

PJM INTERCONNECTION, L.L.C.
FOR THE QUARTER ENDED SEPTEMBER 30, 2024

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

| | September 30, 2024 | December 31, 2023 |
|---|---------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Deposits on hand | \$ 3,011,664 | \$ 2,994,388 |
| Operating cash | 37,141 | 370,303 |
| Receivables | 8,184 | 39,032 |
| Study and interconnection receivables | 51,111 | 31,417 |
| Prepaid expenses and other | 23,707 | 19,803 |
| Note receivable | 2,339 | 3,367 |
| | <u>3,134,146</u> | <u>3,458,310</u> |
| Non-current assets: | | |
| Fixed assets, net of accumulated depreciation and amortization of \$788,282 and \$760,232 | 87,831 | 94,457 |
| Land | 1,420 | 1,420 |
| Projects in development | 53,102 | 43,840 |
| Right-of-use asset - Finance lease | 4,552 | 5,831 |
| Right-of-use assets - Operating leases | 2,258 | 2,731 |
| Deferred pension and postretirement costs | 4,758 | 225 |
| Deferred income taxes, net of valuation allowance | 41,500 | 39,639 |
| Prepaid expenses | 3,492 | 5,315 |
| Note receivable | 367 | 1,933 |
| Other | 28,890 | 25,567 |
| | <u>228,170</u> | <u>220,958</u> |
| Total assets | <u>\$ 3,362,316</u> | <u>\$ 3,679,268</u> |
| Liabilities, paid-in capital, retained earnings and accumulated other comprehensive income | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 22,748 | \$ 30,461 |
| Due to members | 68,843 | 432,067 |
| Study and interconnection payables | 51,982 | 31,247 |
| Accrued payroll and benefits | 40,103 | 48,465 |
| Revolving line of credit | 15,290 | - |
| Current portion of long-term debt | 2,886 | 2,886 |
| Current portion of lease liability - Finance lease | 2,165 | 2,103 |
| Current portion of lease liabilities - Operating leases | 1,130 | 1,127 |
| Deferred FERC fee liability | 3,560 | 3,826 |
| Deferred revenue | 886 | 3,581 |
| Postretirement healthcare benefits liability | 2,379 | 2,111 |
| Other employee benefits | 492 | 382 |
| Deposits | 3,011,664 | 2,994,388 |
| | <u>3,224,128</u> | <u>3,552,644</u> |
| Non-current liabilities: | | |
| Long-term debt | - | 2,163 |
| Lease liability - Finance lease | 3,728 | 5,359 |
| Lease liabilities - Operating leases | 1,128 | 1,604 |
| Pension benefits liability | 34,919 | 21,283 |
| Postretirement health care benefits liability | 49,944 | 48,752 |
| Other employee benefits | 28,154 | 29,598 |
| | <u>117,873</u> | <u>108,759</u> |
| Total liabilities | <u>3,342,001</u> | <u>3,661,403</u> |
| Commitments and contingencies (Note 9) | | |
| Paid in capital | 722 | 722 |
| Retained earnings | 19,557 | 17,116 |
| Accumulated other comprehensive income | 36 | 27 |
| Total paid-in capital, retained earnings and accumulated other comprehensive income | <u>20,315</u> | <u>17,865</u> |
| Total liabilities, paid-in capital, retained earnings and accumulated other comprehensive income | <u>\$ 3,362,316</u> | <u>\$ 3,679,268</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 (Unaudited)**

(\$ in thousands)

