

PJM INTERCONNECTION, L.L.C.
FOR THE QUARTER ENDED SEPTEMBER 30, 2023

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ITEM 1. - PJM INTERCONNECTION, L.L.C. Consolidated Statements of Financial Position (Unaudited) (\$ in thousands)

	September 30, 2023	December 31, 2022
Assets		
Current assets:		
Deposits on hand	\$ 2,919,453	\$ 2,959,245
Operating cash	274,739	1,013,278
Receivables	20,273	131,384
Study and interconnection receivables	44,017	98,541
Prepaid expenses and other	34,669	21,181
Prepaid income taxes	2,132	2,376
Note receivable	2,498	2,919
	<u>3,297,781</u>	<u>4,228,924</u>
Non-current assets:		
Fixed assets, net of accumulated depreciation and amortization of \$828,228 and \$801,685	92,067	77,215
Land	1,420	1,420
Right-of-use asset - Finance lease	6,258	7,538
Right-of-use assets - Operating leases	2,940	3,619
Projects in development	43,476	56,858
Deferred income taxes, net of valuation allowance	31,478	31,427
Deferred pension and postretirement costs	1,575	-
Prepaid expenses	5,412	3,909
Note receivable	1,358	2,267
Other	23,249	20,992
	<u>209,233</u>	<u>205,245</u>
Total assets	<u>\$ 3,507,014</u>	<u>\$ 4,434,169</u>
Liabilities, paid-in capital, retained earnings and accumulated other comprehensive income		
Current liabilities:		
Accounts payable and accrued expenses	\$ 9,717	\$ 75,292
Due to members	355,747	1,124,009
Study and interconnection payables	44,240	101,715
Accrued payroll and benefits	34,970	39,426
Current portion of long-term debt	2,886	2,886
Current portion of lease liability - Finance lease	2,082	1,475
Current portion of lease liabilities - Operating leases	1,190	2,022
Deferred FERC fee liability	8,475	5,512
Deferred revenue	896	3,498
Postretirement healthcare benefits liability	2,158	1,877
Other employee benefits	371	289
Deposits	2,919,453	2,959,245
	<u>3,382,185</u>	<u>4,317,246</u>
Non-current liabilities:		
Long-term debt	2,886	5,049
Lease liability - Finance lease	5,893	7,462
Lease liabilities - Operating leases	1,750	2,143
Deferred recovery of pension and postretirement costs	-	1,891
Pension benefits liability	21,707	14,094
Postretirement health care benefits liability	47,615	46,017
Other employee benefits	26,788	24,370
	<u>106,639</u>	<u>101,026</u>
Total liabilities	<u>3,488,824</u>	<u>4,418,272</u>
Commitments and contingencies (Note 9)		
Paid in capital	722	722
Retained earnings	17,437	15,150
Accumulated other comprehensive income	31	25
Total paid-in capital, retained earnings and accumulated other comprehensive income	<u>18,190</u>	<u>15,897</u>
Total liabilities, paid-in capital, retained earnings and accumulated other comprehensive income	<u>\$ 3,507,014</u>	<u>\$ 4,434,169</u>

