transition period from _____ to _____

Commission File Number	Registrant; State of Incorporation; Address and Telephone Number	IRS Employer Identification No.
1-37388	Talen Energy Corporation (Exact name of Registrant as specified in its charter) Delaware (State or other jurisdiction of incorporation or organization) 835 Hamilton Street Suite 150 Allentown, PA 18101-1179 (888) 211-6011	47-1197305
1-32944	Talen Energy Supply, LLC (Exact name of Registrant as specified in its charter) Delaware (State or other jurisdiction of incorporation or organization) 835 Hamilton Street Suite 150 Allentown, PA 18101-1179 (888) 211-6011	23-3074920

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

Talen Energy Corporation Yes No
Talen Energy Supply, LLC Yes No

(Note: Talen Energy Supply, LLC has filed all reports required under section 13 or 15(d) of the Exchange Act during the preceding 12 months, but since January 1, 2016, has not been subject to the filing requirements of Section 13 or 15(d) of the Exchange Act.)

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files).

Talen Energy Corporation Yes No
Talen Energy Supply, LLC Yes No

Edgar Filing: Talen Energy Corp - Form 10-Q

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, non-accelerated filers, or smaller reporting companies. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
Talen Energy Corporation	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Talen Energy Supply, LLC	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act).

Talen Energy Corporation	Yes	No	<input checked="" type="checkbox"/>
Talen Energy Supply, LLC	Yes	No	<input checked="" type="checkbox"/>

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Talen Energy Corporation Common stock, \$0.001 par value, 128,526,720 shares outstanding at April 29, 2016.

Talen Energy Supply, LLC Talen Energy Corporation indirectly holds all of the membership interests in Talen Energy Supply, LLC.

This document is available free of charge in the Investors & Media section of Talen Energy Corporation's website at www.talenenergy.com. However, information on such website does not constitute a part of this Form 10-Q.

Table of Contents

TALEN ENERGY CORPORATION
TALEN ENERGY SUPPLY, LLC
FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2016

This combined Quarterly Report on Form 10-Q is separately filed by the following registrants in their individual capacity: Talen Energy Corporation and Talen Energy Supply, LLC. Information contained herein relating to any individual registrant is filed by such registrant solely on its own behalf, and neither registrant makes any representation as to information relating to the other registrant except that information relating to Talen Energy Supply, LLC and its subsidiaries is also attributed to Talen Energy Corporation and information relating to the subsidiaries of Talen Energy Supply, LLC is also attributed to Talen Energy Supply, LLC.

As Talen Energy Corporation is substantially comprised of Talen Energy Supply, LLC and its subsidiaries, most disclosures refer to Talen Energy which refers collectively to Talen Energy Corporation and Talen Energy Supply, LLC. This presentation has been applied where identification of particular subsidiaries is not material to the matter being disclosed, and to conform narrative disclosures to the presentation of financial information on a consolidated basis. When identification of a particular entity is considered important to understanding the matter being disclosed, the specific entity's name is used, in particular, for those few disclosures that apply only to Talen Energy Corporation. References, individually, to Talen Energy Corporation and Talen Energy Supply, LLC are references to such entities directly or to one or more of their subsidiaries, as the case may be, the financial results of which subsidiaries are consolidated into such registrant's financial results in accordance with GAAP. However, specific references to Talen Energy Supply, LLC also apply to Talen Energy Corporation through consolidation.