| | Three months ended | | Nine months ended | |
|--|--------------------|------------------|-------------------|------------------|
| | September 30, | | September 30, | |
| | 2024 | 2023 | 2024 | 2023 |
| Income | | | | |
| Operating revenue: | | | | |
| Service fees | \$ 85,250 | \$ 82,526 | \$ 264,999 | \$ 244,338 |
| FERC fees reimbursement | 44,920 | 20,322 | 87,144 | 60,968 |
| Study and interconnection fees | 2,920 | 2,611 | 8,883 | 7,598 |
| Membership fees | 890 | 893 | 2,686 | 2,656 |
| Other | 1,169 | 893 | 3,781 | 3,333 |
| Total operating revenue | <u>135,149</u> | <u>107,245</u> | <u>367,493</u> | <u>318,893</u> |
| Operating expenses: | | | | |
| Compensation | 48,003 | 45,905 | 147,248 | 133,260 |
| FERC fees | 44,920 | 20,322 | 87,144 | 60,968 |
| Outside services | 17,386 | 16,371 | 50,770 | 48,008 |
| Depreciation and amortization | 9,359 | 9,661 | 29,520 | 27,867 |
| Software licenses and fees | 7,187 | 6,102 | 20,954 | 18,627 |
| Other expenses | 2,233 | 2,497 | 10,763 | 9,376 |
| Computer maintenance and office supplies | 1,276 | 1,419 | 5,951 | 6,294 |
| Study and interconnection services | 2,920 | 2,611 | 8,883 | 7,598 |
| Pension benefits - service cost | 2,191 | 2,315 | 6,775 | 6,234 |
| Lease expenses | 404 | 521 | 1,161 | 1,548 |
| Postretirement health care benefits - service cost | 357 | 367 | 1,163 | 1,065 |
| Total operating expenses | <u>136,236</u> | <u>108,091</u> | <u>370,332</u> | <u>320,845</u> |
| Operating (loss) income | <u>(1,087)</u> | <u>(846)</u> | <u>(2,839)</u> | <u>(1,952)</u> |
| Other income: | | | | |
| Interest income | 36,908 | 34,353 | 109,293 | 101,617 |
| Interest expense | 34,729 | 32,295 | 102,747 | 95,683 |
| Pension and postretirement health care benefits expense - other components of net benefit cost | (79) | (300) | 36 | (528) |
| Total other income | <u>2,100</u> | <u>1,758</u> | <u>6,582</u> | <u>5,406</u> |
| Income before income taxes | 1,013 | 912 | 3,743 | 3,454 |
| Income tax expense | 283 | 308 | 1,302 | 1,167 |
| Net income | <u>\$ 730</u> | <u>\$ 604</u> | <u>\$ 2,441</u> | <u>\$ 2,287</u> |
| Paid-in capital, retained earnings and accumulated other comprehensive income | | | | |
| Beginning balance | \$ 19,585 | \$ 17,578 | \$ 17,865 | \$ 15,897 |
| Net income | 730 | 604 | 2,441 | 2,287 |
| Other comprehensive income | - | 8 | 9 | 6 |
| Ending balance | <u>\$ 20,315</u> | <u>\$ 18,190</u> | <u>\$ 20,315</u> | <u>\$ 18,190</u> |

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

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

| | Nine months ended | |
|---|--------------------------|---------------------|
| | September 30, | |
| | 2024 | 2023 |
| Cash flows from operating activities: | | |
| Net income | \$ 2,441 | \$ 2,287 |
| Adjustments: | | |
| Depreciation and amortization expense | 29,520 | 27,867 |
| Deferred income taxes, net of valuation allowance | (1,861) | (51) |
| Deferred recovery of pension and postretirement costs | (4,533) | (3,466) |
| Employee benefit expense greater than funding | 13,761 | 11,992 |
| Net fair value changes related to interest rate swap | (45) | 31 |
| Changes in assets and liabilities: | | |
| Decrease in receivables | 30,848 | 111,111 |
| (Increase) decrease in study and interconnection receivables | (19,694) | 54,524 |
| (Increase) in prepaid expenses and other | (4,360) | (16,221) |
| Change in deferred FERC fee position | (266) | 2,963 |
| (Decrease) in accounts payable and accrued expenses | (8,936) | (64,917) |
| Increase (decrease) in study and interconnection payables | 20,735 | (57,475) |
| (Decrease) in accrued payroll and benefits | (8,362) | (4,456) |
| (Decrease) in deferred revenue | (2,695) | (2,602) |
| Net cash provided by operating activities | <u>46,553</u> | <u>61,587</u> |
| Cash flows (used in) investing activities: | | |
| Cost of projects in development | (30,932) | (29,750) |
| Note receivable | 2,594 | 1,330 |
| Net cash (used in) investing activities | <u>(28,338)</u> | <u>(28,420)</u> |
| Cash flows (used in) financing activities: | | |
| Borrowings under line of credit | 454,800 | 343,173 |
| Repayments under line of credit | (439,510) | (343,173) |
| Payments under finance lease | (1,280) | (1,280) |
| Repayments of long-term debt | (2,163) | (2,164) |
| (Decrease) in due to members | (363,224) | (768,262) |
| Increase (decrease) in deposits | 17,276 | (39,792) |
| Net cash (used in) financing activities | <u>(334,101)</u> | <u>(811,498)</u> |
| Net (decrease) in cash and cash equivalents | (315,886) | (778,331) |
| Cash and cash equivalents balance (including customer deposits), beginning of year | <u>3,364,691</u> | <u>3,972,523</u> |
| Cash and cash equivalents balance (including customer deposits), end of period | <u>\$ 3,048,805</u> | <u>\$ 3,194,192</u> |
| Noncash activity: | | |
| Projects in development additions included in ending accounts payable and accrued expenses | 1,223 | 410 |

