



Third Quarter 2016 Financial Statement Highlights

Lisa Drauschak
Controller
Finance Committee
November 22, 2016



3Q16 Balance Sheet Highlights – Assets

<i>(dollars in millions)</i>	9/30/16 Balance	12/31/15 Balance	Change	
			\$	%
Deposits on hand ⁽¹⁾	1,506	1,143	363	32
Operating cash ⁽²⁾	314	172	142	83
Fixed assets, net of accumulated depreciation and amortization ⁽³⁾	118	136	(18)	(13)

(1) Increase in deposits on hand is a result of some members switching their collateral from letters of credit to cash during the first nine months of 2016 as well as higher credit requirements due to the cyclical nature of volumes being higher during the third quarter of 2016 as compared to December 31, 2015.

(2) Increase in operating cash is primarily due to an increase in member prepayments at September 30, 2016 as compared to December 31, 2015. The remaining difference is due to the timing of collections vs. expenditures.

(3) Decrease in fixed assets, net of accumulated depreciation and amortization is primarily due to normal depreciation partially offset by new assets being placed into service during the first nine months of 2016. Specifically, the following projects were placed into service: (1) Market-to-Market enhancements; (2) Enhanced Training Simulator; and, (3) ESB Replacement.



3Q16 Balance Sheet Highlights – Liabilities

<i>(dollars in millions)</i>	9/30/16 Balance	12/31/15 Balance	Change	
			\$	%
Accounts payable and accrued expenses ⁽¹⁾	12	23	(11)	(48)
Due to members ⁽²⁾	358	198	160	81
Current portion of long-term debt ⁽³⁾	1	13	(12)	(92)
Deferred regulatory liability – non-current ⁽⁴⁾	11	7	4	57

(1) Decrease in accounts payable and accrued expenses is primarily due to the payment of the FERC fee annual invoice partially offset by normal vendor activity.

(2) Due to members balance at September 30, 2016 represents \$302 million of member prepayments and \$56 million of FTR excess congestion revenue collected but not yet remitted to members.

(3) Decrease in the current portion of long-term debt reflects the scheduled semi-annual debt payments under the seven-year private placement and the term loan. The private placement loan is paid in full as of September 30, 2016. The current and non-current portion of long term debt is for the PNC term loan which matures in September 2021.

(4) The non-current portion of the deferred regulatory liability represents PJM's financial reserve at September 30, 2016 as defined in the stated rate tariff. The increase from the end of 2015 is due primarily to revenues being \$7 million greater than expenses during third quarter 2016 partially offset by revenues being \$3 million less than expenses for the first half of 2016.



3Q16 Change in Deferred Regulatory Liability

<i>(\$ in millions)</i>	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Service Fees	76	211
Expenses, net	(69)	(207)
Change in Deferred Regulatory Liability	7	4



3Q16 Income Statement Highlights

<i>(dollars in millions)</i>	3Q16	3Q15	Change	
			\$	%
Other expenses ⁽¹⁾	9	7	2	29

(1) Increase in other expense is primarily due to the timing of member training and travel costs.



3Q16 Cash Flow Statement Highlights

<i>(dollars in millions)</i>	3Q16	3Q15	Change	
			\$	%
Operating Cash Flows	13	12	1	8
Investing Cash Flows	(19)	(19)	-	-
Financing Cash Flows ⁽¹⁾	511	309	202	65

(1) The change in net cash provided by financing activities is primarily due to a higher due to members balance at September 30, 2016 as compared to September 30, 2015. Also, customer deposits were higher as a result of a shift from letters of credit to cash collateral during the first nine months of 2016 as compared to the first nine months of 2015.



3Q16 Key Financial Disclosure Highlights

Footnotes:

- Footnote 11 provides a summary of ongoing legal and regulatory matters.
 - Lehman Brothers Commodities Services Default – PJM has recovered 100% (\$17 million) of the claim against Lehman. The final distribution occurred during the October 2016 month-end billing invoice.
 - 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. FERC issued an order in November 2015 reaffirming previous recoupment order.
 - TranSource Matter – In February 2016, TranSource filed a complaint at FERC asserting it incurred \$72 million of lost profit opportunities from monthly Incremental Auction Revenue Rights during 2015. A hearing is scheduled for April 24, 2017 with an initial decision scheduled for August 7, 2017.