



3Q 2022 Financial Statement Highlights

Members Committee Webinar

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Balance Sheet Highlights – Assets

<i>(dollars in millions)</i>	Sept. 30, 2022	Dec. 31, 2021	CHANGE	
			Dollar	Percentage
Operating cash⁽¹⁾	841	117	724	618
Projects in development⁽²⁾	55	45	10	22
Deferred income taxes⁽³⁾	27	32	(5)	(15)

- (1) Increase in operating cash is primarily due to an increase in member payments at Sept. 30, 2022, as compared to Dec. 31, 2021 and funds held for excess congestion.
- (2) Increase in projects in development is driven by capital project spend during the period, including work performed on the following projects: (1) nGem, (2) energy management system, (3) reserve market price formation, (4) model data management, (5) Valley Forge cooling tower replacement and (6) historical simulation initial margin model. The increase in capital project spend was partially offset during the period by the placement of assets into service, including the Valley Forge and Milford control center chillers and a portion of the historical simulation initial margin model project.
- (3) Decrease in deferred income taxes reflects the revaluation of deferred income taxes, associated with a change in the Commonwealth of Pennsylvania’s tax rate, in the third quarter of 2022.



Balance Sheet Highlights – Liabilities

<i>(dollars in millions)</i>	Sept. 30, 2022	Dec. 31, 2021	CHANGE	
			Dollar	Percentage
Accounts payable⁽¹⁾	10	30	(20)	(66)
Due to members⁽²⁾	926	154	772	501
Accrued payroll and benefits⁽³⁾	31	37	(6)	(16)
Deferred regulatory liability – current⁽⁴⁾	-	15	(15)	(100)

- (1) Decrease in accounts payable is primarily due to payment of the annual FERC fee invoice in Aug. 2022 and a decrease in vendor spend at Sept. 30, 2022 as compared to Dec. 31, 2021.
- (2) Due to members represents member prepayments for market settlements and excess congestion held.
- (3) The accrued payroll and benefits decrease represents payment of the 2021 calendar year employee bonus in Mar. 2022, partially offset by accrual of the 2022 calendar year employee bonus.
- (4) At Dec. 31, 2021, the current deferred regulatory liability balance represented PJM Interconnection, LLC's accrued reserve under stated rates, which was refunded to members in the first quarter of 2022. There is no provision for a deferred regulatory liability under formula rates.



Income Statement Highlights

<i>(dollars in millions)</i>	9-months ended	9-months ended	CHANGE	
	Sept. 30, 2022	Sept. 30, 2021	Dollar	Percentage
Compensation expense⁽¹⁾	122	114	8	7
Software licenses and fees⁽²⁾	18	14	4	28
Other expense⁽³⁾	9	7	2	28
Income tax expense (benefit)⁽⁴⁾	5	(1)	6	600

- (1) Increase in compensation expense reflects higher head count period over period, normal merit increases reflected in 2022 results and higher recruiting fees for skilled resources.
- (2) Increase in software licenses and fees reflects inflation and a larger software subscription base to support.
- (3) Increase in other expense primarily reflects increased training costs (member and internal), increased cost of insurance premiums and higher travel expense.
- (4) Increase in income tax expense (benefit) reflects the revaluation of deferred income taxes, associated with a change in the Commonwealth of Pennsylvania's tax rate, in the third quarter of 2022.



Cash Flow Statement Highlights

<i>(dollars in millions)</i>	9-months ended	9-months ended	CHANGE	
	Sept. 30, 2022	Sept. 30, 2021	Dollar	Percentage
Operating cash flows⁽¹⁾	(17)	17	(34)	(2)
Financing cash flows⁽²⁾	991	576	415	72

(1) Operating cash flow decreased primarily due to the return of the deferred regulatory liability accumulated under stated rates in first quarter 2022 and changes in receivable, prepaid expense and payable positions period over period.

(2) The increase in cash provided by financing activities is primarily due to an increase in due to members and an increase in member deposits.

- Adoption of ASC 842, *Leases*, is discussed in Footnote 1
- PJM's administrative rate filing with FERC is discussed in Footnote 1 and Footnote 3
- Footnote 10 provides a summary of ongoing legal and regulatory matters

During the third quarter, the Commonwealth of Pennsylvania's tax code was amended to reduce Pennsylvania's corporate income tax rate from 9.99% to 4.99% over an 8 year period.

PJM was required to revalue the Company's Pennsylvania deferred tax assets and liabilities in the third quarter of 2022 to account for the change in tax code. The revaluation resulted in \$4.2 million of income tax expense recorded in the third quarter of 2022.

- PJM has Pennsylvania deferred income taxes related to timing differences between book and tax treatment. The majority of the differences relate to pension, other post-retirement employee benefits, accounting accruals and deferred compensation.