PJM INTERCONNECTION, L.L.C.

FOR THE QUARTER ENDED JUNE 30, 2021

INDEX

PJM INTERCONNECTION, L.L.C. Consolidated Statements of Financial Position (Unaudited)
($ in thousands)

	June 30, 2021	December 31, 2020
Assets		
Current assets:		
Deposits on hand	$ 2,013,220	$ 1,801,300
Operating cash	20,107	103,081
Receivables	30,128	25,229
Study and interconnection receivables	26,795	14,752
Prepaid expenses and other	15,776	13,155
Deferred FERC Fees	-	2,700
Note receivable	2,272	2,697
	2,108,298	1,962,914
Non-current assets:		
Fixed assets, net of accumulated depreciation and amortization of $765,103 and $748,058	91,223	87,281
Land	1,420	1,420
Projects in development	48,489	53,376
Deferred recovery of pension and postretirement costs	91,971	91,238
Deferred income taxes, net of valuation allowance	36,481	34,478
Prepaid expenses and other	3,167	3,477
Note receivable	2,589	3,548
Other	26,193	26,117
	301,533	300,935
Total assets	$ 2,409,831	$ 2,263,849
Liabilities, paid-in capital, retained earnings and accumulated other comprehensive income		
Current liabilities:		
Accounts payable and accrued expenses	$ 69,396	$ 36,759
Due to members	33,319	151,315
Study and interconnection payables	27,105	15,505
Accrued payroll and benefits	23,691	37,599
Accrued income tax	179	1,336
Revolving line of credit	12,003	-
Current portion of long-term debt	2,886	2,886
Current portion of capital lease	1,902	1,860
Deferred regulatory liability	4,602	-
Deferred FERC fee liability	444	-
Deferred revenue	1,734	3,423
Postretirement healthcare benefits liability	1,708	1,548
Other employee benefits	325	288
Deposits	2,013,220	1,801,300
	2,192,514	2,053,819
Non-current liabilities:		
Long-term debt	9,378	10,821
Long-term capital lease	10,468	11,425
Deferred regulatory liability	19,140	17,742
Interest rate swap	655	896
Pension benefits liability	69,119	63,709
Postretirement health care benefits liability	64,511	62,700
Other employee benefits	30,388	29,736
	203,659	197,029
Total liabilities	2,396,173	2,250,848
Commitments and contingencies (Note 11)		
Paid in capital	722	722
Retained earnings	12,862	12,205
Accumulated other comprehensive income	74	74
Total paid-in capital, retained earnings and accumulated other	13,658	13,001
Total liabilities, paid-in capital, retained earnings and accumulated other comprehensive income	$ 2,409,831	$ 2,263,849

The accompanying notes are an integral part of these consolidated financial statements.

PJM INTERCONNECTION, L.L.C.
Consolidated Statements of Income, Comprehensive Income and Paid-in Capital, Retained Earnings and Accumulated Other Comprehensive Income (Loss) (Unaudited)
($ in thousands)

	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Income				
Operating revenue:				
Service fees	$ 76,364	$ 74,932	$ 159,117	$ 155,827
Deferred regulatory (expense)	(4,924)	(8,405)	(16,269)	(17,142)
FERC fees reimbursement	17,704	14,581	37,377	30,467
Study and interconnection fees	1,575	1,319	3,043	2,518
Membership fees	866	886	1,721	1,769
Other	878	729	1,659	1,835
Total operating revenue	92,463	84,042	186,648	175,274
Operating expenses:				
Compensation	37,016	34,828	75,069	70,535
FERC fees	17,704	14,581	37,377	30,467
Outside services	14,221	12,711	26,707	26,480
Depreciation and amortization	8,665	9,158	17,054	18,350
Software licenses and fees	5,228	4,991	9,854	9,870
Pension benefits - service cost	3,624	2,949	7,352	5,901
Computer maintenance and office supplies	1,297	1,483	3,685	4,168
Other expenses	2,113	1,780	4,499	4,365
Study and interconnection services	1,575	1,319	3,043	2,518
Lease expenses	510	515	999	1,074
Postretirement health care benefits - service cost	528	463	1,064	925
Total operating expenses	92,481	84,778	186,703	174,653
Operating (loss) income	(18)	(736)	(55)	621
Other income:				
Interest income	236	1,344	560	6,898
Interest expense	152	1,392	280	7,691
Pension and postretirement health care benefits - other components of net benefit cost	(473)	(1,355)	(917)	(1,804)
Total other income (loss)	557	1,307	1,197	1,011
Income before income taxes	539	571	1,142	1,632
Income tax expense	234	258	485	686
Net income	$ 305	$ 313	$ 657	$ 946
Paid-in capital, retained earnings and accumulated other comprehensive income (loss)				
Beginning balance	$ 13,353	$ 11,356	$ 13,001	$ 10,834
Net income	305	313	657	946
Other comprehensive income (loss)	-	70	-	(41)
Ending balance	$ 13,658	$ 11,739	$ 13,658	$ 11,739

The accompanying notes are an integral part of these consolidated financial statements.

