Second Quarter 2019
Financial Statement Highlights

Megan Heater
Controller
Finance Committee
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Balance Sheet Highlights - Assets

(dollars in millions)	6/30/19 Balance	12/31/18 Balance	Change	
			$	%
Deposits on hand	1,586	1,501	85	6
Operating cash (1)	239	362	(123)	(34)
Receivables (2)	44	39	5	13
Projects in development (3)	46	35	11	31

(1) Decrease in operating cash is primarily due to the return of excess congestion to members in May 2019 and a $110 million decrease in member prepayments at June 30, 2019 as compared to December 31, 2018.

(2) The receivables balance at June 30, 2019 includes approximately $23 million of monthly stated-rate charges (net $3 million of June 2019 Schedule 9 stated-rate refunds) and $5 million of default allocation assessments. The period-over-period increase in the receivables balance is primarily due to an increase in excess congestion revenue billed at June 30, 2019 as compared to December 31, 2018.

(3) Increase in projects in development is driven by 2019 work performed on the following projects: EMS replacement projects, SAN core replacement, Milford generator replacements, next generation energy management system and access manager version 2. The increase period over period is offset by projects placed in service during the period.

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Balance Sheet Highlights - Liabilities

(dollars in millions)	6/30/19 Balance	12/31/18 Balance	Change	
			$	%
Accounts payable and accrued expenses (1)	61	34	27	79
Due to members (2)	274	405	(131)	(32)
Accrued payroll and benefits (3)	21	28	(7)	(25)
Pension (4)	21	15	6	40
Deferred regulatory liability – current	-	6	(6)	(100)
Deferred regulatory liability – non-current (5)	18	17	1	6

(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 June 30, 2019 is comprised of $261 million of member prepayments and $13 million of excess congestion revenue collected but not yet remitted to members.

(3) Decrease in accrued payroll and benefits is primarily due to payment of the calendar year 2018 annual bonus offset by the accrual of incremental employee costs associated with executive retirements, that are one-time in nature.

(4) Pension increase is driven by the results of the second quarter 2019 actuarial valuation.

(5) 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).

Change in Deferred Regulatory Liability

($ in millions)	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Service Fees	75	156
Expenses, net	75	148
Refunds	8	14
Change to the Deferred Regulatory Liability Balance	(8)	(6)

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Income Statement Highlights

(dollars in millions)	2Q19	2Q18	Change	
			$	%
Service fees [1]	75	73	2	3
Deferred regulatory income [1]	-	(2)	(2)	(100)
Compensation [2]	38	34	4	12
Depreciation and amortization [3]	9	12	(3)	(25)

(1) In second quarter 2019, expenses (including refunds to members) exceeded service fees resulting in a $2 million reduction of the deferred regulatory liability balance. The variance in service fees is principally due to a 2.5 percent increase in the composite stated-rate on January 1, 2019.

(2) Increase in compensation is primarily attributable to incremental employee costs associated with executive retirements that are one-time in nature.

(3) Decrease in depreciation and amortization is primarily due to a lower fixed asset balance period over period.

Cash Flow Statement Highlights

(dollars in millions)	Six-month period ended		Change	
	June 30, 2019	June 30, 2018	$	%
Operating Cash Flows [1]	28	48	(20)	(42)
Financing Cash Flows [2]	(47)	291	(338)	(116)

(1) The change in net cash provided by operating activities is primarily due to (1) lower depreciation expense driven by a lower fixed assets balance period over period, (2) a change in employee benefit expense gather (less than) funding resulting from $50 million of pension plan funding in 2018, (3) an increase in receivables period over period (the 2018 change in receivables reflected change resulting from a high excess congestion receivable position at December 31, 2017) and (4) $14 million of refunds to members during the six-month period ended June 30, 2019.

(2) The decrease in net cash provided by financing activities period over period is primarily driven by changes in due to members and member deposits.

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Key Financial Disclosure Highlights

Footnote 10 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. In June 2019, FERC issued an Order on Voluntary Remand and Granting Rehearing finding that previously-ordered refunds were appropriate and reversing its prior determinations to the contrary. PJM is directed to pay additional refunds of misallocated marginal line loss over-collection amounts to those Financial Marketers that engaged in up-to-congestion transactions. On July 22, 2019 a member company filed a request for rehearing on FERC's June 2019 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. 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.

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- 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 for the period June 2018 through June 30, 2019 were $116.2 million and may change to liquidated costs. 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 significant FTR credit policy enhancements in both 2018 and 2019.

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