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, 2024 (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 (GAAP) in the United States of America 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 September 30, 2024 and for the 3-month and 9-month periods ended September 30, 2024 and September 30, 2023 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 2023 consolidated financial statements and footnotes.

PJM has performed an evaluation of subsequent events through November 7, 2024, which is the date the financial statements were issued.

2. Revenue and Accounts Receivable

Disaggregated Revenues

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

| | Three months ended | | Nine months ended | |
|---|--------------------|------------------|-------------------|-------------------|
| | September 30, | | September 30, | |
| | 2024 | 2023 | 2024 | 2023 |
| PJM service fees | | | | |
| Control area administrative service | \$ 52,119 | \$ 50,509 | \$ 160,679 | \$ 148,586 |
| Market support service | 19,153 | 18,522 | 60,091 | 55,071 |
| Capacity resource and obligation management service | 6,077 | 3,684 | 19,202 | 11,288 |
| FTR administration service | 3,913 | 5,840 | 12,276 | 17,485 |
| | <u>81,262</u> | <u>78,555</u> | <u>252,248</u> | <u>232,430</u> |
| PJM Settlement service fees | 3,988 | 3,971 | 12,751 | 11,908 |
| Total service fees | <u>\$ 85,250</u> | <u>\$ 82,526</u> | <u>\$ 264,999</u> | <u>\$ 244,338</u> |

For the 3-month periods ended September 30, 2024 and 2023, PJM Connex, LLC (PJM Connex) recorded consolidated revenue of \$2.1 million and \$1.4 million, respectively, which is included in membership fees and other operating revenue in the Consolidated Statements of Income, Comprehensive Income and Paid-in Capital, Retained Earnings and Accumulated Other Comprehensive Income.

For the 9-month periods ended September 30, 2024 and 2023, PJM Connex recorded consolidated revenue \$5.2 million and \$4.7 million, respectively, which is included in membership fees and other operating revenue in the Consolidated Statements of Income, Comprehensive Income and Paid-in Capital, Retained Earnings and Accumulated Other Comprehensive Income.

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. Membership fees - recorded as deferred revenue - are considered contract liabilities. The January 1, 2024 opening balance of deferred revenue resulting from contracts with customers was \$3.6 million. The September 30, 2024 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, 2024, that was included in the opening contract liability balance, was \$0.9 million and \$2.7 million, respectively. PJM expects to recognize \$0.9 million of membership fees revenue during the remaining three months of 2024.

There were no material contract assets as of September 30, 2024.

PJM's receivables balance at September 30, 2024 included \$17.0 million of unbilled service fees, \$14.6 million of unbilled PJM recovery of pass-through charges and \$0.9 million of billed PJM Connex receivables, offset by \$24.3 million of excess congestion returned in the September market settlement invoice.

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

All study and interconnection receivables were billed at September 30, 2024.

3. Note Receivable

On March 21, 2008, the Federal Energy Regulatory Commission (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 independently 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 during March 2008. The revolving loan agreement was extended in November 2019 to March 31, 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.

