PJM INTERCONNECTION, L.L.C.

FOR THE QUARTER ENDED MARCH 31, 2019

INDEX

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

	March 31, 2019	December 31, 2018
Assets		
Current assets:		
Deposits on hand	$ 1,550,232	$ 1,500,794
Operating cash	366,930	362,285
Receivables	45,300	39,694
Study and interconnection receivables	8,806	9,457
Prepaid income taxes	2,500	2,481
Prepaid expenses and other	9,293	9,778
Note receivable	1,389	1,786
	1,984,450	1,926,275
Non-current assets:		
Fixed assets, net of accumulated depreciation and amortization of $685,428 and $675,440	95,389	97,551
Land	1,420	1,420
Projects in development	37,499	35,047
Deferred recovery of pension and postretirement costs	29,935	30,092
Deferred income taxes, net of valuation allowance	26,405	26,431
Note receivable	400	550
Other	24,516	22,300
	215,564	213,391
Total assets	$ 2,200,014	$ 2,139,666
Liabilities, paid-in capital, retained earnings and accumulated other comprehensive income		
Current liabilities:		
Accounts payable and accrued expenses	$ 45,083	$ 33,962
Due to members	414,546	404,980
Study and interconnection payables	8,704	9,247
Accrued payroll and benefits	14,403	28,383
Current portion of long-term debt	2,886	2,886
Current portion of capital lease	1,726	1,707
Deferred regulatory liability	8,473	6,393
Deferred revenue	2,673	3,443
Postretirement healthcare benefits liability	1,367	1,327
Other employee benefits	264	227
Deposits	1,550,232	1,500,794
	2,050,357	1,993,349
Non-current liabilities:		
Long-term debt	15,871	16,593
Long-term capital lease	14,631	15,067
Deferred regulatory liability	18,025	17,843
Interest rate swap	457	325
Pension benefits liability	16,893	15,415
Postretirement healthcare benefits liability	43,895	43,459
Other employee benefits	29,944	27,646
	139,716	136,348
Total liabilities	2,190,073	2,129,697
Commitments and contingencies (Note 13)		
Paid in capital	722	722
Retained earnings	8,258	8,286
Accumulated other comprehensive income	961	961
Total paid-in capital, retained earnings and accumulated other comprehensive income	9,941	9,969
Total liabilities, paid-in capital, retained earnings and accumulated other comprehensive income	$ 2,200,014	$ 2,139,666

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

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

	Three months ended March 31, 2019	Three months ended March 31, 2018
Income		
Operating revenue:		
Service fees	$ 81,708	$ 78,142
Deferred regulatory income	(8,890)	(8,013)
FERC fees reimbursement	16,366	16,117
Study and interconnection fees	1,002	991
Membership fees	925	890
Other	766	1,306
Total operating revenue	91,877	89,433
Operating expenses:		
Compensation	37,187	35,068
FERC fees	16,366	16,117
Outside services	14,027	13,359
Depreciation and amortization	9,992	11,815
Software licenses and fees	4,862	3,700
Computer maintenance and office supplies	3,002	2,667
Pension benefits	2,207	2,125
Other expenses	2,084	2,896
Study and interconnection services	1,002	991
Lease expenses	488	461
Postretirement healthcare benefits	246	377
Total operating expenses	91,463	89,576
Operating income	414	(143)
Other income (expense):		
Interest income	7,458	2,254
Interest expense	7,741	1,997
Total other income (expense)	(283)	257
Income before income taxes	131	114
Income tax expense	159	150
Net (loss)	$ (28)	$ (36)
Paid-in capital, retained earnings and accumulated other comprehensive (loss) income		
Beginning balance	9,969	8,590
Net (loss)	(28)	(36)
Other comprehensive (loss) income	-	237
Ending balance	$ 9,941	$ 8,791