Table of Contents

GLOSSARY OF TERMS AND ABBREVIATIONS	<u>i</u>
FORWARD-LOOKING INFORMATION	<u>1</u>
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Talen Energy Corporation and Subsidiaries	
Condensed Consolidated Statements of Income	<u>3</u>
Condensed Consolidated Statements of Comprehensive Income	<u>4</u>
Condensed Consolidated Statements of Cash Flows	<u>5</u>
Condensed Consolidated Balance Sheets	<u>6</u>
Condensed Consolidated Statements of Equity	<u>8</u>
Talen Energy Supply, LLC and Subsidiaries	
Condensed Consolidated Statements of Income	<u>9</u>
Condensed Consolidated Statements of Comprehensive Income	<u>10</u>
Condensed Consolidated Statements of Cash Flows	<u>11</u>
Condensed Consolidated Balance Sheets	<u>12</u>
Condensed Consolidated Statements of Equity	<u>14</u>
Combined Notes to Condensed Consolidated Financial Statements (Unaudited)	
1. Business and Basis of Presentation	<u>15</u>
2. Summary of Significant Accounting Policies	<u>16</u>
3. Segment and Related Information	<u>16</u>
4. Earnings (Loss) Per Share for Talen Energy Corporation	<u>17</u>
5. Income Taxes	<u>18</u>

Edgar Filing: Talen Energy Corp - Form 10-Q

6. Financing Activities	<u>18</u>
7. Acquisitions, Development and Divestitures	<u>19</u>
8. Defined Benefits	<u>20</u>
9. Commitments and Contingencies	<u>20</u>
10. Related Party Transactions	<u>26</u>

Table of Contents

11. Other Income (Expense) - net	<u>26</u>
12. Fair Value Measurements and Credit Concentration	<u>26</u>
13. Derivative Instruments and Hedging Activities	<u>30</u>
14. Asset Retirement Obligations	<u>35</u>
15. NDT Funds	<u>35</u>
16. Accumulated Other Comprehensive Income (Loss)	<u>36</u>
17. New Accounting Guidance Pending Adoption	<u>37</u>
Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations	
Overview	<u>40</u>
Results of Operations	<u>42</u>
Financial Condition	<u>48</u>
New Accounting Guidance	<u>54</u>
Application of Critical Accounting Policies	<u>54</u>
Item 3. Quantitative and Qualitative Disclosures About Market Risk	<u>55</u>
Item 4. Controls and Procedures	<u>55</u>
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	<u>55</u>
Item 1A. Risk Factors	<u>55</u>
Item 4. Mine Safety Disclosures	<u>55</u>
Item 6. Exhibits	<u>56</u>
SIGNATURES	<u>57</u>

Table of Contents

GLOSSARY OF TERMS AND ABBREVIATIONS

Talen Energy and its subsidiaries

Athens - New Athens Generating Company, LLC, an indirect subsidiary of Talen Energy Supply that owns generating operations in New York.

Harquahala - New Harquahala Generating Company, LLC, an indirect subsidiary of Talen Energy Supply that owns generating operations in Arizona.

Jade - Jade Power Generation Holdings LLC, a subsidiary of Talen Energy Supply that owns generating operations in Texas.

MACH Gen - MACH Gen, LLC, a subsidiary of Talen Energy Supply and parent of New MACH Gen.

Millennium - Millennium Power Partners, L.P., an indirect subsidiary of Talen Energy Supply that owns generating operations in Massachusetts.

New MACH Gen - New MACH Gen, LLC, an indirect subsidiary of Talen Energy Supply and a direct subsidiary of MACH Gen that, through its subsidiaries, owns generating operations in Arizona, Massachusetts and New York.

Raven - Raven Power Generation Holdings LLC, a subsidiary of Talen Energy Supply that owns generating operations in Maryland.

RJS - Raven, Jade and Sapphire, collectively.

RJS Power - RJS Generation Holdings LLC, a Delaware limited liability company and former parent of RJS that was contributed by the Riverstone Holders to Talen Energy on June 1, 2015 in exchange for 35% of Talen Energy Corporation's common stock. Following the contribution, RJS Power was merged into Talen Energy Supply.

Sapphire - Sapphire Power Generation Holdings LLC, a subsidiary of Talen Energy Supply that owns generating operations in Massachusetts, New Jersey and Pennsylvania.