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, 2024, the interest rate on the revolving loan agreement between PJM and MA was 8.00%. 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, 2024 and December 31, 2023, the outstanding balance due from MA recorded by PJM as a note receivable was \$2.7 million and \$5.3 million, respectively. At September 30, 2024, the current portion of the note receivable was \$2.3 million. The current balance at September 30, 2024 represents the amount to be repaid in the next twelve months.

4. Short-Term Debt

PJM maintains with PNC Bank (PNC) a FERC-approved revolving line of credit agreement with a capacity amount of \$200 million. PJM received approval from FERC on May 26, 2023, to continue to borrow under this facility and substitute SOFR as the reference rate for the facility. 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 1, 2025. The revolving line of credit is unsecured and available to fund short-term cash obligations.

Under the loan covenants for the revolving line of credit agreement, PJM is required to meet certain financial and non-financial covenants. PJM was in compliance with these covenants as of September 30, 2024.

At September 30, 2024, \$15.3 million was outstanding under the revolving line of credit agreement. At December 31, 2023, there were no amounts outstanding under the revolving line of credit agreement. The interest rate on borrowings under this facility is based interest at a rate per annum equal to daily SOFR plus a spread of 72.5 basis points (0.725%). At September 30, 2024, the interest rate was 5.55%.

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.

As of September 30, 2024 and December 31, 2023, the outstanding borrowings under the term loan were \$2.8 million and \$5.0 million, respectively. As defined in the loan agreement, the term loan bears interest at a rate per annum equal to the daily SOFR, plus a spread of 75 basis points (0.75%). As of September 30, 2024, the interest rate was 5.94%.

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, 2024.

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. 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.

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, 2024 and December 31, 2023, the fair value of the swap was an asset of \$0.02 million and \$0.08 million, recorded as part of other current and non-current assets, respectively.

For the 3-month periods ended September 30, 2024 and 2023, in conjunction with changes in the fair value of the interest rate swap, PJM recognized \$0.03 million and \$0.04 million, respectively, in interest expense in the Consolidated Statements of Income, Comprehensive Income and Paid-in Capital, Retained Earnings and Accumulated Other Comprehensive Income.

For the 9-month periods ended September 30, 2024 and 2023, in conjunction with changes in the fair value of the interest rate swap, PJM recognized \$0.06 million and \$0.03 million, respectively, in interest expense in the Consolidated Statements of Income, Comprehensive Income and Paid-in Capital, Retained Earnings and Accumulated Other Comprehensive Income.

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, 2024 and December 31, 2023 by level within the fair value hierarchy.

| (\$ in millions) | September 30, 2024 | | | December 31, 2023 | |
|---------------------------|--------------------|---------|---------|-------------------|----------------|
| | Level 1 | Level 2 | Level 3 | Carrying Value | Carrying Value |
| Cash and cash equivalents | \$ 3,048 | \$ - | \$ - | \$ 3,048 | \$ 3,365 |
| Deposit liabilities | 3,012 | - | - | 3,012 | 2,994 |
| Derivative asset (a) | - | - | - | - | - |

(a) PJM's Level 2 interest rate swap was valued as a \$0.02 million asset at September 30, 2024 and as a \$0.08 million asset at December 31, 2023. At September 30, 2024 and December 31, 2023 PJM's interest rate swap was recorded as a component of other current and non-current assets, 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, | | September 30, | |
| | 2024 | 2023 | 2024 | 2023 |
| Income tax expense at the federal statutory rate | \$ 213 | \$ 191 | \$ 786 | \$ 725 |
| (Decrease) increase resulting from: | | | | |
| Change in valuation allowance | - | - | - | (50) |
| Permanent differences | 46 | 59 | 197 | 179 |
| State income taxes, net of federal tax benefit | 107 | 58 | 394 | 255 |
| State income taxes, effect of rate change | 2 | (37) | 263 | 181 |
| Other | (85) | 37 | (338) | (123) |
| Income tax expense | <u>\$ 283</u> | <u>\$ 308</u> | <u>\$ 1,302</u> | <u>\$ 1,167</u> |