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

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

	Three months ended March 31, 2019	Three months ended March 31, 2018
Cash flows from operating activities:		
Net (loss)	$ (28)	$ (36)
Adjustments:		
Depreciation and amortization expense	9,992	11,815
Deferred income taxes, net of valuation allowance	26	(1,493)
Deferred recovery of pension and postretirement costs	157	288
Deferred regulatory liability	8,889	8,013
Employee benefit expense greater (less than) than funding	4,289	(47,405)
Net fair value changes related to interest rate swap	132	(284)
Changes in assets and liabilities:		
(Increase) decrease in receivables	(5,606)	52,232
Decrease (increase) in study and interconnection receivables	651	(6,704)
(Increase) decrease in prepaid expenses and other	(2,148)	3,375
Decrease in deferred FERC fees	-	557
(Increase) decrease in prepaid income taxes	(19)	1,301
Increase in accounts payable and accrued expenses	9,802	17,437
(Decrease) increase in study and interconnection payables	(543)	8,563
(Decrease) in accrued payroll and benefits	(13,980)	(17,520)
(Decrease) in deferred revenue	(770)	(651)
Refunds to members	(6,627)	-
Net cash provided by operating activities	4,217	29,488
Cash flows (used in) investing activities:		
Cost of projects in development	(8,963)	(8,725)
Note receivable	547	556
Net cash (used in) investing activities	(8,416)	(8,169)
Cash flows from financing activities:		
Borrowings under line of credit	69,117	16,441
Repayments under line of credit	(69,117)	(16,441)
Repayments of long-term debt	(722)	(330)
Increase in due to members	9,566	301,374
Increase in deposits	49,438	256,602
Net cash provided by financing activities	58,282	557,646
Net increase in cash and cash equivalents	54,083	578,965
Cash and cash equivalents balance (including customer deposits), beginning of year	1,863,079	1,767,065
Cash and cash equivalents balance (including customer deposits), end of period	$ 1,917,162	$ 2,346,030
Noncash activity:		
Projects in development additions included in ending accounts payable and accrued expenses	1,319	1,059

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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 (GAAP) and include the accounts of PJM Interconnection, L.L.C. and its wholly-owned subsidiaries (collectively referred to herein as PJM or the Company). All intercompany transactions and balances have been eliminated.

The preparation of financial statements in conformity with GAAP in the United States of America 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 March 31, 2019 and for the three-month periods ended March 31, 2019 and March 31, 2018 are 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 2018 consolidated financial statements and footnotes.

PJM has performed an evaluation of subsequent events through April 30, 2019, which is the date the financial statements were issued.

Adoption of New Accounting Standards

Revenue Recognition

In May 2014, the Financial Accounting Standards Board issued authoritative guidance to provide a single, comprehensive revenue recognition model for contracts with customers. The guidance contains principles that the Company will apply to determine the measurement and timing of revenue recognition. The guidance is effective for annual reporting periods beginning after December 15, 2018, and was adopted by PJM on January 1, 2019. The guidance has been adopted utilizing the modified retrospective approach whereby prior periods have not been restated.

The Company has reviewed its revenue recognition policies to ensure compliance with the requirements of the guidance and has determined adoption did not have a material impact on current revenue recognition policies. Under the standard, PJM is required to provide more comprehensive revenue disclosures to allow financial statement users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

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).

	March 31, 2019
PJM Stated Rate Revenues	
Control Area Administration Service	$ 45,526
FTR Administration Service	8,136
Market Support Service	20,758
Regulation and frequency response	644
Capacity resource and obligation management service	3,642
	78,706
PJM Settlement service fees	3,002
Total service fees	$ 81,708

For the three month period ended March 31, 2019, PJM Connext, LLC (PJM Connext) recorded consolidated revenue of $0.7 million, which is included in other income in the Consolidated Statements of Income, Comprehensive Income and Paid-in Capital, Retained Earnings and Accumulated Other Comprehensive Income.

Contract Balances

PJM and PJM Connext 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, 2019 opening balance of deferred revenue resulting from contracts with customers was $3.4 million. The March 31, 2019 closing balance of deferred revenue resulting from contracts with customers was $2.7 million. The amount of revenue recognized in the period that was included in the opening contract liability balance was $0.9 million. PJM expects to recognize $2.7 million of PJM membership fees revenue during the remaining nine months of 2019.

There were no material contract assets as of March 31, 2019.

PJM's accounts receivables at March 31, 2019, consisted of the following:

	March 31, 2019
Billed:	
PJM Connext	$ 600
	600
Unbilled:	
PJM service fees, net of refunds to members	$ 30,467
PJM recovery of pass-through charges	8,310
Default allocation assessment	4,542
Other	1,381
	44,700
	$ 45,300

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 March 31, 2019.

