2020 Audited Financial Statement Highlights

Megan Heater, Controller
Finance Committee
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Balance Sheet Highlights – Assets

(dollars in millions)	Dec. 31, **2020**	Dec. 31, **2019**	CHANGE Dollar	CHANGE Percentage
Deposits on hand (1)	1,801	1,598	203	13
Operating cash (2)	103	52	51	98
Receivables (3)	25	57	(32)	(56)

(1) Increase in deposits on hand is primarily due to credit mix (use of letters of credit decreased, resulting in a cash collateral increase from Dec. 31, 2019 to Dec. 31, 2020) and an increase in deposits held related to study and interconnection projects.

(2) Increase in operating cash is primarily due to an increase in member prepayments for market settlements at Dec. 31, 2020, as compared to Dec. 31, 2019, offset by a decreased FTR excess congestion position period over period.

(3) Receivables balance at Dec. 31, 2020, includes approximately $20 million of monthly Schedule 9 stated-rate charges. The period versus period receivable balance decrease is primarily due to the $16 million marginal line loss surplus rebilling in December 2019 and $12 million of credits provided to members in the December 2020 market settlement bill related to FERC orders requiring reallocations and refunds.

Balance Sheet Highlights – Assets

(dollars in millions)	Dec. 31, **2020**	Dec. 31, **2019**	CHANGE	
			Dollar	Percentage
Projects in development [(1)]	53	38	15	39
Deferred recovery of pension and postretirement costs [(2)]	91	33	58	176

(1) Increase in projects in development is driven by work on capital projects, most significantly the energy management system upgrade project, next generation energy management system project, market design engine project, Milford computer room air conditioning replacement and five-minute pricing. The increase in projects in development was partially offset by placement of assets in service during the period.

(2) Deferred recovery of pension and postretirement costs represent the under-funding of the Company's benefit plans. Increase in deferred recovery of pension and postretirement costs is attributable to the year-end actuarial valuation of the PJM benefit plans, driven by a decrease in the discount rate actuarial assumption.

Balance Sheet Highlights – Liabilities

(dollars in millions)

	Dec. 31, **2020**	Dec. 31, **2019**	CHANGE	
			Dollar	Percentage
Due to members (1)	151	102	49	48
Deferred regulatory liability – current	-	14	(14)	(100)
Deferred regulatory liability – noncurrent (2)	18	6	12	200
Pension benefits liability (3)	64	20	44	220

(1) Due to members balance at Dec. 31, 2020, represents $142 million of member prepayments for market settlements and $9 million held supporting FERC orders requiring reallocations and refunds.

(2) At Dec. 31, 2020, the noncurrent deferred regulatory liability balance represents PJM Interconnection, LLC's allowable reserve balance, up to 6 percent of annual stated-rate revenues. The Dec. 31, 2019 deferred regulatory liability balance reflected the reduction to 2 percent of annual stated-rate revenues as required every third year under the stated-rate Tariff.

(3) Increase in the pension benefits liability is attributable to the year-end actuarial valuation of the PJM benefit plan, driven by a decrease in the discount rate actuarial assumption.

Contribution to Deferred Regulatory Liability Balance

(dollars in millions)	12 Months Ended Dec. 31, 2020
Service fees	320
Expenses	280
Refunds	(41)
Change to the deferred regulatory liability balance	(2)*

**Amount does not sum due to rounding*

Income Statement Highlights

(dollars in millions)	Dec. 31, **2020**	Dec. 31, **2019**	CHANGE	
			Dollar	Percentage
Deferred regulatory income (1)	(39)	(26)	(13)	50
Compensation expense (2)	145	150	(5)	(3)
Outside services (3)	55	60	(5)	(8)

(1) For the year ended Dec. 31, 2020, expenses (including refunds to members) were less than service fees, resulting in a contribution to the deferred regulatory liability balance.

(2) Decrease in compensation expense is primarily due to lower headcount period over period and 2019 incremental costs associated with employee retirements that were one-time in nature.

(3) Decrease in outside services and other expenses is primarily attributable to lower contractor expense, lower building maintenance expense period over period, and decreased travel, meeting and training expense resulting from COVID-19 restrictions.

Cash Flow Statement Highlights

(dollars in millions)	Dec. 31, **2020**	Dec. 31, **2019**	CHANGE	
			Dollar	Percentage
Financing cash flows (1)	249	(208)	457	220

(1) The primary driver in the cash provided by (used in) financing activities is an increase in due to members and an increase in member deposits. Due to members increased year-end 2020 versus 2019 due to higher member prepayments for market settlement at Dec. 31, 2020, offset by a reduction in FTR excess congestion held.

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

- Credit matter
- Old Dominion Electric Cooperative v. PJM 2014 Polar Vortex complaint
- Radford’s Run complaint