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

ITEM 1. - 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		Nine months ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Income				
Operating revenue:				
Service fees	\$ 82,526	\$ 81,204	\$ 244,338	\$ 237,093
FERC fees reimbursement	20,322	18,871	60,968	53,820
Study and interconnection fees	2,611	1,599	7,598	5,000
Membership fees	893	902	2,656	2,650
Other	893	1,225	3,333	3,032
Total operating revenue	<u>107,245</u>	<u>103,801</u>	<u>318,893</u>	<u>301,595</u>
Operating expenses:				
Compensation	45,905	40,393	133,260	121,986
FERC fees	20,322	18,871	60,968	53,820
Outside services	16,371	14,721	48,008	43,355
Depreciation and amortization	9,661	9,196	27,867	27,403
Software licenses and fees	6,102	5,502	18,627	17,600
Other expenses	2,497	1,900	9,376	8,616
Study and interconnection services	2,611	1,599	7,598	5,000
Computer maintenance and office supplies	1,419	1,490	6,294	6,051
Pension benefits - service cost	2,315	3,359	6,234	9,825
Lease expenses	521	523	1,548	1,548
Postretirement health care benefits - service cost	367	532	1,065	1,477
Total operating expenses	<u>108,091</u>	<u>98,086</u>	<u>320,845</u>	<u>296,681</u>
Operating (loss) income	<u>(846)</u>	<u>5,715</u>	<u>(1,952)</u>	<u>4,914</u>
Other income:				
Interest income	34,353	14,459	101,617	16,540
Interest expense	32,295	15,292	95,683	17,256
Pension and postretirement health care benefits - other components of net benefit cost	(300)	516	(528)	1,883
Total other income	<u>1,758</u>	<u>(317)</u>	<u>5,406</u>	<u>1,167</u>
Income before income taxes	912	5,398	3,454	6,081
Income tax expense	308	4,900	1,167	5,224
Net income	<u>\$ 604</u>	<u>\$ 498</u>	<u>\$ 2,287</u>	<u>\$ 857</u>
Paid-in capital, retained earnings and accumulated other comprehensive income (loss)				
Beginning balance	\$ 17,578	\$ 14,792	\$ 15,897	\$ 14,476
Net income	604	498	2,287	857
Other comprehensive income (loss)	8	(10)	6	(53)
Ending balance	<u>\$ 18,190</u>	<u>\$ 15,280</u>	<u>\$ 18,190</u>	<u>\$ 15,280</u>

ITEM 1. - PJM INTERCONNECTION, L.L.C.
Consolidated Statements of Cash Flows (Unaudited)
(\$ in thousands)

	Nine months ended	
	September 30,	
	2023	2022
Cash flows provided by (used in) operating activities:		
Net income	\$ 2,287	\$ 857
Adjustments:		
Depreciation and amortization expense	27,867	27,403
Deferred income taxes, net of valuation allowance	(51)	4,555
Deferred recovery of pension and postretirement costs	(3,466)	(11,302)
Employee benefit expense greater than funding	11,992	11,978
Net fair value changes related to interest rate swap	31	(557)
Changes in assets and liabilities:		
Decrease (increase) in receivables	111,111	(5,502)
Decrease in study and interconnection receivables	54,524	9,828
(Increase) decrease in prepaid expenses and other	(16,221)	7,523
Change in deferred FERC fee position	2,963	(6,054)
(Decrease) in accounts payable and accrued expenses	(64,917)	(20,721)
(Decrease) in study and interconnection payables	(57,475)	(11,705)
(Decrease) in accrued payroll and benefits	(4,456)	(6,268)
(Decrease) in deferred revenue	(2,602)	(2,535)
Refunds to members	-	(14,700)
Net cash provided by (used in) operating activities	<u>61,587</u>	<u>(17,200)</u>
Cash flows (used in) investing activities:		
Cost of projects in development	(29,750)	(29,186)
Note receivable	1,330	1,647
Net cash (used in) investing activities	<u>(28,420)</u>	<u>(27,539)</u>
Cash flows (used in) provided by financing activities:		
Borrowings under line of credit	343,173	1,280,782
Repayments under line of credit	(343,173)	(1,280,782)
Payments under finance lease	(1,280)	(1,566)
Repayments of long-term debt	(2,164)	(2,164)
(Decrease) increase in due to members	(768,262)	772,082
(Decrease) increase in deposits	(39,792)	223,217
Net cash (used in) provided by financing activities	<u>(811,498)</u>	<u>991,569</u>
Net (decrease) increase in cash and cash equivalents	(778,331)	946,830
Cash and cash equivalents balance (including customer deposits), beginning of year	3,972,523	2,641,178
Cash and cash equivalents balance (including customer deposits), end of period	<u>\$ 3,194,192</u>	<u>\$ 3,588,008</u>
Noncash activity:		
Projects in development additions included in ending accounts payable and accrued expenses	410	407

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

Item 1. - PJM Interconnection, L.L.C.