2. Deferred Regulatory Liability

PJM recovers fees for the administrative services it provides under its Tariff, pursuant to a stated rate.

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 beginning for 2020 and every third year thereafter, the financial reserve must be reduced to 2 percent of annual stated-rate revenues. The amount accumulated under the financial reserve provision 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 quarter of 2019, PJM made refunds of $6.6 million. There were no refunds made during the first quarter of 2018.

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

For PJM Settlement, Inc. (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 income in the revenue section of the Consolidated Statements of Income, Comprehensive Income and Paid-in Capital, Retained Earnings and Accumulated Other Comprehensive Income 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 income.

At March 31, 2019 and December 31, 2018, the deferred regulatory liability was $26.5 million and $24.2 million, respectively. At March 31, 2019 and December 31, 2018, the current portion of the deferred regulatory liability was $8.5 million and $6.4 million representing PJM and PJM Settlement's expected refunds to members during the subsequent quarter. The non-current portion of the deferred regulatory liability of $18.0 million and $17.8 million represents the amount of PJM's reserve at March 31, 2019 and December 31, 2018, respectively.

PJM Settlement recovers its administrative costs under a separate schedule in the Tariff.

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3. Note Receivable

On March 21, 2008, FERC approved a settlement to restructure the relationship between PJM and PJM's former Market Monitoring Unit (MMU). As part of the settlement, the MMU and its functions transitioned from being an internal PJM department to an external independent market monitor, 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 2018 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 million and is secured by MA's accounts receivable and future collections of accounts receivable. At both March 31, 2019 and December 31, 2018, the interest rate on the revolving loan agreement between PJM and MA was 5.50 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 March 31, 2019 and December 31, 2018, the outstanding balance due from MA recorded by PJM as a note receivable was $1.8 million and $2.3 million, respectively. At March 31, 2019 and December 31, 2018, the current portion of the note receivable was $1.4 million and $1.8 million, respectively. The current balance at March 31, 2019 represents the amount to be repaid in the next twelve months. The non-current portion of the note receivable was $0.4 million at March 31, 2019 and $0.5 million at December 31, 2018.

4. Short-Term Debt

PNC Revolving Line of Credit

On March 1, 2018 PJM amended and restated the existing revolving credit agreement with PNC Bank (PNC), increasing the capacity from $100 million to $150 million. PJM received approval from FERC to continue to borrow under this amended facility and to increase the unsecured promissory note on January 19, 2018. The facility terminates on January 31, 2020, and can be extended automatically through February 28, 2021, with FERC authorization. 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 March 31, 2019. At March 31, 2019 and December 31, 2018, 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. At March 31, 2019, the interest rate was 3.119 percent.

The amended facility also has a commitment fee of 6.25 basis points 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 Bank Loan Agreement

On June 28, 2018, FERC approved PJM's request to refinance the Company's bank loan with PNC 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. Payments on the term loan are due quarterly.

As of March 31, 2019 and December 31, 2018, the outstanding borrowings under the term loan were $18.7 million and $19.5 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 65 basis points (0.65 percent). As of March 31, 2019 and December 31, 2018, the interest rate was 3.14 percent and 2.99 percent, respectively.

Under the loan agreement, PJM is required to meet certain financial and non-financial covenants. PJM was in compliance with these covenants as of March 31, 2019.

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 March 31, 2019 and December 31, 2018, the fair value of the swap was a liability of $0.5 million and $0.3 million, respectively.

For the periods ended March 31, 2019 and March 31, 2018, PJM recognized a $0.1 million loss and $0.3 million gain, respectively, as 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.

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6. 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 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.

The gross fair value of both the FTR assets and FTR liabilities as of March 31, 2019, was $228 million. A total of 279 members are FTR holders related to a total of 2.7 million megawatt-hours. As of March 31, 2019, PJM held $1.5 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.

Roll-forward of FTR activity for the quarter ended March 31, 2019, consisted of the following:

($ in millions)	
Balance at January 1, 2019	$ 343
Auction additions	(63)
Settlement and change in fair value	(52)
Balance at March 31, 2019	$ 228

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7. 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, which 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, 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 March 31, 2019 and December 31, 2018 by level within the fair value hierarchy.

