2018 Audited Financial Statement Highlights

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Finance Committee
March 26, 2019

2018 Balance Sheet Highlights – Assets

(dollars in millions)	12/31/2018 Balance	12/31/2017 Balance	Change	
			$	%
Operating cash (1)	362	308	54	17
Receivables (2)	39	94	(55)	(58)
Prepaid income taxes (3)	2	18	(16)	(88)

(1) Increase in operating cash is primarily due to: (1) an $53 million increase in member prepayments at December 31, 2018 as compared to December 31, 2017, (2) the $12 million increase in the deferred regulatory liability, net of refunds, from stated rate revenues exceeding actual expenses, and (3) an $18 million increase in the excess congestion cash position, all offset by (4) $50 million of pension plan contributions made during the first quarter of 2018. The remaining difference is due to the timing of collections vs. expenditures.

(2) Receivables balance at December 31, 2018 includes approximately $22 million of monthly Schedule 9 stated-rate charges. The year-over-year receivables balance decrease is primarily due to a $64 million decrease in FTR excess congestion revenue billed in December 31, 2018 as compared to December 31, 2017 and a decrease in the state-rate charges resulting primarily from $4 million of December 2018 Schedule 9 stated-rate refunds. Offsetting the decrease was $18 million of default allocation assessment charges recorded as receivables at December 31, 2018 that were billed to members in early 2019.

(3) Decrease in prepaid income taxes primarily represents receipt of approximately $14 million of federal income tax refunds received during 2018. Federal income tax overpayments resulted from income tax planning strategies implemented by PJM in response to the enactment of the U.S. Tax Cuts and Jobs Act in December 2017.

2018 Balance Sheet Highlights – Assets (continued)

(dollars in millions)	12/31/2018 Balance	12/31/2017 Balance	Change	
			$	%
Fixed assets, net of accumulated depreciation (4)	97	113	(16)	(14)
Projects in development (5)	35	23	12	52
Deferred recovery of pension and postretirement benefit costs (6)	30	38	(8)	(21)

(4) Decrease in fixed assets is due to normal depreciation of assets offset by assets placed into service.

(5) Increase in projects in development is primarily due to 2018 work performed on the following significant projects: (1) Energy Management System upgrade, (2) Next Generation Market Systems, (3) Data Center Switch Replacement, (4) OASIS System Refresh, and (5) Access Manager. The increase in projects in development was offset by several large projects placed into service during 2018, including: (1) 5-Minute Settlements and (2) Day-ahead Performance Improvement.

(6) Decrease in deferred recovery of pension and postretirement costs is attributable to the year-end actuarial valuation of the PJM benefit plans, driven by an increase in the discount rate assumption from 3.70 percent to 4.30 percent. The deferred recovery of pension and postretirement costs represents the under-funding of the Company's retirement plans as of December 31, 2018. This asset will be amortized over future pension and postretirement benefit expense.

2018 Balance Sheet Highlights – Liabilities

(dollars in millions)	12/31/2018 Balance	12/31/2017 Balance	Change	
			$	%
Due to members (1)	405	397	8	2
Deferred regulatory liability – current	6	-	6	600
Deferred regulatory liability – non-current (2)	18	10	8	80
Pension (3)	15	61	(46)	(75)
Postretirement healthcare (3)	43	49	(6)	(12)

(1) Due to members balance at December 31, 2018 represents $373 million of member prepayments and $32 million of FTR excess congestion revenue collected but not yet remitted to members.

(2) At December 31, 2018, the $6 million current portion of the deferred regulatory liability balance represents the amount that will to be refunded to members during the first quarter of 2019 by PJM Interconnection, LLC and PJM Settlement, Inc. The non-current portion of the deferred regulatory liability balance represents PJM Interconnection, LLC's reserve balance allowable under the Tariff (up to 6 percent of annual stated rate revenues).

(3) Decrease in pension and postretirement healthcare liabilities is attributable to the year-end actuarial valuation of the PJM benefit plans, driven by an increase in the discount rate assumption from 3.70 percent to 4.30 percent. Specific to the pension liability, the decrease is also driven by $50 million of pension plan contributions made during the first quarter of 2018.

2018 Contribution to Deferred Regulatory Liability Balance

(dollars in millions)	Three Months Ended December 31, 2018	Twelve Months Ended December 31, 2018
Service fees	76	310
Expenses	(71)	(283)
Refunds	(11)	(13)
Net change in deferred regulatory liability balance	(6)	14

2018 Income Statement Highlights

(dollars in millions)	12/31/2018 Balance	12/31/2017 Balance	Change	
			$	%
Service fees	310	308	2	-
Deferred regulatory income [1]	(27)	(16)	(11)	(68)
Income tax expense [2]	1	13	(12)	(92)

(1) Deferred regulatory income represents the change in the deferred regulatory liability for the year ended December 31, 2018, resulting from the billed service fees in excess of actual expenses.

(2) Decrease in income tax expense primarily reflects the 2017 transitional impact of the enactment of the U.S. Tax Cuts and Jobs Act in December 2017.

2018 Cash Flow Highlights

(dollars in millions)	12/31/2018 Balance	12/31/2017 Balance	Change	
			$	%
Operating cash flows (1)	88	(6)	94	1567
Financing cash flows (2)	48	(85)	133	156

(1) The change in net cash provided by (used in) operating activities is primarily due to (1) first quarter 2018 funding of the pension plan, (2) a decrease in receivables resulting from lower billed excess congestion year over year, and (3) receipt of federal income tax refunds received during 2018.

(2) The change in net cash provided by (used in) financing activities is primarily due to an increase in member deposits at December 31, 2018 as compared to December 31, 2017 and an increase in due to members resulting from higher member prepayments year over year (offset by lower excess congestion).

Footnote 13 provides a summary of ongoing legal and regulatory matters.

- 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. No activity on this matter so far in 2018.

- 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. On January 19, 2018, TranSource was granted limited relief and PJM was ordered to restore TranSource's original queue position and refund the $0.15 million paid by TranSource for the study of its upgrade request. All other requests for relief were denied. PJM filed a brief on exceptions on February 20, 2018. A final decision will be issued by the Commission after considering all exception briefs filed.

Footnote 13 provides a summary of ongoing legal and regulatory matters.

- Credit Matter – In June 2018, PJM members were notified that GreenHat Energy, LLC defaulted on its obligations related to its FTR portfolio, which includes positions applicable to the current planning year as well as the 2019–2020 and 2020–2021 planning years. The default allocation assessments billed to the non-defaulting members during the period June through December 2018 are $70.3 million but those amounts could be re-settled to liquidated costs depending on the outcome of a related FERC docket. On January 30, 2019, FERC denied PJM's waiver requesting to only offer the August 2018 defaulted FTRs for liquidation in the FTR auction conducted in July 2018. PJM has requested FERC to stay implementation of that denial and has requested rehearing and clarification of FERC's denial of PJM's waiver request. If PJM ultimately is required to implement FERC's denial, it may require recalculation and rebillings of past default allocation assessment charges. PJM cannot predict the future default allocation assessments resulting from this default. The aggregate payment default of this member, net of collateral held, will be billed to the non-defaulting members in accordance with the default allocation assessment formula in the PJM Operating Agreement. PJM has implemented two significant FTR credit policy enhancements during 2018 with a third currently pending at FERC. Additional enhancements are anticipated during 2019.