2017 Audited Financial Statement Highlights

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Finance Committee
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2017 Balance Sheet Highlights – Assets

(dollars in millions)	12/31/17 Balance	12/31/16 Balance	Change	
			$	%
Operating cash (1)	308	392	(84)	(21)
Receivables (2)	94	39	55	141
Prepaid income taxes (3)	18	1	17	1700

(1) Decrease in operating cash is primarily due to a decrease in member prepayments at December 31, 2017 as compared to December 31, 2016 and a decrease in the excess congestion cash position year over year. The remaining difference is due to the timing of collections vs. expenditures.

(2) Receivables balance at December 31, 2017 includes approximately $27 million of monthly Schedule 9 stated rate charges. The year-over-year receivables balance increase is primarily due to an $50 million increase in FTR excess congestion revenue billed in December 31, 2017 as compared to December 31, 2016.

(3) Increase in prepaid income taxes represents federal income tax overpayments resulting 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. PJM will request a refund for a portion of this amount during 2018.

2017 Balance Sheet Highlights – Assets (continued)

(dollars in millions)	12/31/17 Balance	12/31/16 Balance	Change	
			$	%
Projects in development [4]	23	32	(9)	(28)
Deferred recovery of pension and postretirement benefit costs [5]	38	15	23	153
Deferred income taxes, net of valuation allowance [6]	23	46	(23)	(50)

(4) Decrease in projects in development is primarily due to several large projects placed into service during 2017, including: (1) PJM Technology Center renovation, (2) Enterprise Service Bus Replace & Refresh, (3) Intraday Offers, (4) Data Miner, (5) Enhanced training simulator (Real Time) and (6) Demand Response Hub.

The decrease in projects in development was offset by work performed on the following significant projects: (1) Energy Management System Upgrade, (2) 5-minute settlements and (3) Day Ahead Performance Improvement.

(5) Increase in deferred recovery of pension and postretirement costs is primarily due to the following: (1) decrease in discount rate assumption to 3.70% at December 31, 2017 as compared to 4.40% at December 31, 2016, and (2) decrease in the expected return on assets assumption to 6.60% at December 31, 2017 as compared to 6.75% at December 31, 2016. The deferred recovery of pension and postretirement costs represents the under-funding of the Company's retirement plans as of December 31, 2017. This asset will be amortized over future pension and postretirement benefit expense.

(6) Decrease in deferred income taxes reflects the impact of the enactment of the U.S. Tax Cuts and Jobs Act in December 2017 as well as impact of the associated income tax planning strategies implemented by PJM during fourth quarter 2017 in response to the legislation.

2017 Balance Sheet Highlights – Liabilities

(dollars in millions)	12/31/17 Balance	12/31/16 Balance	Change	
			$	%
Due to members [1]	397	438	(41)	(9)
Deferred regulatory liability – current	1	4	(3)	(75)
Deferred regulatory liability – non-current [2]	9	5	4	80
Pension [3]	61	45	16	36
Other benefits [3]	27	22	5	23

(1) Due to members balance at December 31, 2017 represents $319 million of member prepayments and $78 million of FTR excess congestion revenue collected but not yet remitted to members.

(2) At December 31, 2017, the current portion of the deferred regulatory liability balance relates to 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 stated rate revenues).

(3) Increase in pension and other benefit liabilities is primarily due to the following: (1) decrease in discount rate assumption to 3.70% at December 31, 2017 as compared to 4.40% at December 31, 2016, and (2) decrease in the expected return on assets assumption to 6.60% at December 31, 2017 as compared to 6.75% at December 31, 2016.

2017 Contribution to Deferred Regulatory Liability Balance

(dollars in millions)	Three Months Ended December 31, 2017	Twelve Months Ended December 31, 2017
Service Fees	75	308
Expenses, net	(84)	(292)
Contribution to the Deferred Regulatory Liability Balance	(9)	16

2017 Income Statement Highlights

(dollars in millions)	12/31/17 Balance	12/31/16 Balance	Change	
			$	%
Service fees[1]	308	275	33	12
Deferred regulatory income [1]	(16)	(2)	(14)	(700)
Outside services [2]	56	50	6	12
Depreciation and amortization [3]	46	52	(6)	(12)
Income tax expense [4]	13	1	12	1200

(1) Increase in service fees and change in deferred regulatory income are due to the increase in the stated rate tariff rate effective January 1, 2017. 2017 service fees exceeded actual expenses resulting in a $16 million contribution to the deferred regulatory liability balance.

(2) Increase in outside services is due to an increase in contractor expense and an increase in legal fees.

(3) Decrease in depreciation and amortization is reflective of AC^2 assets reaching their useful lives during 2016.

(4) Increase in income tax expense primarily reflects the $10.4 million transitional impact of the enactment of the U.S. Tax Cuts and Jobs Act in December 2017. This amount is net of the $9.1 million of tax planning strategies PJM implemented in fourth quarter 2017.

2017 Cash Flow Highlights

(dollars in millions)	12/31/17 Balance	12/31/16 Balance	Change	
			$	%
Operating Cash Flows (1)	(6)	30	(36)	(120)
Investing Cash Flows	(37)	(37)	-	-
Financing Cash Flows (2)	(85)	586	(671)	(115)

(1) The change in net cash (used in) provided by operating activities is primarily due to (1) the funding of the deferred regulatory liability during the first nine months of 2017 offset by refunds to members in the 1st and 4th quarters of 2017, (2) a decrease in deferred income taxes, net of valuation allowance and an increase in prepaid income taxes resulting from the enactment of the U.S. Cuts and Jobs Act in December 2017, and (3) the impact of updates to benefit plan assumptions at December 31, 2017. Also contributing to the change period over period is an increase in receivables and lower depreciation and amortization expense period over period.

(2) The change in net cash (used in) provided by financing activities is primarily due to a decrease in member deposits at December 31, 2017 as compared to December 31, 2016 and a decrease in due to members resulting from lower member prepayments year over year.

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.

- 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.