Notes to the Consolidated Financial Statements – September 30, 2023 (Unaudited)

(\$ in tables in thousands, unless otherwise noted)

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.

The interim financial data as of September 30, 2023 and for the 3-month and 9-month periods ended September 30, 2023 and September 30, 2022 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 2022 consolidated financial statements and footnotes.

PJM has performed an evaluation of subsequent events through November 6, 2023, which is the date the financial statements were issued.

Service Fees

During 2021, PJM recovered administrative costs under a stated-rate mechanism that provided for the accumulation of a financial reserve. PJM was permitted to maintain a reserve as a deferred regulatory liability in an amount defined as a percentage of stated-rate revenues. On a quarterly basis, PJM refunded the deferred regulatory liability balance in excess of the permitted financial reserve for the previous quarter. During the first quarter of 2022, PJM refunded the \$14.7 reserve accumulated under stated rates to members.

Due to Members

At September 30, 2023, the \$355.7 million due-to-members balance comprised \$285.9 million held by PJM related to the September 1 – September 20, 2023, month-to-date market settlement billing statements, paid to market participants by PJM on October 2, 2023, \$53.1 million of settled and unbilled excess congestion and \$16.7 million of Winter Storm Elliott performance assessment interval (PAI) bonus holdback, net of PAI non-payments.

At December 31, 2022, the \$1.1 billion due-to-members balance comprised \$667.5 million held by PJM related to the December 1 – December 21, 2022, month-to-date market settlement billing statements, paid to market participants by PJM on January 3, 2023, \$320.7 million of market participant prepayments for Winter Storm Elliott market settlement balances and \$135.8 million of settled and unbilled excess congestion.

2. Revenue and Accounts Receivable

Disaggregated Revenues

PJM has included in the table below disaggregation of PJM service fee revenues as defined in Schedule 9 of the Company's Tariff.

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2023	2022	2023	2022
PJM service fees				
Control area administrative service	\$ 50,509	\$ 50,866	\$ 148,586	\$ 146,630
Market support service	18,522	17,321	55,071	51,842
FTR administration service	3,684	3,760	11,288	10,738
Capacity resource and obligation management service	5,840	5,585	17,485	16,788
	<u>78,555</u>	<u>77,532</u>	<u>232,430</u>	<u>225,998</u>
PJM Settlement service fees	3,971	3,672	11,908	11,095
Total service fees	<u>\$ 82,526</u>	<u>\$ 81,204</u>	<u>\$ 244,338</u>	<u>\$ 237,093</u>

For the 3-month periods ended September 30, 2023 and September 30, 2022, PJM Connex, LLC (PJM Connex) recorded consolidated revenue of \$1.4 million and \$1.6 million, respectively, which is included in other operating revenue and as a component of membership fees in the Consolidated Statements of Income, Comprehensive Income and Paid-in Capital, Retained Earnings and Accumulated Other Comprehensive Income (Loss).

For the 9-month periods ended September 30, 2023 and September 30, 2022, PJM Connex, LLC (PJM Connex) recorded consolidated revenue of \$4.7 million and \$3.8 million, respectively, which is included in other operating revenue and as a component of membership fees 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, 2023 opening balance of deferred revenue resulting from contracts with customers was \$3.5 million. The September 30, 2023 closing balance of deferred revenue resulting from contracts with customers was \$0.9 million. The amount of revenue recognized in the 3-month and 9-month periods ended September 30, 2023, that was included in the opening contract liability balance, was \$0.9 million and \$2.6 million. PJM expects to recognize \$0.9 million of membership fees revenue during the remaining three months of 2023.

There were no material contract assets as of September 30, 2023.

PJM's receivables balance at September 30, 2023 included \$7.6 million of unbilled service fees and excess congestion, \$12.2 million of unbilled PJM recovery of pass-through charges and \$0.5 million of billed PJM Connex receivables.

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

All study and interconnection receivables were billed at September 30, 2023.