Susquehanna Nuclear - Susquehanna Nuclear, LLC, a subsidiary of Talen Generation that owns a nuclear-powered generating station in Pennsylvania.

Talen Energy - Talen Energy Corporation and Talen Energy Supply, LLC, collectively.

Talen Energy Corporation - a holding company formed to be the publicly traded company and owner of Talen Energy Supply as a result of the spinoff from PPL.

Talen Energy Supply - Talen Energy Supply, LLC, a subsidiary of Talen Energy Corporation and the parent company of Talen Generation, Talen Energy Marketing, RJS and MACH Gen.

Talen Energy Marketing - Talen Energy Marketing, LLC, a subsidiary of Talen Energy Supply that markets and trades wholesale and retail electricity and gas, and supplies energy and energy services in competitive markets.

Edgar Filing: Talen Energy Corp - Form 10-Q

Talen Generation - Talen Generation, LLC, a subsidiary of Talen Energy Supply that owns and operates generating facilities through various subsidiaries primarily in Pennsylvania.

Talen Montana - Talen Montana, LLC, an indirect subsidiary of Talen Generation that owns generating operations in Montana.

Other terms and abbreviations

2015 Form 10-K - Annual Report filed with the SEC on Form 10-K for the year ended December 31, 2015.

Adjusted EBITDA - See Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations - Statement of Income Analysis, Margins, EBITDA and Adjusted EBITDA - EBITDA and Adjusted EBITDA.

i

Table of Contents

Amended STF Agreement - Amended and Restated Common Agreement dated as of December 15, 2015, among Talen Energy Marketing, Talen Energy Supply, as guarantor, Brunner Island, LLC, Montour, LLC, Wilmington Trust, National Association, as agent, and the secured counterparties thereto.

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

Basis - when used in the context of derivatives and commodity trading, the commodity price differential between two locations, products or time periods.

CCR(s) - Coal Combustion Residual(s). CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes.

Clean Air Act - federal legislation enacted to address certain environmental issues related to air emissions, including acid rain, ozone and toxic air emissions.

COLA - license application for a combined construction permit and operating license from the NRC for a nuclear plant.

CRRs - congestion revenue rights, which are financial instruments established to manage price risk related to electricity transmission congestion that entitle the holder to receive compensation or require the holder to remit payment for certain congestion-related transmission charges based on the level of congestion between two pricing locations, known as source and sink.

EBITDA - See Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations - Statement of Income Analysis, Margins, EBITDA and Adjusted EBITDA - EBITDA and Adjusted EBITDA.

ELG - Effluent Limitations Guidelines.

EPA - U.S. Environmental Protection Agency.

EPS - earnings per share.

ERCOT - the Electric Reliability Council of Texas, operator of the electricity transmission network and electricity energy market in most of Texas.

FERC - U.S. Federal Energy Regulatory Commission.

FTRs - financial transmission rights, which are financial instruments established to manage price risk related to electricity transmission congestion that entitle the holder to receive compensation or require the holder to remit payment for certain congestion-related transmission charges based on the level of congestion between two pricing locations, known as source and sink.

First Lien Credit and Guaranty Agreement - the First Lien Credit and Guaranty Agreement dated as of April 28, 2014, among New MACH Gen, as borrower, the guarantors named therein, the lenders party thereto and CLMG Corp., as administrative agent.

GAAP - U.S. Generally Accepted Accounting Principles.

GHG - greenhouse gas(es).

Ironwood - a natural gas combined-cycle unit in Lebanon, Pennsylvania.

IRS - U.S. Internal Revenue Service.

ISO - Independent System Operator.

ISO-NE - ISO New England Inc., oversees the bulk power generation and transmission system that serves Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont.

Table of Contents

MATS - Mercury and Air Toxics Standards.

MDEQ - Montana Department of Environmental Quality.

MEIC - Montana Environmental Information Center.

MMBtu - One million British Thermal Units.

