



2019 Audited Financial Statement Highlights

Megan Heater, Controller
Finance Committee
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2019 Balance Sheet Highlights - Assets

(dollars in millions)	December 31, 2019	December 31, 2018	Change	
			Dollar	Percentage
Operating cash ⁽¹⁾	52	362	(310)	(86)
Receivables ⁽²⁾	57	39	18	46
Deferred recovery of pension and postretirement costs ⁽³⁾	33	30	3	10

- (1) Decrease in operating cash is primarily due to a \$371 million decrease in member prepayments at December 31, 2019 as compared to December 31, 2018. The decrease is partially offset by a \$39 million increase in the excess congestion cash position at December 31, 2019 as compared to December 31, 2018. The remaining difference is due to the timing of collections vs. expenditures.
- (2) Receivables balance at December 31, 2019 includes approximately \$23 million of monthly Schedule 9 stated-rate charges, \$16 million of marginal line loss surplus re-billing (resulting from the July 2019 FERC order settling the matter) and \$5 million of default allocation assessment charges. The year-over-year receivables balance increase is primarily due to the marginal line loss surplus rebilling at December 2019.
- (3) Deferred recovery of pension and postretirement costs represents the under-funding of the Company's benefit plans. Increase in deferred recovery of pension and postretirement costs is attributable to the year-end valuation of the PJM benefit plans, driven by a decrease in the discount rate assumption.



2019 Balance Sheet Highlights - Liabilities

(dollars in millions)	December 31, 2019	December 31, 2018	Change	
			Dollar	Percentage
Due to members ⁽¹⁾	102	405	(303)	(75)
Deferred regulatory liability – current	14	6	8	133
Deferred regulatory liability – non current ⁽²⁾	6	18	(12)	(67)
Pension benefits liability	20	15	5	33
Postretirement health care benefits liability – current and non current ⁽³⁾	52	45	7	16

- (1) Due to members balance at December 31, 2019 represents \$71 million of excess congestion revenue collected but not yet remitted to members, \$16 million of marginal line loss surplus re-billing and \$15 million of member prepayments. The year-over-year due to members balance decrease is primarily due to a decrease in member prepayments at December 31, 2019 as compared to December 31, 2018.
- (2) At December 31, 2019, the \$14 million current deferred regulatory liability balance represents the amount that will be refunded to members during the first quarter of 2020 by PJM Interconnection, LLC and PJM Settlement, Inc. The non current deferred regulatory liability balance represents PJM Interconnection, LLC's allowable reserve balance and reflects the reduction to 2 percent of annual stated rate revenues as required every third year under the Tariff.
- (3) Increase in pension and postretirement healthcare liabilities is attributable to the year-end actuarial valuation of the PJM benefit plans, driven by a decrease in the discount rate assumption.



2019 Contribution to Deferred Regulatory Liability Balance

<i>(dollars in millions)</i>	Twelve Months Ended December 31, 2019
Service fees	320
Expenses	(294)
Refunds	(31)
Change to the deferred regulatory liability balance	(4)*

*Total does not mathematically foot due to rounding



2019 Income Statement Highlights

<i>(dollars in millions)</i>	December 31, 2019	December 31, 2018	Change	
			Dollar	Percentage
Compensation expense ⁽¹⁾	150	137	13	9
Outside services ⁽²⁾	60	55	5	9
Depreciation and amortization ⁽³⁾	37	46	(9)	(19)
Other expenses ⁽⁴⁾	10	13	(3)	(23)

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

(2) Increase in outside services is primarily due to increased Board of Managers and consulting expenses that are one-time in nature.

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

(4) Decrease in other expenses is driven by cost efficiency initiatives across PJM, including decreases in travel, training, meal and meeting expenses.



2019 Cash Flow Statement Highlights

<i>(dollars in millions)</i>	December 31, 2019	December 31, 2018	Change	
			Dollar	Percentage
Operating cash flows ⁽¹⁾	37	88	(51)	(58)
Financing cash flows ⁽²⁾	(208)	48	(256)	(533)

(1) The primary driver in the change in net cash provided by operating activities is \$31 million of refunds to members during 2019 and an increase in accounts receivable due to \$16 million of marginal line loss surplus re-billing.

(2) The primary driver in the cash provided by financing activities is a change in due to members. PJM held \$32 million of member prepayments for market settlements at December 31, 2019 as compared to \$372 million held at December 31, 2018.



2019 Key Financial Disclosure Highlights

Footnote 12 provides a summary of ongoing legal and regulatory matters, including:

- Marginal line loss surplus payment reallocation
- Credit matter
- Old Dominion Electric Cooperative v. PJM 2014 polar vortex complaint
- Radford's Run complaint
- TranSource matter