PJM INTERCONNECTION, L.L.C.
Consolidated Statements of Cash Flows (Unaudited)
($ in thousands)

	Six months ended June 30, 2021	Six months ended June 30, 2020
Cash flows from operating activities:		
Net income	$ 657	$ 946
Adjustments:		
Depreciation and amortization expense	17,054	18,350
Deferred income taxes, net of valuation allowance	(2,003)	(2,120)
Deferred recovery of pension and postretirement costs	(733)	659
Deferred regulatory liability	16,268	19,047
Employee benefit expense greater than funding	8,070	(462)
Net fair value changes related to interest rate swap	(241)	465
Changes in assets and liabilities:		
(Increase) decrease in receivables	(4,899)	25,345
(Increase) in study and interconnection receivables	(12,043)	(21,175)
(Increase) in prepaid expenses and other	(3,302)	(474)
Change in deferred FERC fee position	3,144	(634)
Increase in accounts payable and accrued expenses	31,492	14,348
Imcrease in study and interconnection payables	11,600	24,844
(Decrease) in accrued payroll and benefits	(13,908)	(16,913)
(Decrease) increase in accrued income taxes	(1,157)	2,235
(Decrease) in deferred revenue	(1,689)	(1,735)
Refunds to members	(10,268)	(13,072)
Net cash provided by operating activities	38,042	49,654
Cash flows (used in) investing activities:		
Cost of projects in development	(14,964)	(15,538)
Note receivable	1,384	834
Net cash (used in) investing activities	(13,580)	(14,704)
Cash flows provided by financing activities:		
Borrowings under line of credit	803,501	71,250
Repayments under line of credit	(791,498)	(46,542)
Repayments of long-term debt	(1,443)	(1,443)
(Decrease) increase in due to members	(117,996)	84,412
Increase (decrease) in deposits	211,920	(100,859)
Net cash provided by financing activities	104,484	6,818
Net increase in cash and cash equivalents	128,946	41,768
Cash and cash equivalents balance (including customer deposits), beginning of year	1,904,381	1,649,513
Cash and cash equivalents balance (including customer deposits), end of period	$ 2,033,327	$ 1,691,281
Noncash activity:		
Projects in development additions included in ending accounts payable and accrued expenses	1,444	25

The accompanying notes are an integral part of these consolidated financial statements.

1. Company Overview

Basis of Presentation
The accompanying consolidated financial statements have been prepared on an accrual basis in accordance with generally accepted accounting principles in the United States of America (GAAP) and include the accounts of PJM Interconnection, L.L.C. and its wholly owned subsidiaries (PJM or the Company). All intercompany transactions and balances have been eliminated.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying disclosures. These estimates are based on management's best knowledge of current events and actions the Company may undertake in the future. Actual results may ultimately differ from estimates. Certain reclassifications have been made to conform previously reported data to the current presentation.

The interim financial data as of June 30, 2021 and for the 3-month and 6-month periods ended June 30, 2021 and June 30, 2020 is unaudited; however, in the opinion of the Company, the interim data includes those adjustments of a normal recurring nature necessary for a fair statement of the results of the interim periods. These footnotes should be read in conjunction with the Company's 2020 consolidated financial statements and footnotes.

PJM has performed an evaluation of subsequent events through August 5, 2021, which is the date the financial statements were issued.

COVID-19 Pandemic
The spread of the coronavirus (COVID-19) in the United States and globally has led to economic disruption. PJM is taking steps to mitigate the potential risks arising from the spread of the virus; however, it is reasonably possible that PJM future results could be negatively affected by the impacts of the COVID-19 pandemic. The extent to which the COVID-19 pandemic may impact results will depend on future developments, which have uncertain scope and duration. PJM cannot predict if there will be a material effect to PJM's financial position, results of operations or cash flows.

2. Revenue and Accounts Receivable

Disaggregated Revenues

The Company has included in the table below disaggregation of PJM service fee revenues by subsidiary Schedule as defined in Schedule 9 of the Company's Open Access Transmission Tariff (Tariff).