Moody's - Moody's Investors Service, Inc., a credit rating agency.

MW - megawatt, one thousand kilowatts.

MWh - megawatt-hour, one thousand kilowatt-hours.

NAAQS - National Ambient Air Quality Standard.

NDT - Susquehanna Nuclear's plant decommissioning trust.

NERC - North American Electric Reliability Corporation.

New MACH Gen RCF - revolving credit facility within the First Lien Credit and Guaranty Agreement.

NPNS - the normal purchases and normal sales exception as permitted by derivative accounting rules. Derivatives that qualify for this exception may receive accrual accounting treatment.

NRC - U.S. Nuclear Regulatory Commission.

NYISO - the New York Independent System Operator, which operates competitive wholesale markets to manage the flow of electricity across New York.

OCI - other comprehensive income or loss.

Opacity - the degree to which emissions reduce the transmission of light and obscure the view of an object in the background. There are emission regulations that limit the opacity of power plant stack gas emissions.

PADEP - the Pennsylvania Department of Environmental Protection.

PJM - PJM Interconnection, L.L.C., operator of the electricity transmission network and electricity market in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.

PP&E - property, plant and equipment.

PPL - PPL Corporation, the former indirect parent holding company of all Talen Energy companies except for RJS and MACH Gen.

PPL Services - PPL Services Corporation, a subsidiary of PPL and former affiliate of Talen Energy that provides services to Talen Energy.

RECs - Renewable Energy Credits.

Regional Haze - the EPA program that requires states to develop and implement air quality protection plans to reduce pollution that causes visibility impairment in national parks and wilderness areas.

Regulation S-X - SEC regulation governing the form and content of and requirements for financial statements required to be filed pursuant to the federal securities laws.

Riverstone - Riverstone Holdings LLC, a Delaware limited liability company.

iii

Table of Contents

Riverstone Holders - Raven Power Holdings LLC, C/R Energy Jade, LLC and Sapphire Power Holdings LLC, affiliates of Riverstone that formerly owned RJS Power and contributed RJS Power to Talen Energy on June 1, 2015 in exchange for 35% of Talen Energy Corporation's common stock.

RTO - Regional Transmission Organization.

S&P - Standard & Poor's Ratings Services, a credit rating agency.

Sarbanes-Oxley - Sarbanes-Oxley Act of 2002, which sets requirements for management's assessment of internal controls for financial reporting. It also requires an independent auditor to make its own assessment.

Scrubber - an air pollution control device that can remove particulates and/or gases (primarily sulfur dioxide) from exhaust gases.

SEC - the U.S. Securities and Exchange Commission.

SIFMA Index - the Securities Industry and Financial Markets Association Municipal Swap Index.

Spark Spread - a measure of gross margin representing the price of power on a per MWh basis less the equivalent measure of the natural gas cost to produce that power. This measure is used to describe the gross margin of Talen Energy's competitive natural gas-fired generating fleet. This term is also used to describe a derivative contract in which Talen Energy subsidiaries sell power and buy natural gas on a forward basis in the same contract.

Superfund - federal environmental statute that addresses remediation of contaminated sites; states also have similar statutes.

Talen Energy Supply RCF - Credit Agreement dated as of June 1, 2015 among Talen Energy Supply, as borrower, the guarantors party thereto, the lenders party thereto and Citibank, N.A., as administrative agent.

Term Loan B - New MACH Gen debt secured under the First Lien Credit and Guaranty Agreement.

Tolling agreement - agreement whereby the owner of an electricity generating facility agrees to use that facility to convert fuel provided by a third party into electricity for delivery back to the third party.

Treasury Stock Method - A method applied to calculate diluted EPS that assumes any proceeds that could be obtained upon exercise of options and warrants (and their equivalents) would be used to purchase common stock at the average market price during the relevant period.