($ in millions)	**March 31, 2019**				**December 31, 2018**
	Level 1	**Level 2**	**Level 3**	**Carrying Value**	**Carrying Value**
Cash and cash equivalents	$ 1,917	$ -	$ -	$ 1,917	$ 1,863
Deposit liabilities	1,550	-	-	1,550	1,501
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. The valuation model used is based on a three-year weighted average of historical location marginal prices by month by node. The model also calculates separate historic values for on-peak, off-peak and 24-hour FTRs. 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 and are not presented in the table above.

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8. Income Taxes

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

	March 31, 2019	March 31, 2018
Income tax expense at the federal statutory rate	$ 28	$ 24
Increase (decrease) resulting from:		
Change in valuation allowance	2	(4)
Permanent differences	61	64
State income taxes, net of federal tax benefit	75	66
Other	(7)	-
Income tax expense	$ 159	$ 150

PJM and its subsidiaries file a U.S. consolidated federal income tax return and consolidated or separate company tax returns in various states, including of the state of Pennsylvania. The tax years subsequent to 2014 remain open to examination by the United States Internal Revenue Service and generally, the tax years subsequent to 2014 remain open to examination by various state taxing authorities. There are no ongoing audits at this time.

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9. Benefit Plans

The schedule that follows shows the components of net periodic pension and postretirement health care costs for the three month periods ended March 31, 2019 and March 31, 2018.

Components of Net Periodic Benefit Cost	**Pension Benefits – Qualified 2019**	**Pension Benefits – Qualified 2018**	**Pension Benefits – SERP 2019**	**Pension Benefits – SERP 2018**	**Other Postretirement Benefits 2019**	**Other Postretirement Benefits 2018**
Service cost	$ 2,409	$ 2,868	$ 85	$ 87	$ 369	$ 433
Interest cost	2,411	2,264	77	65	596	559
Expected return on assets	(3,341)	(3,726)	-	-	(181)	(167)
Prior service cost / (gain)	(5)	(5)	2	2	(322)	(322)
Actuarial loss / (gain)	575	579	58	75	(152)	(41)
Total net periodic benefit cost	$ 2,049	$ 1,980	$ 222	$ 229	$ 310	$ 462

For each of the three month periods ended March 31, 2019 and March 31, 2018, $0.1 million and 0.2 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 March 31, 2019 and March 31, 2018.

	Pension Benefits 2019	**Pension Benefits 2018**	**Postretirement Benefits 2019**	**Postretirement Benefits 2018**
Discount rate	4.30%	3.70%	4.30%	3.70%
Expected return on plan assets	6.40%	6.60%	6.40%	6.60%
Rate of compensation increase	4.50%	4.50%	N/A	N/A
Medical care cost trend rate				
Current (Pre-65)			5.92%	6.17%
Current (Post-65)			6.48%	6.93%
Ultimate (Pre-65)			4.46%	4.46%
Ultimate (Post-65)			4.45%	4.45%
Years to ultimate			19	20

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10. Commitments and Contingencies

Other Items

Marginal Line Loss Surplus Payment Reallocation

Between July 17, 2012, and July 20, 2012, 14 companies defaulted on payment obligations totaling $28 million, net of collateral held by PJM. These obligations resulted from reallocations for previously ordered, and provided, refunds made to certain market participants for billing adjustments related to the marginal line loss payment surplus allocation methodology under the Amended and Restated Operating Agreement of PJM (Operating Agreement) and the Tariff, which was ordered by FERC in an order issued in Docket No. EL08-14 on July 21, 2011. PJM Settlement considered all alternatives to enforce its contract rights from all non-paying companies, and to this end, filed two complaints in civil action alleging breach of contract in the state of Delaware against former members. The first complaint, filed on November 7, 2012, naming City Power Marketing, LLC, Energy Endeavors, LLC, Energy Endeavors, LP and Crane Energy, LP, seeks the recovery of approximately $23 million owed to PJM Settlement, while the second complaint, filed on December 6, 2012, naming Round Rock Energy, LLC; Round Rock Energy, LP; Huntrise Energy Fund, LLC; and certain named principals individually, seeks the recovery of approximately $4 million.