	Three months ended		Six months ended	
	June 30, 2021	**June 30, 2020**	**June 30, 2021**	**June 30, 2020**
PJM stated-rate revenues				
Control area administration service	$ 43,305	$ 40,208	$ 90,246	$ 84,090
Market support service	19,504	19,544	40,021	39,897
FTR administration service	7,765	8,882	15,848	18,690
Capacity resource and obligation management service	3,230	3,761	6,992	7,540
Regulation and frequency response	702	677	1,407	1,355
	74,506	73,072	154,514	151,572
PJM Settlement service fees	1,858	1,860	4,603	4,255
Total service fees	$ 76,364	$ 74,932	$ 159,117	$ 155,827

For the 3-month periods ended June 30, 2021 and June 30, 2020, PJM Connext, LLC (PJM Connext) recorded consolidated revenue of $0.9 million and $0.7 million, respectively, which is included in other operating revenue in the Consolidated Statements of Income, Comprehensive Income and Paid-in Capital, Retained Earnings and Accumulated Other Comprehensive Income (Loss).

For the 6-month periods ended June 30, 2021 and June 30, 2020, PJM Connext, LLC (PJM Connext) recorded consolidated revenue of $1.7 million and $1.8 million, respectively, which is included in other operating revenue in the Consolidated Statements of Income, Comprehensive Income and Paid-in Capital, Retained Earnings and Accumulated Other Comprehensive Income (Loss).

Contract Balances

PJM membership fees, which are billed and collected in advance of the year for which they apply, are recognized as revenue ratably over the related annual membership period. Under the revenue guidance, membership fees - recorded as deferred revenue - are considered contract liabilities. The January 1, 2021 opening balance of deferred revenue resulting from contracts with customers was $3.4 million. The June 30, 2021 closing balance of deferred revenue resulting from contracts with customers was $1.7 million. The amount of revenue recognized in the 3-month and 6-month period ended June 30, 2021, that was included in the opening contract liability balance, was $0.9 million and $1.7 million, respectively. PJM expects to recognize $1.7 million of membership fees revenue during the remaining six months of 2021.

There were no material contract assets as of June 30, 2021.

PJM's receivables balance at June 30, 2021 included $15.9 million of unbilled service fees, net of refunds to members, $12.7 million of unbilled PJM recovery of pass-through charges, $1.0 million of excess congestion collections and $0.4 million of billed PJM Connext receivables.

PJM's member companies are billed on a monthly basis for recovery of PJM and PJM Settlement Inc.'s (PJM Settlement) administrative costs under the Tariff.

All study and interconnection receivables were billed at June 30, 2021.

3. Deferred Regulatory Liability

PJM recovers its administrative costs through a stated-rate mechanism under the Company's Tariff.

The stated-rate tariff provides for the accumulation of a financial reserve. PJM is permitted to maintain a reserve as a deferred regulatory liability in an amount up to 6 percent of its annual stated-rate revenues, except that in every third year, the financial reserve must be reduced to 2 percent of annual stated-rate revenues. The amount accumulated under the financial reserve provisions is classified as a non-current liability in the Company's Consolidated Statements of Financial Position. On a quarterly basis, PJM refunds the deferred regulatory liability balance in excess of the permitted financial reserve for the previous quarter. The quarterly refund rate is established after the financial close of each quarter, and refunds are distributed to the members on a prospective basis in the following quarter. During the first six months of 2021 and 2020, PJM made refunds of $10.3 million and $13.1 million, respectively.

Any under- or over-refund amounts will be reflected in the deferred regulatory liability activity in the following quarter.

PJM Settlement recovers its administrative costs under a separate schedule in the Tariff. For PJM Settlement, the deferred regulatory liability is defined in its rate schedule in the Tariff and is equal to revenues collected in excess of accrual-basis expenses. This balance is refunded quarterly. The quarterly refund rate is established after the financial close of each quarter, and refunds are distributed to the members on a prospective basis in the following quarter. The PJM Settlement rate schedule does not include a financial reserve element.

PJM recognizes deferred regulatory expense in the revenue section of the Consolidated Statements of Income, Comprehensive Income and Paid-in Capital, Retained Earnings and Accumulated Other Comprehensive Income (Loss) for the amount by which service fee revenues pursuant to the rate schedules differ from applicable expenses in the reporting period. The amount by which cumulative revenues under the rate schedules exceed cumulative expenses and refunds is reported as a deferred regulatory liability in the Consolidated Statements of Financial Position. In circumstances in which revenues are less than expenses, PJM reduces the deferred regulatory liability with an offset to deferred regulatory expense. For both the 3-month and 6-month periods ended June 30, 2021 and June 30, 2020, deferred regulatory expense was a reduction to operating revenues.

At June 30, 2021 and December 31, 2020, the deferred regulatory liability was $23.7 million and $17.7 million, respectively. At June 30, 2021, the current portion of the deferred regulatory liability was $4.6 million, representing PJM and PJM Settlement's expected refunds to members during the subsequent quarter. There was no current portion of the deferred regulatory liability at December 31, 2020. The non-current portion of the deferred regulatory liability of $19.1 million and $17.7 million represents the amount of PJM's reserve at June 30, 2021 and December 31, 2020, respectively.