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 2019 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, 2024 and 2023 were as follows:

| Components of Net Periodic Benefit Cost, July 1 to September 30 | Pension Benefits | | | | Other Postretirement Benefits | |
|---|------------------|-----------------|--------------|--------------|-------------------------------|---------------|
| | Qualified | | SERP | | 2024 | 2023 |
| | 2024 | 2023 | 2024 | 2023 | | |
| Service cost | \$ 1,967 | \$ 1,829 | \$ - | \$ - | \$ 404 | \$ 367 |
| Interest cost | 3,301 | 3,071 | 41 | 40 | 881 | 873 |
| Expected return on assets | (3,425) | (2,866) | - | - | (250) | (201) |
| Prior service (gain) | - | - | - | - | (137) | (185) |
| Actuarial (gain) | - | - | (1) | (3) | (158) | (184) |
| Total net periodic benefit cost | <u>\$ 1,843</u> | <u>\$ 2,034</u> | <u>\$ 40</u> | <u>\$ 37</u> | <u>\$ 740</u> | <u>\$ 670</u> |

| Components of Net Periodic Benefit Cost, January 1 to September 30 | Pension Benefits | | | | Other Postretirement Benefits | |
|--|------------------|-----------------|---------------|---------------|-------------------------------|-----------------|
| | Qualified | | SERP | | 2024 | 2023 |
| | 2024 | 2023 | 2024 | 2023 | | |
| Service cost | \$ 5,690 | \$ 5,177 | \$ - | \$ - | \$ 1,163 | \$ 1,065 |
| Interest cost | 9,764 | 9,131 | 123 | 126 | 2,631 | 2,595 |
| Expected return on assets | (10,343) | (8,642) | - | - | (749) | (603) |
| Prior service (gain) | - | - | - | - | (412) | (553) |
| Actuarial (gain) | - | - | (2) | (7) | (500) | (616) |
| Total net periodic benefit cost | <u>\$ 5,111</u> | <u>\$ 5,666</u> | <u>\$ 121</u> | <u>\$ 119</u> | <u>\$ 2,133</u> | <u>\$ 1,888</u> |

PJM sponsors a defined contribution supplemental executive retirement plan (SERP). For the 9-month periods ended September 30, 2024 and 2023, PJM recognized \$1.1 million and \$1.0 million, respectively, in expense related to the defined contribution SERP. 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.

For the 3-month periods ended September 30, 2024 and 2023, \$0.3 million and \$0.8 million, respectively, of total pension and postretirement benefits expense were included in capitalized project costs. For the 9-month periods ended September 30, 2024 and 2023, \$0.8 million and \$1.9 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, 2024 and 2023.

| | Pension Benefits | | | | Other Postretirement Benefits | |
|--------------------------------|------------------|-------|-------|-------|-------------------------------|-------|
| | Qualified | | SERP | | 2024 | 2023 |
| | 2024 | 2023 | 2024 | 2023 | | |
| Discount rate | 5.35% | 5.68% | 5.17% | 5.53% | 5.25% | 5.58% |
| Expected return on plan assets | 6.50% | 6.00% | N/A | N/A | 6.50% | 6.00% |
| Rate of compensation increase | 3.98% | 4.51% | N/A | N/A | N/A | N/A |
| Health care cost trend | | | | | | |
| Current | | | | | 6.25% | 6.50% |
| Ultimate | | | | | 5.00% | 5.00% |
| Years to ultimate | | | | | 4 | 5 |

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, 2024 and December 31, 2023.

| | September 30, 2024 | | December 31, 2023 | |
|------------------|---------------------|-------------------|---------------------|-------------------|
| | Right-of-use assets | Lease Liabilities | Right-of-use assets | Lease Liabilities |
| Operating leases | \$ 2,258 | \$ 2,258 | \$ 2,731 | \$ 2,731 |
| Finance lease | 4,552 | 5,893 | 5,831 | 7,462 |
| | <u>\$ 6,810</u> | <u>\$ 8,151</u> | <u>\$ 8,562</u> | <u>\$ 10,193</u> |

At September 30, 2024, the current portions of the operating lease liabilities and the finance lease liability were \$1.1 million and \$2.2 million, respectively.