Several parties affected by FERC's underlying ruling in this matter sought judicial review of FERC's decision in the United States Court of Appeals for the District of Columbia Circuit and, in the ruling issued in August 2013, the court of appeals directed FERC to provide additional support for its determination to recoup the previously ordered refunds. On February 20, 2014, FERC issued an order establishing a schedule for parties to brief the issue of whether it should have ordered recoupment of the refunds. Initial briefs were submitted by several parties, including PJM, on April 7, 2014. Reply briefs were submitted by PJM and several parties on May 6-7, 2014. On November 19, 2015, FERC issued an order affirming its decision ordering recoupment of refunds. On April 7, 2016, FERC issued an order denying a rehearing request. On June 6, 2016, Energy Endeavors, L.P. filed a petition for review of the recoupment order in the United States Court of Appeals for the District of Columbia Circuit. On or about November 7, 2016, FERC filed an unopposed motion and requested the court of appeals to remand the recoupment order. Energy Endeavors, L.P. did not oppose the motion. Accordingly, the court granted FERC's motion and remanded the recoupment order on November 9, 2016, to FERC. The recoupment order is thus before FERC for additional proceedings and, at present, is not final.

The collection actions referenced above remain stayed in the Delaware courts. Under the terms of the PJM Operating Agreement, any payment defaults may be billed and collected from PJM's other members. The outcome of any defaults is not anticipated to have a material adverse effect on PJM's financial position, results of operations or cash flow.

TranSource Matter

On June 23, 2015, TranSource, LLC (TranSource) filed a complaint (Complaint) against PJM with FERC. In the Complaint, TranSource asked FERC to order PJM to provide work papers used to determine the cost estimates for each individual system upgrade specified in System Impact Studies and to suspend all Tariff deadlines otherwise applicable to its Incremental Auction Revenue Rights (IARR) request, pending receipt of the demanded information. On September 24, 2015, FERC issued an order setting the Complaint for a trial-type evidentiary hearing. On February 10, 2016, TranSource filed an amendment to the Complaint (the Amended Complaint). In the Amended Complaint, TranSource claims it incurred $72 million in lost profit opportunities from monthly IARRs during calendar year 2015 plus continuing losses of approximately $6 million per month going forward.

On January 19, 2018, the Administrative Law Judge issued an initial decision finding that PJM's practices used to process TranSource's Upgrade Requests during the System Impact Study phase were nontransparent;

and the impact of the system impact study phase, as applicable to TranSource, was discriminatory under the Federal Power Act and therefore unjust and unreasonable. TranSource was granted limited relief, ordering PJM to restore TranSource's original queue position and refund the $0.15 million paid by TranSource for the study of its upgrade request. All other requests for relief were denied. PJM filed a brief on exceptions on February 20, 2018. A final decision will be issued by the Commission after considering all exception briefs filed.

PJM does not believe that this matter will have a material adverse effect on its financial position, results of operations or cash flow.

Separate from the Complaint pending before FERC, TranSource commenced a civil action against PJM in the Montgomery County Pennsylvania Court of Common Pleas. This action has been removed to federal district court and stayed pending resolution of the matter before FERC.

Credit Matter

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Legal

PJM is routinely involved in legal actions. In the opinion of management, none of these matters will have a material adverse effect, if any, on the financial position, results of operations or liquidity of PJM.

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

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; 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 increased $3.5 million, or 5 percent, to $81.7 million for the three month period ended March 31, 2019 as compared with the three month period ended March 31, 2018. The variance in service fees is principally due to a 2.5 percent increase in the composite stated-rate on January 1, 2019. Transmission volumes for both three month periods ended March 31, 2019 and March 31, 2018 were 211 terawatt hours.

Total expenses, excluding FERC fees, study and interconnection services, interest expense, and income taxes, increased $1.6 million, or 3 percent, to $74.1 million for the three month period ended March 31, 2019 as compared with the three month period ended March 31, 2018. The increase in expenses in 2019 resulted primarily from increased compensation and increased software licenses and fees expenses related to software subscriptions. The increase in expense was offset by a decrease in depreciation and amortization primarily due to a lower fixed asset balance period over period.

Liquidity and Capital Resources

PJM has a revolving credit agreement with PNC Bank for $150 million, which expires on January 31, 2020 and can be extended automatically through February 28, 2021. The facility is unsecured and is available to fund short-term cash obligations. At March 31, 2019, there were no 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 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 March 31, 2019, the outstanding borrowings under the term loan were $18.7 million.