3. 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 June 30, 2026. Effective July 1, 2023, the revolving loan agreement was amended to substitute the Secured Overnight Financing Rate (SOFR) within the definition of the PNC Bank Base Rate, due to the cessation of the London Inter-Bank Offered Rate (LIBOR).

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 September 30, 2023, the interest rate on the revolving loan agreement between PJM and MA was 8.50%. 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%), or (C) the sum of the Daily SOFR plus one hundred basis points (1.00%).

The Company's revolving note receivable is accounted for in accordance with authoritative guidance governing receivables and is classified as held for investment. At September 30, 2023 and December 31, 2022, the outstanding balance due from MA recorded by PJM as a note receivable was \$3.8 million and \$5.2 million, respectively. At September 30, 2023 and December 31, 2022, the current portion of the note receivable was \$2.5 million and \$2.9 million, respectively. The current balance at September 30, 2023 represents the amount to be repaid in the next twelve months. The non-current portion of the note receivable was \$1.3 million at September 30, 2023, and \$2.3 million at December 31, 2022.

4. Short-Term Debt

PNC Bank (PNC) Revolving Line of Credit

PJM maintains with PNC a FERC-approved revolving line of credit agreement with a capacity amount of \$200 million. PJM received authorization from FERC on May 26, 2023 to continue to borrow under this facility and substitute SOFR as the reference interest rate for the facility due to the scheduled cessation of publication of LIBOR. On June 1, 2023, PJM executed an amendment to the facility with PNC, substituting SOFR as the reference interest rate for the facility and extending the term through May 31, 2025. The facility 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 September 30, 2023.

At both September 30, 2023 and December 31, 2022, there were no amounts outstanding under the revolving line of credit agreement. The interest rate on borrowings under this facility is interest at a rate per annum equal to the daily SOFR plus a spread of 72.5 basis points (0.725%). At September 30, 2023, the interest rate was 6.05%.

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

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

Bank of America (BoA) 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 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. On April 3, 2023, PJM amended the BoA term loan to substitute SOFR as the reference interest rate for the term loan due to the scheduled cessation of publication of LIBOR.

As of September 30, 2023 and December 31, 2022, the outstanding borrowings under the term loan were \$5.8 million and \$7.9 million, respectively. As defined in the loan agreement, through April 3, 2023, the term loan bore interest at a rate per annum equal to the daily SOFR, plus a spread of 75 basis points (0.75%). As of September 30, 2023, the interest rate was 6.05%.

Under the loan agreement, PJM is required to meet certain financial and non-financial covenants. PJM was in compliance with these covenants as of September 30, 2023.

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%. The term of the interest rate swap matches the term of the loan.

On April 3, 2023, PJM terminated the existing interest rate swap with BoA and entered into a new interest rate swap agreement, with BoA, to substitute SOFR as the reference interest rate due to the scheduled cessation of publication of LIBOR.

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 September 30, 2023 and December 31, 2022, the fair value of the swap was an asset of \$0.1 million and \$0.2 million, respectively, recorded as part of other non-current assets.

For the 3-month periods ended September 30, 2023 and September 30, 2022, in conjunction with changes in the fair value of the interest rate swap, PJM recognized a \$0.04 million loss and \$0.2 million gain, respectively, in interest expense in the Consolidated Statements of Income, Comprehensive Income and Paid-in Capital, Retained Earnings and Accumulated Other Comprehensive Income (Loss).

For the 9-month periods ended September 30, 2023 and September 30, 2022, in conjunction with changes in the fair value of the interest rate swap, PJM recognized a \$0.03 million loss and \$0.6 million gain, respectively, in 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.

6. 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 September 30, 2023 and December 31, 2022 by level within the fair value hierarchy.

(\$ in millions)	September 30, 2023			Carrying Value	December 31, 2022	
	Level 1	Level 2	Level 3		Carrying Value	
Cash and cash equivalents	\$ 3,194	\$ -	\$ -	\$ 3,194	\$	3,972
Deposit liabilities	2,919	-	-	2,919		2,959
Derivative asset (a)	-	-	-	-		-

(a) PJM's derivative asset at September 30, 2023 and December 31, 2022 was \$0.1 million and \$0.2 million, respectively.