4. Note Receivable

On March 21, 2008, FERC approved a settlement to restructure the relationship between PJM and PJM's former Market Monitoring Unit. As part of the settlement, the Market Monitoring Unit and its functions transitioned from being an internal PJM department to an external firm, Monitoring Analytics, LLC (MA). MA operates independent of PJM management and the Board of Managers. In order to facilitate the externalization of this function and as part of the settlement agreement approved by FERC, PJM entered into a revolving loan agreement with MA in March 2008. The revolving loan agreement was extended in November 2019 to March 31, 2026.

The purpose of the PJM revolving loan to MA is to fund capital needs associated with MA's technology systems and working capital needs related to MA's responsibilities per Attachment M of the Tariff to monitor the markets administered by PJM. The revolving loan has a capacity of $11.0 million and is secured by MA's accounts receivable and future collections of accounts receivable. At June 30, 2021, the interest rate on the revolving loan agreement between PJM and MA was 3.25 percent. The interest rate on all loan advances is equal to the PNC Bank Base Rate. The PNC Bank Base Rate is the highest of (A) the Prime Rate, (B) the sum of the Federal Funds Rate plus 50 basis points (0.50 percent), or (C) the sum of the Daily London Interbank Offered Rate (LIBOR) plus 100 basis points (1.0 percent).

At June 30, 2021 and December 31, 2020, the outstanding balance due from MA recorded by PJM as a note receivable was $4.9 million and $6.2 million, respectively. At June 30, 2021 and December 31, 2020, the current portion of the note receivable was $2.3 million and $2.7 million, respectively. The current balance at June 30, 2021 represents the amount to be repaid in the next twelve months. The non-current portion of the note receivable was $2.6 million at June 30, 2021 and $3.5 million at December 31, 2020.

5. Short-Term Debt

PNC Revolving Line of Credit

Through May 31, 2021, PJM maintained with PNC Bank (PNC) a FERC-approved $150 million revolving line of credit loan agreement. PJM received authorization from FERC on May 27, 2021 to continue to borrow under this loan agreement and to increase the capacity on the line of credit by an additional $50 million. The loan amendment increasing the capacity on the existing facility to $200 million, and term through May 31, 2023 was executed with PNC on June 1, 2021. PJM is authorized by FERC to borrow under this facility through May 31, 2023. The revolving line of credit is unsecured and available to fund short-term cash obligations.

Under the loan covenants for the revolving credit agreement, PJM is required to meet certain financial and non-financial covenants. PJM was in compliance with these covenants as of June 30, 2021.

At June 30, 2021, $12.0 million was outstanding under the revolving credit agreement. At December 31, 2020, there were no amounts outstanding under the revolving credit agreement. The interest rate on borrowings under this revolving credit agreement is based on the 30-day LIBOR plus a spread of 62.5 basis points (0.625 percent). At June 30, 2021, the interest rate was 0.73 percent.

The line of credit facility has a commitment fee of 6.00 basis points (0.06 percent) on the unused balance. This fee is calculated daily and paid quarterly.

364-Day Revolving Line of Credit

On April 23, 2020, PJM entered into a $50 million, 364-day revolving line of credit agreement with PNC. The revolving line of credit was unsecured and available to manage near-term uncertainties stemming from the COVID-19 pandemic. On February 12, 2021, PJM terminated the 364-day revolving line of credit agreement with PNC.

6. Long-Term Debt and Derivative Financial Instrument – Interest Rate Swap

Bank of America Bank Loan Agreement

On June 28, 2018, FERC approved PJM's request to refinance the Company's then existing bank loan through a new term loan from Bank of America (BoA). On July 20, 2018, PJM entered into a $20.2 million loan agreement with BoA. The BoA term loan has a seven-year term and is unsecured.

As of June 30, 2021 and December 31, 2020, the outstanding borrowings under the term loan were $12.3 million and $13.7 million, respectively. As defined in the loan agreement, the term loan bears interest at a rate per annum equal to the LIBOR rate plus a spread of 62.5 basis points (0.625 percent). As of June 30, 2021, the interest rate was 0.74 percent.

Under the loan agreement, PJM is required to meet certain financial and non-financial covenants. PJM was in compliance with these covenants as of June 30, 2021.

Derivative Financial Instrument - Interest Rate Swap

To manage interest rate risk associated with the $20.2 million loan agreement with BoA, the Company entered into an interest rate swap agreement with BoA effective August 1, 2018. The interest rate swap agreement effectively fixes the interest payments of the Company's floating rate debt instrument at a rate of 3.62 percent. The term of the interest rate swap matches the term of the loan.