Lease expense associated with PJM's operating leases for the 3-month periods ended September 30, 2024 and 2023 was \$0.4 million and \$0.5 million, respectively. Lease expense associated with PJM's operating leases for the 9-month periods ended September 30, 2024 and 2023 was \$1.2 million and \$1.5 million, respectively.

Amortization and interest expense associated with PJM's finance lease for the 3-month period ended September 30, 2024 was \$0.6 million and \$0.02 million. Amortization and interest expense associated with PJM's finance lease for the 9-month period ended September 30, 2024 was \$1.6 million and \$0.07 million, respectively.

Other Items

Lackawanna Energy Center LLC v. PJM Interconnection, L.L.C.

On January 25, 2024, Lackawanna Energy Center LLC (Lackawanna) filed a complaint against PJM in Docket No. EL24-64-000, alleging that PJM violated its Tariff by failing to pay Lackawanna lost opportunity cost (LOC) when PJM reduced the output of the Lackawanna to honor system "stability limits" during the Juniata-Sunbury line outage in May 2023 and June 2023. Lackawanna is demanding \$7.5 million in LOC payments. LOC is the revenue that a market participant would have made in the PJM Energy Market, had the market participant not been directed by PJM to perform a necessary operational activity. On February 23, 2024, PJM filed an answer to the complaint rejecting all claims made by Lackawanna.

On May 23, 2024, the FERC issued an order denying this complaint, and ordered PJM to submit a compliance filing by June 24, 2024 to clean-up the Tariff and Operating Agreement related to prior Commission-accepted Tariff and Operating Agreement revisions. On June 21, 2024, Lackawanna filed a request for rehearing of the May 23, 2024 order. On June 24, 2024, PJM submitted its compliance filing in Docket No. ER24-2354-000. On July 22, 2024, the Commission issued a notice of denial of rehearing by operation of law and providing for further consideration of Lackawanna's request for rehearing. On September 20, 2024, Lackawanna filed with the DC Circuit Court a petition for review of the Commission's orders denying the complaint and denying the request for rehearing. This appeal remains pending. PJM denies Lackawanna's claims and considers it to be remote that this claim would impact PJM's financial statements. On October 17, 2024, the Commission issued an order on rehearing reaching the same conclusion as the May 23, 2024 order, denying the complaint. On October 23, 2024, the Commission filed an unopposed motion at the DC Circuit Court to hold the appeal and associated court deadlines in abeyance, in light of the fact that the periods for rehearing and appeal of the October 17, 2024 rehearing order have not yet run. The motion proposes to provide further updates to the court by December 23, 2024.

Energy Efficiency Complaints

Five complaints have been filed regarding the participation of energy efficiency in PJM's capacity market, two of which raise allegations that PJM has been improperly administering the participation of energy efficiency for several years by adding back demand offset by energy efficiency to the load forecast. PJM has filed responses to these complaints. Another relates to PJM's alleged departure from past practice and PJM's guidance to Market Participants that is inconsistent with the rules specified in the governing documents. PJM has filed a response to this complaint. On November 5, 2024, FERC accepted PJM's proposed Tariff and RAA revisions to sunset Energy Efficiency Resources' participation in capacity market auctions starting with the 2026/2027 Delivery Year as just and reasonable and not unduly discriminatory or preferential, with an effective date of November 6, 2024. FERC's acceptance may moot this complaint given that there will no longer be a need to utilize an addback in the absence of energy efficiency participating in PJM's capacity market. The Affirmed Energy complaint argues that PJM is holding excess collateral for the Energy Efficiency Provider. PJM has until November 11, 2024 to respond to this complaint. Finally, while PJM is not named in the complaint filed by the Independent Market Monitor for PJM against Energy Efficiency Providers, PJM is closely following this matter and has submitted an answer in this docket.

Designated Entity Agreements

On July 26, 2022, American Municipal Power, Inc., the Office of People's Counsel for the District of Columbia and the PJM Industrial Customer Coalition (collectively Complainants) filed a complaint with FERC (Docket No. EL22-80-000) (DEA Complaint). Complainants claim that PJM has failed to comply with Schedule 6 of the Operating Agreement by not executing a Designated Entity Agreement (DEA) with each entity designated to construct a regionally planned project. Complainants claim that there are currently 494 projects that are not compliant with the Operating Agreement because they do not have a DEA. PJM filed its answer to the complaint on August 29, 2022. Complainants did not seek monetary relief, but requested that FERC require PJM to comply with the terms of the Operating Agreement.