7. Income Taxes

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

	Three months ended		Nine months ended	
	September 30, 2023	2022	September 30, 2023	2022
Income tax expense at the federal statutory rate	\$ 191	\$ 1,134	\$ 725	\$ 1,277
(Decrease) increase resulting from:				
Change in valuation allowance	-	(552)	(50)	(553)
Permanent differences	59	45	179	141
State income taxes, net of federal tax benefit	21	4,273	436	4,359
Other	37	-	(123)	-
Income tax expense	<u>\$ 308</u>	<u>\$ 4,900</u>	<u>\$ 1,167</u>	<u>\$ 5,224</u>

On July 8, 2022, the Commonwealth of Pennsylvania's tax code was amended to reduce the corporate net income tax rate from 9.99% to 8.99% effective January 1, 2023. The corporate net income tax rate will continue to decrease by 0.5% annually until 2031 when it reaches 4.99%. Accounting standards applicable for PJM require that the effects of a change in tax law or rates be recognized in the period that includes the enactment date. Accordingly, PJM was required to revalue the Company's deferred tax assets and liabilities in the third quarter of 2022. The revaluation resulted in \$4.2 million of state income tax expense.

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 2018 remain open to examination by various state taxing authorities. There are no ongoing audits at this time.

8. Benefit Plans

The components of net periodic pension and postretirement health care costs for the 3-month and 9-month periods ended September 30, 2023 and September 30, 2022 were as follows:

Components of Net Periodic Benefit Cost, July 1 to September 30	Pension Benefits				Other Postretirement Benefits	
	Qualified		SERP		2023	2022
	2023	2022	2023	2022		
Service cost	\$ 1,829	\$ 3,146	\$ -	\$ -	\$ 367	\$ 532
Interest cost	3,071	2,852	40	33	873	638
Expected return on assets	(2,866)	(3,953)	-	-	(201)	(216)
Prior service (gain)	-	-	-	-	(185)	(294)
Actuarial (gain) loss	-	918	(3)	5	(184)	-
Total net periodic benefit cost	<u>\$ 2,034</u>	<u>\$ 2,963</u>	<u>\$ 37</u>	<u>\$ 38</u>	<u>\$ 670</u>	<u>\$ 660</u>

Components of Net Periodic Benefit Cost, January 1 to September 30	Pension Benefits				Other Postretirement Benefits	
	Qualified		SERP		2023	2022
	2023	2022	2023	2022		
Service cost	\$ 5,177	\$ 9,186	\$ -	\$ -	\$ 1,065	\$ 1,477
Interest cost	9,131	8,219	126	98	2,595	1,855
Expected return on assets	(8,642)	(11,868)	-	-	(603)	(694)
Prior service (gain)	-	-	-	-	(553)	(882)
Actuarial (gain) loss	-	1,882	(7)	12	(616)	-
Total net periodic benefit cost	<u>\$ 5,666</u>	<u>\$ 7,419</u>	<u>\$ 119</u>	<u>\$ 110</u>	<u>\$ 1,888</u>	<u>\$ 1,756</u>

PJM sponsors a defined contribution supplemental executive retirement plan (SERP). For the 9-month periods ended September 30, 2023 and September 30, 2022, PJM recognized \$1.0 million and \$0.7 million in expense related to the defined contribution SERP, respectively. 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).

For the 3-month periods ended September 30, 2023 and September 30, 2022, \$0.8 million and \$0.1 million, respectively, of total pension and postretirement benefits expense were included in capitalized project costs. For the 9-month periods ended September 30, 2023 and September 30, 2022, \$1.9 million and \$0.8 million, respectively, of total pension and postretirement benefits expense were included in capitalized project costs.

The following schedule shows the assumptions used to calculate the pension and postretirement benefit expense for the periods ended September 30, 2023 and September 30, 2022.

