2016 Audited Financial Statement Highlights

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Finance Committee
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2016 Balance Sheet Highlights – Assets

(dollars in millions)	12/31/16 Balance	12/31/15 Balance	Change	
			$	%
Deposits on hand [(1)]	1,502	1,143	359	31
Operating cash [(2)]	392	172	220	128
Receivables [(3)]	39	22	17	77
Fixed assets, net of accumulated depreciation and amortization [(4)]	111	136	(25)	(18)

(1) Increase in deposits on hand is a result of some members switching their collateral from letters of credit to cash during 2016 as well as higher credit requirements during the fourth quarter of 2016 as compared to 2015 due to higher volumes.

(2) Increase in operating cash is primarily due to an increase in member prepayments at December 31, 2016 as compared to December 31, 2015. The remaining difference is due to the timing of collections vs. expenditures.

(3) Receivables balance at December 31, 2016 includes approximately $23 million of monthly Schedule 9 stated rate and AC^2 rider charges. The year-over-year receivables balance increase is primarily due to an $18 million increase in FTR excess congestion revenue billed in December 31, 2016 as compared to December 31, 2015.

(4) Decrease in fixed assets, net of accumulated depreciation and amortization is primarily due to normal depreciation partially offset by new assets being placed into service during 2016. Specifically, some of the larger assets placed into service during 2016 are as follows: (1) Market-to-Market enhancements; (2) Enhanced Training Simulator; and, (3) Enterprise Service Bus Replacement.

2016 Balance Sheet Highlights – Liabilities

(dollars in millions)	12/31/16 Balance	12/31/15 Balance	Change	
			$	%
Accounts payable and accrued expenses (1)	30	23	7	30
Due to members (2)	438	198	240	121
Current portion of long-term debt (3)	1	13	(12)	(92)
Deferred regulatory liability – current (4)	4	-	4	100
Deferred regulatory liability – non-current (5)	5	7	(2)	(29)

(1) Increase in accounts payable and accrued expenses is due to the timing of vendor activity and higher FERC fee accruals for 2016 as compared to 2015.

(2) Due to members balance at December 31, 2016 represents $370 million of member prepayments and $68 million of FTR excess congestion revenue collected but not yet remitted to members.

(3) Decrease in the current portion of long-term debt reflects the scheduled semi-annual debt payments under the seven-year private placement and the term loan. The private placement loan was paid in full during the third quarter of 2016. The current and non-current portion of long-term debt at December 31, 2016 is for the term loan associated with construction of the second control center which matures in September 2021.

(4) The current portion of the deferred regulatory liability represents the amount to be refunded to members during the first quarter of 2017.

(5) The non-current portion of the deferred regulatory liability represents PJM's financial reserve at December 31, 2016 as defined in the stated rate tariff.

2016 Change in Deferred Regulatory Liability

($ in millions)	Three Months Ended December 31, 2016	Twelve Months Ended December 31, 2016
Service Fees	64	275
Expenses, net	(66)	(273)
Change in Deferred Regulatory Liability	(2)	2

2016 Income Statement Highlights

(dollars in millions)	2016	2015	Change	
			$	%
Compensation[1]	126	124	2	2
Depreciation and amortization[2]	52	54	(2)	(4)
Software licenses and fees [3]	17	15	2	13

(1) Increase in compensation expense is a result of year-over-year benefit premium and merit increases.

(2) Decrease in depreciation and amortization is primarily due to the completion of depreciation associated with certain AC^2 assets.

(3) Increase in software licenses and fees is due to software licenses associated with new projects.

2016 Cash Flow Statement Highlights

(dollars in millions)	2016	2015	Change	
			$	%
Operating Cash Flows (1)	30	42	(12)	(29)
Investing Cash Flows	(37)	(32)	5	16
Financing Cash Flows (2)	586	180	406	226

(1) The change in net cash provided by operating activities is primarily due to the timing of vendor payments and activity as well as higher benefit liabilities as a result of a updates to benefit plan assumptions at December 31, 2016.

(2) The change in net cash provided by financing activities is primarily due to a higher due to members balance at December 31, 2016 as compared to December 31, 2015. Also, customer deposits were higher as a result of a shift from letters of credit to cash collateral during 2016 as compared to 2015.

Footnotes:

- Footnote 11 provides a summary of ongoing legal and regulatory matters.
  - Lehman Brothers Commodities Services Default – PJM has recovered 100% ($17 million) of the claim against Lehman. The final distribution occurred during the October 2016 month-end billing invoice.
  - 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. A hearing is scheduled for September 5, 2017 with an initial decision scheduled for December 22, 2017.