On July 25, 2024, the FERC issued an order addressing: (i) a complaint filed by American Municipal Power, Inc., the Office of the People's Counsel for the District of Columbia, and the PJM Industrial Customer Coalition against PJM regarding PJM's issuance of Designated Entity Agreements (DEAs) to entities designated to construct Regional Transmission Expansion Plan (RTEP) projects in PJM (Complaint) and (ii) a FPA section 206 filing by PJM requesting that FERC revise limited provisions of Operating Agreement, Schedule 6, section 1.5.8 regarding the process and associated requirements for DEAs (PJM Section 206 Filing). FERC granted both the Complaint and the PJM Section 206 Filing, in part, and denied them, in part. FERC also: (i) directed PJM to submit a compliance filing within 30 days and (ii) instituted a paper hearing procedures to develop a further record to determine PJM's remedial responsibilities regarding DEA requirements for certain in-progress RTEP projects.

On August 26, 2024, the Indicated PJM Transmission Owners filed a request for rehearing of the July 25, 2024 Commission Order. On September 9, 2024, PJM submitted its initial response to the Commission's first request in the paper hearing questions. On September 26, 2024, the Commission issued a notice of denial of rehearing by operation of law and providing for further consideration of the Indicated Transmission Owners' request for rehearing. On October 8, 2024, PJM and the Indicated PJM Transmission Owners filed responses to the Commission's remaining paper hearing questions. The matter remains pending at FERC.

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, inflation, interest rates, actuarial assumptions, availability of credit, liquidity and general economic conditions; tax policies; changes in accounting principles and practices; acts of terrorists; cyber security risks, including security breaches; the actions of adjacent control areas and other regional transmission organizations (RTOs); extreme weather 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 Interconnection, LLC's operating income, which includes service fees, membership fees and interest income on operational cash balances, increased \$2.7 million or 3%, for the 3-month period ended September 30, 2024 as compared with the 3-month period ended September 30, 2023 and increased \$21.1 million or 8%, for the 9-month period ended September 30, 2024 as compared with the 9-month period ended September 30, 2023. Service fees reflect actual costs, billed under formula rates for PJM Interconnection, LLC and PJM Settlement, Inc.

Total PJM Interconnection, LLC expenses, excluding FERC fees, study and interconnection services and interest expense associated with customer credit, increased in line with the increase in service fees for both the 3-month and 9-month periods ended September 30, 2024. PJM reported an increase in compensation expense in 2024 due to a higher staffing level period over period and merit increases and an increase in software licenses and fees reflecting higher license and maintenance expense period over period. Increases in the 9-month period also reflected higher depreciation expense due to a larger fixed asset base subject to depreciation, driven by the placement into service of a multiyear project in 2023.

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

Liquidity and Capital Resources

PJM maintains with PNC Bank (PNC) a FERC-approved revolving line of credit agreement with a capacity amount of \$200 million. PJM received approval from FERC, on May 26, 2023, to continue to borrow under this facility through May 2025. The revolving line of credit is unsecured and available to fund short-term cash obligations. At September 30, 2024, there was \$15.3 million of outstanding borrowings under the revolving credit agreement.

On June 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. The BoA term loan has a seven-year term and is unsecured. At September 30, 2024, the outstanding

borrowings under the term loan were \$2.8 million. PJM is expected to make \$0.7 million of principal payments during the remainder of 2024.

Under the loan covenants for each facility, PJM is required to provide unaudited financial statements 45 days after each quarter and audited financial statements 120 days after year-end. PJM is in compliance with these covenants.

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, 2024, approximately 60 percent of PJM's operating expenses were billed to 15 of its members. PJM had approximately 1,100 members at September 30, 2024. In the event of a 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, 2024, 290 members are financial transmission right (FTR) holders related to 9.8 million megawatt hours. The estimated fair value of the FTR portfolio at September 30, 2024, under a mark-to-auction model, was \$1.9 billion. PJM held \$3.1 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.