TSA - as applicable, the Transition Services Agreement, dated June 1, 2015, by and between PPL and Talen Energy Supply and the Transition Services Agreement, dated May 4, 2015, by and between Talen Energy Supply and Topaz Power Management, LP.

VaR - value-at-risk, a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level.

Volumetric risk - the risk that the actual load volumes provided under full-requirement sales contracts could vary significantly from forecasted volumes.

WECC - the Western Electricity Coordinating Council, which develops and implements regional reliability standards for the western interconnection from Canada to Mexico and includes the provinces of Alberta and British Columbia, the northern portion of Baja California, Mexico and all or portions of the 14 states in between.

iv

Table of Contents

FORWARD-LOOKING INFORMATION

Statements contained in this Form 10-Q concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are other than statements of historical fact are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements often include words such as "believe," "expect," "anticipate," "intend," "plan," "estimate," "target," "project," "forecast," "seek," "will," "may," "should," "could," "would" or similar expressions. Although Talen Energy believes that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part I of this Form 10-Q, "Item 1A. Risk Factors" in Part II of this Form 10-Q, and "Item 1A. Risk Factors" in Talen Energy's 2015 Form 10-K, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements.

- adverse economic conditions;
- changes in commodity prices and related costs;
- the effectiveness of Talen Energy's risk management techniques, including hedging, with respect to electricity and fuel prices, interest rates and counterparty credit and non-performance risks;
 - methods of accounting and developments in or interpretations of accounting requirements that may impact reported results, including with respect to, but not limited to, hedging activity;
- operational, price and credit risks in the wholesale and retail electricity markets;
- Talen Energy's ability to forecast the actual load needed to perform full-requirements sales contracts;
- weather conditions;
- disruptions in fuel supply;
 - circumstances that may impact the levels of coal inventory that Talen Energy holds (e.g., a decline in the price of natural gas that results in Talen Energy reducing or idling coal-fired generating facilities in favor of operating available alternative natural gas-fired generating facilities);
- the performance of transmission facilities and any changes in the structure and operation of, or the pricing limitations imposed by, the RTOs and ISOs that operate those facilities;
- blackouts due to disruptions in neighboring interconnected systems;
- competition in the power generation market, including in the expansion of alternative sources of electricity generation and in the development of new projects, markets and technologies;
- federal and state legislation and regulation, including costs to comply with governmental permits and approvals;
- costs of complying with environmental and related worker health and safety laws and regulations;
- the impacts of climate change;
- the availability and cost of emission allowances;
- changes in legislative and regulatory policy, including the promotion of renewable energy, energy efficiency, conservation and self-generation;
- security and safety risks associated with nuclear generation;
- Talen Energy's level of indebtedness;
- the terms and conditions of debt instruments that may restrict Talen Energy's ability to operate its business;
- the performance of Talen Energy's subsidiaries and affiliates, on which its cash flow and ability to meet its debt obligations largely depend;

Table of Contents

the risks inherent with variable rate indebtedness;

disruption in financial markets;

Talen Energy's ability to access capital markets;

acquisition or divestiture activities, including Talen Energy's ability to realize expected synergies and other benefits from such business transactions;

changes in technology;

any failure of Talen Energy's facilities to operate as planned, including the duration of and cost, including lost revenue, associated with scheduled and unscheduled outages at Talen Energy's generating facilities;

Talen Energy's ability to optimize its competitive power generation operations and the costs associated with any capital expenditures;

significant increases in operation and maintenance expenses, such as health care and pension costs, including as a result of changes in interest rates;

the loss of key personnel, the ability to hire and retain qualified employees and the impact of collective labor bargaining negotiations;

war, armed conflicts or terrorist attacks, including cyber-based attacks;

risks associated with federal and state tax laws and regulations;

any determination that the transaction that formed Talen Energy does not qualify as a tax-free distribution under the Internal Revenue Code;

Talen Energy's ability to successfully integrate the RJS Power businesses and to achieve anticipated synergies and cost savings as a result of the spinoff transaction and combination with RJS Power;

costs of complying with reporting requirements as a newly public company and any related risks of deficiencies in disclosure controls and internal control over financial reporting as a standalone entity; and

the ability of the Riverstone Holders to exercise influence over matters requiring Board of Directors and/or stockholder approval.