	Pension Benefits				Other Postretirement Benefits	
	Qualified		SERP		2023	2022
	2023	2022	2023	2022		
Discount rate	5.68%	3.19%	5.53%	3.01%	5.58%	3.06%
Expected return on plan assets	6.00%	5.50%	N/A	N/A	6.00%	5.50%
Rate of compensation increase	4.04%	4.50%	N/A	N/A	N/A	N/A
Medical care cost trend rate						
Current (Pre-65)					6.50%	5.12%
Current (Post-65)					6.50%	5.07%
Ultimate (Pre-65)					5.00%	4.46%
Ultimate (Post-65)					5.00%	4.45%
Years to ultimate					15	16

9. Commitments and Contingencies

Leases

PJM leases office space and telecommunications equipment under operating leases and a finance lease. These leases expire during the period 2025-2027 and have been recorded as right-of-use assets, with associated lease liabilities, on the PJM Statement of Financial Position at September 30, 2023 and December 31, 2022.

	September 30, 2023		December 31, 2022	
	Right-of-use assets	Lease Liabilities	Right-of-use assets	Lease Liabilities
Operating leases	\$ 2,940	\$ 2,940	\$ 3,619	\$ 3,618
Finance lease	6,258	7,975	7,538	9,484
	<u>\$ 9,198</u>	<u>\$ 10,915</u>	<u>\$ 11,157</u>	<u>\$ 13,102</u>

At September 30, 2023, the current portions of the operating lease liabilities and the finance lease liability were \$1.2 million and \$2.1 million, respectively. At December 31, 2022, the current portions of the operating lease liabilities and the finance lease liability were \$1.5 million and \$2.0 million, respectively.

Lease expense associated with PJM's operating leases for the 3-month periods ended both September 30, 2023 and 2022 was \$0.5 million. Lease expense associated with PJM's operating leases for the 9-month periods ended both September 30, 2023 and 2022 was \$1.5 million.

Amortization and interest expense associated with PJM's finance lease for the 3-month period ended September 30, 2023 was \$0.5 million and \$0.01 million, respectively. Amortization and interest expense associated with PJM's finance lease for the 3-month period ended September 30, 2022 was \$0.2 million and \$0.04 million, respectively.

Amortization and interest expense associated with PJM's finance lease for the 9-month period ended September 30, 2023 was \$1.5 million and \$0.09 million, respectively. Amortization and interest expense associated with PJM's finance lease for the 9-month period ended September 30, 2022 was \$1.3 million and \$0.1 million, respectively.

Other Items

Credit Matter – Hill Energy Resource & Services (Hill Energy)

On January 11, 2022, PJM declared a PJM member and FTR market participant, Hill Energy, in default on its obligations to comply with a collateral call under PJM's credit policies, followed by subsequent payment defaults. PJM placed the portfolio in default in accordance with PJM's credit rules and policies, and settled and liquidated the Hill Energy portfolio.

On January 24, 2022, PJM filed a complaint against Hill Energy and its principal Lee Chen (Chen) in the District Court of Travis County, Texas. In the action, PJM, on behalf of its members, sought damages, expedited discovery and injunctive relief associated with Hill Energy's default in PJM's FTR market. On March 4, 2022, Hill Energy and Chen filed general denials of the claims in the complaint. Hill Energy additionally asserted a counterclaim for breach of PJM's Operating Agreement. On November 14, 2022, PJM submitted a filing with FERC seeking to terminate the membership of Hill Energy. On April 14, 2023, FERC accepted PJM's termination of Hill Energy's membership in PJM. On May 12, 2023, Hill Energy filed a request for a rehearing at FERC on the PJM membership termination decision. On June 12, 2023, FERC issued a Notice of Denial of Rehearing.

Winter Storm Elliott

On April 7, 2023, PJM issued PAI penalties related to Winter Storm Elliott. On or about the date of invoicing, PJM was served with several complaints generally asserting that PJM violated its Tariff, Operating

Agreement and Manuals in its performance and handling of system operations during Winter Storm Elliott and generally challenging PJM's assessments of the PAI penalties. The complainants generally seek to limit or excuse their payment of the PAI penalties. The complaints are generally regulatory in nature as the parties are seeking to avoid or reduce their PAI penalties which do not impact PJM's financials, but rather PAI bonus payments paid to those participants who over performed.