While PJM has entered into an economic hedge of its interest rate, the Company has elected not to designate this instrument as a cash flow or fair value hedge for accounting purposes. Accordingly, the interest rate swap is carried at fair value in the Consolidated Statements of Financial Position with changes in fair value recorded through earnings. At June 30, 2021 and December 31, 2020, the fair value of the swap was a liability of $0.7 million and $0.9 million, respectively.

For the 3-month periods ended June 30, 2021 and June 30, 2020, in conjunction with changes in the fair value of the interest rate swap, PJM recognized a $0.1 million gain and an immaterial loss, as interest expense in the Consolidated Statements of Income, Comprehensive Income and Paid-in Capital, Retained Earnings and Accumulated Other Comprehensive Income (Loss).

For the 6-month periods ended June 30, 2021 and June 30, 2020, in conjunction with changes in the fair value of the interest rate swap, PJM recognized a $0.2 million gain and $0.5 million loss, as interest expense in the Consolidated Statements of Income, Comprehensive Income and Paid-in Capital, Retained Earnings and Accumulated Other Comprehensive Income (Loss).

The Company does not hold or issue financial instruments for speculative or trading purposes for its own account.

7. Derivative Financial Instrument – Financial Transmission Rights

PJM Settlement is the central counterparty to member's pool transactions. Accordingly, PJM Settlement has flash title pass through it when markets settle and as charges/credits are assessed on pool transactions.

A financial transmission right (FTR) is a financial instrument that enables market participants to reduce their congestion-related price risk when delivering or selling energy on the grid. It provides an economic hedging mechanism against congestion charges that can be transacted by members separately from transmission service. Ultimately, PJM Settlement is neither the buyer nor seller of FTRs, but, as FTR auctions clear, PJM Settlement is temporarily the counterparty to both the FTR buyer and the FTR seller. For reporting purposes, these positions net to zero in the Consolidated Statements of Financial Position and the Consolidated Statements of Income, Comprehensive Income and Paid-in Capital, Retained Earnings and Accumulated Other Comprehensive Income (Loss) and do not represent a credit risk to PJM. However, because FTRs have ongoing open positions at period end, the Company is disclosing the fair value of these instruments, even though they do not present a direct credit risk to PJM.

Historically, PJM has determined the fair value of FTR assets and liabilities for disclosure utilizing a valuation model based on a three-year weighted average of historical location marginal prices by month, by node. In the first quarter 2021, PJM adopted an accounting principle change to value FTR positions, for financial statement disclosure, under a mark-to-auction model. Mark-to-auction provides a valuation of the cleared FTR portfolio based on the most recent auction prices. PJM considers mark-to-auction an industry standard, preferred valuation technique.

The gross fair value of both FTR assets and FTR liabilities as of June 30, 2021, December 31, 2020 and June 30, 2020 was $1.2 billion, $240.6 million and $903.6 million, respectively. The value of additions to and of change in mark to auction values and settlements the FTR asset and FTR liabilities balances for the first six months of 2021 was $886.9 million and $93.6 million, respectively. The value of additions to and of change in mark to auction values and settlements the FTR asset and FTR liabilities balances for the first six months of 2020 was $731.3 million and $172.3 million, respectively.

At June 30, 2021, 285 members are FTR holders related to 3.6 million megawatt-hours and PJM held $2.1 billion in collateral related to these FTR transactions. The collateral is based on the calculated net value of the positions held in each member's FTR portfolio. The collateral can be in the form of cash or a letter of credit.

8. Fair Value Disclosures

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (exit price). In determining fair values, PJM utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. The authoritative guidance pertaining to fair value establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy defined by this guidance are as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other-than-quoted prices in active markets included in Level 1, that are directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using broker quotes in liquid markets and other observable pricing data. Level 2 also includes those financial instruments that are valued using internally developed methodologies that have been corroborated by observable market data through correlation or by other means. Significant assumptions are observable in the marketplace throughout the full term of the instrument and can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.

Level 3 – Pricing inputs include significant inputs that are generally less observable than those from objective sources.

PJM utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. PJM is able to classify fair value balances based on the observability of the inputs. In accordance with the authoritative guidance, financial assets and liabilities are classified in their entirety based on the lowest level of observability for an input that is significant to the fair value measurement. PJM's assessment of the significance of a particular input to the fair value measurement requires the exercise of judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

The following table presents PJM's cash and cash equivalents as well as financial assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2021 and December 31, 2020 by level within the fair value hierarchy.

($ in millions)	**June 30, 2021**				**December 31, 2020**
	Level 1	**Level 2**	**Level 3**	**Carrying Value**	**Carrying Value**
Cash and cash equivalents	$ 2,033	$ -	$ -	$ 2,033	$ 1,904
Deposit liabilities	2,013	-	-	2,013	1,801
Derivative liabilities	-	1	-	1	1

The fair value of FTR assets and liabilities for which PJM Settlement is the counterparty for an instant are determined on a recurring basis based on Level 3 inputs within the fair value hierarchy. For reporting purposes, these positions net to zero in the Consolidated Statements of Financial Position and the Consolidated Statements of Income, Comprehensive Income and Paid-in Capital, Retained Earnings and Accumulated Other Comprehensive Income (Loss) and are not presented in the table above. Refer to Note 7 for additional information regarding valuation of FTR positions.