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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 three month period ended March 31, 2019, approximately 60 percent of PJM's operating expenses were billed to 31 of its members, each of which either has an investment-grade credit rating according to at least one of the three major rating services or has provided a guaranty from an affiliate with an investment-grade rating. 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.

Marginal Line Loss Surplus Payment Reallocation

Between July 17, 2012, and July 20, 2012, 14 companies defaulted on payment obligations totaling $28 million, net of collateral held by PJM. These obligations resulted from reallocations for previously ordered, and provided, refunds made to certain market participants for billing adjustments related to the marginal line loss payment surplus allocation methodology under the Amended and Restated Operating Agreement of PJM (Operating Agreement) and the Tariff, which was ordered by FERC in an order issued in Docket No. EL08-14 on July 21, 2011. PJM Settlement considered all alternatives to enforce its contract rights from all non-paying companies, and to this end, filed two complaints in civil action alleging breach of contract in the state of Delaware against former members. The first complaint, filed on November 7, 2012, naming City Power Marketing, LLC, Energy Endeavors, LLC, Energy Endeavors, LP and Crane Energy, LP, seeks the recovery of approximately $23 million owed to PJM Settlement, while the second complaint, filed on December 6, 2012, naming Round Rock Energy, LLC; Round Rock Energy, LP; Huntrise Energy Fund, LLC; and certain named principals individually, seeks the recovery of approximately $4 million.

Several parties affected by FERC's underlying ruling in this matter sought judicial review of FERC's decision in the United States Court of Appeals for the District of Columbia Circuit and, in the ruling issued in August 2013, the court of appeals directed FERC to provide additional support for its determination to recoup the previously ordered refunds. On February 20, 2014, FERC issued an order establishing a schedule for parties to brief the issue of whether it should have ordered recoupment of the refunds. Initial briefs were submitted by several parties, including PJM, on April 7, 2014. Reply briefs were submitted by PJM and several parties on May 6-7, 2014. On November 19, 2015, FERC issued an order affirming its decision ordering recoupment of refunds. On April 7, 2016, FERC issued an order denying a rehearing request. On June 6, 2016, Energy Endeavors, L.P. filed a petition for review of the recoupment order in the United States Court of Appeals for the District of Columbia Circuit. On or about November 7, 2016, FERC filed an unopposed motion and requested the court of appeals to remand the recoupment order. Energy Endeavors, L.P. did not oppose the motion. Accordingly, the court granted FERC's motion and remanded the recoupment order on November 9, 2016, to FERC. The recoupment order is thus before FERC for additional proceedings and, at present, is not final.

The collection actions referenced above remain stayed in the Delaware courts. Under the terms of the PJM Operating Agreement, any payment defaults may be billed and collected from PJM's other members. The outcome of any defaults is not anticipated to have a material adverse effect on PJM's financial position, results of operations or cash flow.

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TranSource Matter

On June 23, 2015, TranSource, LLC (TranSource) filed a complaint (Complaint) against PJM with FERC. In the Complaint, TranSource asked FERC to order PJM to provide work papers used to determine the cost estimates for each individual system upgrade specified in System Impact Studies and to suspend all Tariff deadlines otherwise applicable to its Incremental Auction Revenue Rights (IARR) request, pending receipt of the demanded information. On September 24, 2015, FERC issued an order setting the Complaint for a trial-type evidentiary hearing. On February 10, 2016, TranSource filed an amendment to the Complaint (the Amended Complaint). In the Amended Complaint, TranSource claims it incurred $72 million in lost profit opportunities from monthly IARRs during calendar year 2015 plus continuing losses of approximately $6 million per month going forward.

On January 19, 2018, the Administrative Law Judge issued an initial decision finding that PJM's practices used to process TranSource's Upgrade Requests during the System Impact Study phase were nontransparent; and the impact of the system impact study phase, as applicable to TranSource, was discriminatory under the Federal Power Act and therefore unjust and unreasonable. TranSource was granted limited relief, ordering PJM to restore TranSource's original queue position and refund the $0.15 million paid by TranSource for the study of its upgrade request. All other requests for relief were denied. PJM filed a brief on exceptions on February 20, 2018. A final decision will be issued by the Commission after considering all exception briefs filed.

PJM does not believe that this matter will have a material adverse effect on its financial position, results of operations or cash flow.

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