Any such forward-looking statements should be considered in light of such important factors and in conjunction with other documents of Talen Energy on file with the SEC. New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for Talen Energy to predict all such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date on which such statement is made, and Talen Energy undertakes no obligation to update the information contained in such statement to reflect subsequent developments or information.

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Talen Energy Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, Except Share Data)

	Three Months Ended March 31,	
	2016	2015
Operating Revenues		
Wholesale energy	\$ 800	\$ 676
Retail energy	259	311
Energy-related businesses	114	104
Total Operating Revenues	1,173	1,091
Operating Expenses		
Operation		
Fuel and energy purchases	491	515
Operation and maintenance	282	222
(Gain) loss on sale	(140)	—
Depreciation	109	77
Taxes, other than income	11	3
Energy-related businesses	109	96
Total Operating Expenses	862	913
Operating Income (Loss)	311	178
Other Income (Expense) - net	6	7
Interest Expense	60	36
Income (Loss) Before Income Taxes	257	149
Income Taxes	106	53
Net Income (Loss)	\$ 151	\$ 96
Earnings Per Share of Common Stock		
Basic	\$ 1.18	\$ 1.15
Diluted	\$ 1.17	\$ 1.15
Weighted-Average Shares of Common Stock Outstanding (in thousands)		
Basic	128,526	128,524
Diluted	129,018	129,018

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the financial statements.

Table of Contents

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Talen Energy Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2016	2015
Net income (loss)	\$151	\$96
Other comprehensive income (loss):		
Amounts arising during the period - gains (losses), net of tax (expense) benefit:		
Available-for-sale securities, net of tax of (\$3), (\$6)	3	5
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):		
Available-for-sale securities, net of tax of (\$1), \$1	1	(1)
Qualifying derivatives, net of tax of \$2, \$3	(3)	(4)
Defined benefit plans:		
Net actuarial loss, net of tax of (\$2), (\$3)	3	4
Total other comprehensive income (loss)	\$4	\$4
Comprehensive income (loss)	\$155	\$100

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the financial statements.

Table of Contents

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Talen Energy Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31, 2016 2015	
Cash Flows from Operating Activities		
Net income (loss)	\$ 151	\$ 96
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Pre-tax gain from the sale of certain generation facilities	(164)	—
Depreciation	109	77
Amortization	51	46
Defined benefit plans - expense	11	12
Deferred income taxes and investment tax credits	2	13
Unrealized (gains) losses on derivatives, and other hedging activities	(73)	(38)
Other	19	7
Change in current assets and current liabilities		
Accounts receivable	7	(16)
Accounts payable	(37)	(94)
Unbilled revenues	19	77
Fuel, materials and supplies	21	73
Prepayments	(13)	34
Counterparty collateral	22	—
Taxes payable	69	30
Other	(6)	(25)
Other operating activities		
Defined benefit plans - funding	—	(74)
Other assets	3	5
Other liabilities	5	(2)
Net cash provided by operating activities	196	221
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(99)	(109)
Proceeds from the sale of certain generation facilities	670	—
Purchases of nuclear plant decommissioning trust investments	(60)	(43)
Proceeds from the sale of nuclear plant decommissioning trust investments	54	38
Net (increase) decrease in restricted cash and cash equivalents	34	(7)
Other investing activities	(16)	(9)
Net cash provided by (used in) investing activities	583	(130)
Cash Flows from Financing Activities		
Retirement of long-term debt	(43)	(1)
Distributions to predecessor member	—	(191)
Net increase (decrease) in short-term debt	(500)	(30)