9. Income Taxes

The income tax rate on PJM's operating activities differed from the federal statutory rate as follows:

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Income tax expense at the federal statutory rate	$ 113	$ 120	$ 240	$ 343
Increase (decrease) resulting from:				
Change in valuation allowance	-	1	1	(6)
Permanent differences	56	69	112	173
State income taxes, net of federal tax benefit	65	68	132	176
Income tax expense	$ 234	$ 258	$ 485	$ 686

PJM and its subsidiaries file a U.S. consolidated federal income tax return and consolidated or separate company tax returns in various states, including the Commonwealth of Pennsylvania. The tax years subsequent to 2015 remain open to examination by the United States Internal Revenue Service, and generally, the tax years subsequent to 2016 remain open to examination by various state taxing authorities. There are no ongoing audits at this time.

10. Benefit Plans

The schedule that follows shows the components of net periodic pension and postretirement health care costs for the 3-month and 6-month periods ended June 30, 2021 and June 30, 2020.

	Pension Benefits				Other Postretirement Benefits	
Components of Net Periodic Benefit Cost, April 1 to June 30	**Qualified**		**SERP**			
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Service cost	$ 3,403	$ 2,866	$ -	$ 83	$ 528	$ 462
Interest cost	2,424	2,492	30	39	547	578
Expected return on assets	(3,927)	(4,049)	-	-	(223)	(227)
Settlement charge	-	-	-	(40)	-	-
Prior service cost / (gain)	-	1	-	8	(324)	(322)
Actuarial loss / (gain)	1,302	399	6	25	-	(45)
Total net periodic benefit cost	$ 3,202	$ 1,709	$ 36	$ 115	$ 528	$ 446

	Pension Benefits				Other Postretirement Benefits	
Components of Net Periodic Benefit Cost, January 1 to June 30	**Qualified**		**SERP**			
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Service cost	$ 6,927	$ 5,732	$ -	$ 169	$ 1,064	$ 925
Interest cost	4,840	4,985	59	83	1,085	1,156
Expected return on assets	(7,864)	(8,099)	-	-	(446)	(455)
Settlement charge	-	-	-	738	-	-
Prior service cost / (gain)	-	1	-	16	(646)	(644)
Actuarial loss / (gain)	2,593	798	10	68	-	(90)
Total net periodic benefit cost	$ 6,496	$ 3,417	$ 69	$ 1,074	$ 1,057	$ 892

On December 31, 2020, benefit accruals in the PJM defined benefit supplemental executive retirement plan (SERP) were frozen, and, on January 1, 2021, PJM established a defined contribution SERP. PJM recognized $0.4 million in expense related to the defined contribution SERP during the first six months of 2021. This expense is included as a component of pension expense in the Consolidated Statements of Income, Comprehensive Income and Paid-in Capital, Retained Earnings and Accumulated Other Comprehensive Income (Loss).

During the first six months of 2020, PJM recognized a settlement charge of $0.8 million within SERP pension expense related to the payment of lump-sum benefits on January 1, 2020.

For both of the 3-month periods ended June 30, 2021 and June 30, 2020, $0.3 million and $0.2 million of total pension and postretirement benefits expense were included in capitalized project costs, respectively. For both of the 6-month periods ended June 30, 2021 and June 30, 2020, $0.5 million and $0.4 million of total pension and postretirement benefits expense were included in capitalized project costs, respectively.

The following schedule shows the assumptions used to calculate the pension and postretirement benefit obligations for as of June 30, 2021 and June 30, 2020.

	Pension Benefits				Other Postretirement Benefits	
	Qualified		SERP			
	2021	2020	2021	2020	2021	2020
Discount rate	2.76%	3.65%	2.69%	3.55%	2.70%	3.55%
Expected return on plan assets	5.50%	6.40%	N/A	N/A	5.50%	6.40%
Rate of compensation increase	4.50%	4.50%	4.50%	4.50%	N/A	N/A
Medical care cost trend rate						
Current (Pre-65)					5.39%	5.65%
Current (Post-65)					5.55%	6.02%
Ultimate (Pre-65)					4.46%	4.46%
Ultimate (Post-65)					4.45%	4.45%
Years to ultimate					17	18

11. Commitments and Contingencies

Other Items

Credit Matter

On June 21, 2018, GreenHat Energy, LLC (GreenHat) defaulted on its obligations related to its FTR portfolio, which includes positions applicable to the then current planning year as well as the 2019/2020 and 2020/2021 planning years. The $179.6 million aggregate payment default of GreenHat, net of collateral held, has been billed to the non-defaulting members in accordance with the default allocation assessment formula in the PJM Operating Agreement. Those default allocation billings and payments continued through the end of the current planning year which ended on May 31, 2021.