In June 2023, FERC designated the docketed matters for settlement discussions. Following several months of FERC-supervised settlement discussions, on September 29, 2023, PJM, along with eighty settling parties, submitted a proposed Offer of Settlement to FERC for approval to resolve complaints filed against PJM related to Winter Storm Elliott (with the exception of two discrete questions for Commission decision specified in the settlement agreement). The Settlement resolves the Winter Storm Elliott Complaints on a purely financial, negotiated basis by applying a 31.7% reduction in the total Non-Performance Charges assessed (which would be entirely offset by a reduction in bonus payments to resources that over-performed beyond their expected levels during Winter Storm Elliott). As part of the Offer of Settlement, PJM does not admit to any violation of the PJM Open Access Transmission Tariff or any other wrongdoing as part of this Settlement, which releases all claims against PJM arising out of Winter Storm Elliott, except as specified in this Settlement. PJM and the settling parties requested that FERC approve the Offer of Settlement by December 29, 2023.

In addition, two entities Heritage Power, LLC and Lincoln Power, LLC (and in each case their affiliates) sought protection from the PAI penalties by commencing bankruptcy proceedings and separate settlements were approved in those proceedings. One entity, EFS Parlin Holdings, LLC, incurred a payment default on April 18, 2023, which included a PAI penalty charge, and subsequently sought protection from the PAI penalties by commencing bankruptcy proceedings. In July 2023, FERC granted a waiver to defer Lee County Generation Station, LLC's obligation to pay its remaining monthly non-performance charge payments to the first six months of 2024 for the PAIs relating to Winter Storm Elliott.

PJM cannot predict the outcome of these matters, including future non-payment.

Part I. FINANCIAL INFORMATION (continued)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (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 \$82.5 million, \$1.3 million or 2% higher, for the 3-month period ended September 30, 2023 as compared with the 3-month period ended September 30, 2022. PJM's service fees were \$244.3 million, \$7.3 million or 3% higher, for the 9-month period ended September 30, 2023 as compared with the 9-month period ended September 30, 2022. Service fees reflect actual costs, billed under formula rates.

Total PJM Interconnection, LLC expenses, excluding FERC fees, study and interconnection services, interest income and interest expense associated with deposits, and income taxes, increased in line with the increase in service fees for both the 3-month and 9-month periods ended September 30, 2023. PJM reported an increase in compensation expense in 2023, due to higher head count period over period and merit increases. Increases for both the 3-month and 6-month periods also reflected increased cost of insurance premiums and higher professional services expense including legal, accounting and auditing fees and contractor expense. The period over period increases were partially offset by increased interest income on operational cash balances due to a higher interest rates and higher cash balances and a decrease in benefit plan expense resulting from higher discount rates used to calculate 2023 pension and postretirement benefit expense.

Other revenue represents volumetric and user fees generated by PJM Environmental Information Services, Inc.

Liquidity and Capital Resources

PJM maintained with PNC Bank (PNC) a FERC-approved revolving line of credit agreement with a capacity amount of \$200 million. PJM received authorization from FERC on May 26, 2023 to borrow under this facility through May 31, 2025. The revolving line of credit is unsecured and available to fund short-term cash obligations. At September 30, 2023, there were no outstanding borrowings under the revolving credit agreement.

On September 28, 2018, FERC approved PJM's application to refinance the Company's existing bank loan 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, amended April 3, 2023. The BoA term loan has a seven-year term and is unsecured. At September 30, 2023, the outstanding borrowings under the term loan were \$5.8 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 9-month period ended September 30, 2023, 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.

At September 30, 2023, 289 members are financial transmission right (FTR) holders related to 8.3 million megawatt hours. The estimated fair value of the FTR portfolio at September 30, 2023, under a mark-to-auction model, was \$1.6 billion. PJM held \$2.4 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 is in the form of cash or a letter of credit.

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