Third Quarter 2018
Financial Statement Highlights

Megan Heater
Controller
Finance Committee
November 28, 2018

3Q18 Balance Sheet Highlights – Assets

(dollars in millions)	9/30/18 Balance	12/31/17 Balance	Change	
			$	%
Deposits on hand [(1)]	1,684	1,458	226	15
Operating cash [(2)]	396	308	88	28
Receivables [(3)]	39	94	(55)	(58)
Study and interconnection receivables [(4)]	11	7	4	57

(1) Increase in deposits on hand is driven by higher member credit deposits resulting from higher volume during the first nine months of 2018.

(2) Increase in operating cash is driven by (1) a $107 million increase in member prepayments at September 30, 2018 as compared with December 31, 2017, (2) a $20 million year-to-date 2018 increase in the deferred regulatory liability, and (3) a $17 million increase in the excess congestion cash position. Offsetting these increases is the effect of $50 million of pension plan contributions made during the first quarter of 2018. The remaining difference is due to the timing of collections versus expenditures.

(3) The receivables balance at September 30, 2018 includes approximately $33 million of monthly Schedule-9 charges. The period over period receivables balance decrease is primarily due to a $56 million decrease in excess congestion revenue billed at September 30, 2018 as compared to December 31, 2017 ($5 million billed, but not collected from members at September 30, 2018 versus $61 million billed, but not collected from members at December 31, 2017).

(4) Increase in study and interconnection receivables is primarily due to invoices to developers for construction projects.

3Q18 Balance Sheet Highlights – Assets (continued)

(dollars in millions)	9/30/18 Balance	12/31/17 Balance	Change	
			$	%
Prepaid income taxes [5]	12	18	(6)	(33)
Fixed assets [6]	97	113	(16)	(14)
Projects in development [7]	33	23	10	43

(5) Prepaid income taxes primarily represents refundable federal income tax payments resulting from income tax planning strategies implemented during fourth quarter 2017 in response to the enactment of the U.S. Tax Cuts and Jobs Act in December 2017. To date during 2018, PJM has received an income tax refund of $2.5 million.

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

(7) Increase in projects in development is primarily due to 2018 work performed on the following significant projects: (1) Energy Management System upgrade, (2) Market System Enhancements, (3) Valley Forge Control Center Uninterruptible Power Supply Replacement, (4) Data Center Switch Replacement, and (5) Data Miner 2018. The increase was offset by several large projects placed into service during 2018, including: (1) 5-Minute Settlements, and (2) Day-ahead Performance Improvement.

3Q18 Balance Sheet Highlights – Liabilities

(dollars in millions)	9/30/18 Balance	12/31/17 Balance	Change	
			$	%
Accounts payable and accrued expenses (1)	15	29	(14)	(48)
Due to members (2)	465	397	68	17
Study and interconnection payables (3)	11	7	4	57
Deferred regulatory liability – current (4)	12	0.1	11.9	11900
Deferred regulatory liability – non-current (4)	17	9	8	88
Pension (5)	14	61	(47)	(77)

(1) Increase in accounts payable and accrued expenses is primarily due to the year-to-date FERC fee accrual and timing of vendor activity.

(2) Due to members balance at September 30, 2018 represents $426 million of member prepayments and $39 million of excess congestion revenue accrued but not due to be remitted to members until the end of the current planning year.

(3) Increase in interconnection study payables is primarily due to invoices issued from transmission owners for construction projects.

(4) At September 30, 2018, the current portion of the deferred regulatory liability balance was $12 million to be refunded to members during the fourth quarter of 2018. The $17 million non-current portion of the deferred regulatory liability balance represents PJM's stated rate financial reserve (capped at 6% of annual stated rate revenues).

(5) Decrease in pension liability represents the impact of $50 million of pension plan contributions made in the first quarter 2018.

3Q18 Change in Deferred Regulatory Liability

($ in millions)	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Service fees	83	234
Expenses	(72)	(212)
Refunds	(2)	(2)
Net change in deferred regulatory liability balance	9	20

3Q18 Income Statement Highlights

(dollars in millions)	3Q18	3Q17	Change	
			$	%
Service fees (1)	83	81	2	2
Deferred regulatory income (1)	(12)	(13)	1	7

(1) In third quarter 2018, service fees exceeded actual expenses resulting in a $2 million contribution to the deferred regulatory liability balance.

3Q18 Cash Flow Statement Highlights

(dollars in millions)	3Q18	3Q17	Change	
			$	%
Financing Cash Flows [1]	292	(110)	402	365

(1) The change in net cash provided by (used in) financing activities period over period is driven by (1) an increase in customer deposits during the nine month period ended September 30, 2018 resulting from higher volume during the period, and (2) an increase in the due to members balance at September 30, 2018 due to higher member prepayments.

Footnote 11 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 11 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 to the non-defaulting members for the period June through September 2018 are $49.5 million. 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. Additional enhancements are anticipated during 2019.