On May 20, 2021, FERC issued a Show Cause Order directing GreenHat and its principals to show why they did not violate the Federal Power Act, FERC's regulations, the Tariff, and PJM Operating Agreement.

Old Dominion Electric Cooperative v. PJM 2014 Polar Vortex Complaint

On February 22, 2019, Old Dominion Electric Cooperative (ODEC) filed an amended complaint (Amended Complaint) against PJM in Circuit Court for Henrico County, Virginia alleging that PJM directed ODEC to purchase natural gas during the 2014 Polar Vortex event in which temperatures fell to unprecedented levels and that ODEC should be made whole for its gas costs incurred, with an outstanding amount of approximately $15 million. ODEC had previously attempted and failed to recover the same exact costs through a waiver petition filed before FERC in June 2014. On April 3, 2019, PJM filed a notice to remove the Amended Complaint to the United States District Court for the Eastern District of Virginia because ODEC's civil action arises under federal law namely, the Federal Power Act, the Tariff, the PJM Operating Agreement, and related federal doctrines.

On March 31, 2020, the District Court issued an opinion and order granting PJM's Motion to Dismiss with prejudice. The District Court found that ODEC's claims for compensation fall entirely within the Tariff and therefore are exclusively governed by federal law and barred by the filed-rate doctrine. On April 23, 2020, ODEC filed a Notice of Appeal to the United States Court of Appeals for the Fourth Circuit (Circuit Court) of the District Court's Order on Motion to Dismiss. The parties have filed briefs with the Circuit Court and oral arguments are expected to be held in October 2021.

Radford's Run Complaint

On November 15, 2018, FERC issued an order (November 15 Order) granting in part a complaint filed by Radford's Run Wind Farm, LLC (Radford) against PJM on June 26, 2018 (Complaint), alleging that Radford is entitled to 279 MW of Incremental Capacity Transfer Rights (ICTRs) because Radford funded a network upgrade that improved a transmission-constraint. In the November 15 Order, FERC granted the Complaint in part because FERC found that "PJM did not comply with its Tariff," which provides that PJM must determine in the System Impact Study whether a customer is entitled to any ICTRs resulting from its Customer-Funded Upgrade. FERC established paper hearing procedures for PJM to assess whether Radford's upgrades would have made Radford eligible for ICTRs.

On April 16, 2020, FERC issued its order on the paper hearing (April 16 Order) finding that the PJM Tariff required PJM to use the information available at the time PJM completed the System Impact Study for Radford's interconnection request (i.e. December 2015) when it evaluated the Radford upgrade for ICTRs. The April 16 Order required PJM to award any ICTRs that would have been assigned to Radford based on data as of December 2015; and required PJM to make a compliance filing within 60 days (i.e., by June 15, 2020) detailing its determination on ICTRs for the Radford upgrade using the information available to PJM at the time it completed the System Impact Study. For the 2019/2020 Delivery Year, for which payments had already been made, the April 16 Order required PJM to resettle payments for ICTRs resulting from the 2016 Base Residual Auction and to rebill affected entities for that period. As a result of that directive, PJM had to rebill ICTR holders in the Com Ed zone nearly $10 million in payments. On June 15, 2020, PJM submitted its compliance filing to FERC together with a refund report showing the resettlement.

On May 18, 2020, PJM (joined by Com Ed) filed a request for rehearing on the 2019/2020 Delivery Year rebilling directive in the April 16 Order. As a result, on December 2, 2020, FERC issued an order (December 2 Order) which granted rehearing and set aside the resettlement of ICTRs for the 2019/2020 Delivery Year; however, FERC directed PJM on compliance to explain and support its position on the 2019/2020 resettlement, including why a 2015 System Impact Study would not have been enough to make Radford “obligated to fund” ICTRs for purposes of the 2016 Base Residual Auction because of the Tariff requirement that to receive ICTRs, Radford must have been obligated to fund the network upgrade prior to the 2016 Base Residual Auction. On January 4, 2021, PJM filed its compliance filing and the matter is pending FERC action.

Illinois Municipal Electric Agency v. PJM Complaint

On May 28, 2021, Illinois Municipal Electric Agency (IMEA) filed a complaint (IMEA Complaint) at FERC against PJM. The IMEA Complaint seeks to compel PJM to apply the full allocation of 1,097 MW of ICTRs from IMEA’s Upgrade Construction Service Agreement without proration in the 2021/2022 Delivery Year and future Delivery Years contrary to the Tariff. IMEA invested $0.6 million for its transmission upgrade and, in return, will receive ICTRs payments in the 2021/2022 Delivery Year. In addition, IMEA proposes a new “Make Whole” payment to obtain the added revenue it seeks. On June 28, 2021, PJM filed an answer which demonstrates that the Complaint has no merit.

There was no monetary claim for damages stated in the Complaint; however, IMEA alleges that PJM violated the Tariff by failing to prorate IMEA’s ICTRs in the 2021/2022 Delivery Year. The outcome of the Complaint is not anticipated to have a material adverse effect on PJM’s financial position.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPEARTIONS (UNAUDITED)

Forward-Looking Statements

In addition to the historical information presented throughout this report, there are forward-looking statements that reflect management's expectations for the future. Sometimes the words "estimate," "plan," "expect," "believe," or similar expressions will be used to identify such forward-looking statements. These forward-looking statements are based on current expectations. These statements are not guarantees of future performance and are subject to certain risks and uncertainties.

Many factors could cause actual results to differ materially from these statements. These factors include, but are not limited to, the results of regulatory proceedings, the conditions of the capital markets, interest rates, actuarial assumptions, availability of credit, liquidity and general economic conditions, including those resulting from the COVID-19 pandemic; changes in accounting principles and practices; acts of terrorists; the actions of adjacent control areas and other Regional Transmission Organizations (RTOs); and other operational conditions that could arise on the power system. For a description of these and other factors that may cause actual results to differ, reference is made hereby to PJM Interconnection L.L.C.'s (PJM or the Company) Consolidated Financial Statements, Notes thereto and other documents filed by the Company from time to time with the Federal Energy Regulatory Commission (FERC).

These forward-looking statements represent PJM's estimates and assumptions only as of the date of this report, and PJM assumes no responsibility to update these forward-looking statements.

Results of Operations

Revenues and Expenses

PJM's service fees were $1.4 million or 2 percent higher for the 3-month period ended June 30, 2021 as compared with the 3-month period ended June 30, 2020. PJM's service fees were $3.2 million or 2 percent higher for the 6-month period ended June 30, 2021 as compared with the 3-month period ended June 30, 2020. Service fees reflect higher transmission volumes year over year and a 2.5 percent increase in the composite stated-rate on January 1, 2021. Transmission volumes for the 3-month and 6-month periods ended June 30, 2021 were 192 terawatt hours (TWhs) and 399 TWhs, as compared with 198 TWhs and 381 TWhs for the 3-month and 6-month periods ended June 30, 2020.

Total expenses, excluding FERC fees, study and interconnection services, interest expense, and income taxes, increased $5.2 million or 8 percent and $5.4 million or 4 percent for the 3-month and 6-month periods ended June 30, 2021 as compared with the 3-month and 6-month periods ended June 30, 2020, respectively. Period over period, PJM reported an increase in compensation expense, due to COVID-19 related expense, higher headcount and an increase in benefit plan expense resulting from lower discount rates. Increases in expenses were offset by lower depreciation expense period over period.

Liquidity and Capital Resources

Through May 31, 2021, PJM maintained with PNC Bank (PNC) a FERC-approved $150 million revolving line of credit loan agreement. PJM received authorization from FERC on May 27, 2021 to continue to borrow under this loan agreement and to increase the capacity on the line of credit by an additional $50 million. The loan amendment increasing the capacity on the existing facility to $200 million was executed with PNC on June 1, 2021. The revolving line of credit is unsecured and available to fund short-term cash obligations.

On June 28, 2018, FERC approved PJM's application to refinance the Company's existing bank loan with PNC with a new term loan at Bank of America (BoA). On July 20, 2018, PJM entered into a $20.2 million loan agreement with BoA. The BoA term loan has a seven year term and is unsecured. At June 30, 2021, the outstanding borrowings under the term loan were $12.3 million.

Risks and Uncertainties
PJM does not provide forecasts of future financial performance. While PJM management is optimistic about the Company's long-term prospects, the following issues and uncertainties, among others, should be considered in evaluating its outlook.

Credit Risks

PJM bills and collects its operating expenses monthly from its members. Payment of all operating expense bills is due from PJM's members three business days after the month-end bill is issued by PJM, generally within the first two weeks of each month. For the 6-month period ended June 30, 2021, approximately 60 percent of PJM's operating expenses were billed to 16 of its members. In the event of default of any PJM members, PJM has the right to bill the remaining PJM members a ratable portion of the operating expenses previously billed to the defaulting member.

In accordance with PJM's credit policy, PJM obtains collateral from certain members in order to secure their credit positions. The collateral can be in the form of a cash deposit or letter of credit. Corporate guaranties are also accepted from creditworthy affiliates to fulfill certain credit requirements.

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