PJM INTERCONNECTION, L.L.C.

FOR THE QUARTER ENDED MARCH 31, 2023

INDEX

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

	March 31, 2023	December 31, 2022
Assets		
Current assets:		
Deposits on hand	$ 3,133,984	$ 2,959,245
Operating cash	465,869	1,013,278
Receivables	182,465	131,384
Study and interconnection receivables	40,618	98,541
Prepaid expenses and other	13,427	21,181
Prepaid income taxes	2,252	2,376
Note receivable	2,455	2,919
	3,841,070	4,228,924
Non-current assets:		
Fixed assets, net of accumulated depreciation and amortization of $810,235 and $801,685	76,759	77,215
Land	1,420	1,420
Right-of-use asset - Finance lease	7,113	7,538
Right-of-use assets - Operating leases	3,400	3,619
Projects in development	58,581	56,858
Deferred income taxes, net of valuation allowance	31,329	31,427
Prepaid expenses and other	5,009	3,909
Note receivable	1,944	2,267
Other	23,562	20,992
	209,117	205,245
Total assets	$ 4,050,187	$ 4,434,169
Liabilities, paid-in capital, retained earnings and accumulated other comprehensive income		
Current liabilities:		
Accounts payable and accrued expenses	$ 93,679	$ 75,292
Due to members	624,515	1,124,009
Study and interconnection payables	46,018	101,715
Accrued payroll and benefits	16,060	39,426
Current portion of long-term debt	2,886	2,886
Current portion of lease liability - Finance lease	2,042	1,475
Current portion of lease liabilities - Operating leases	1,380	2,022
Deferred FERC fee liability	4,356	5,512
Deferred revenue	2,635	3,498
Postretirement healthcare benefits liability	1,994	1,877
Other employee benefits	309	289
Deposits	3,133,984	2,959,245
	3,929,858	4,317,246
Non-current liabilities:		
Long-term debt	4,327	5,049
Lease liability - Finance lease	6,946	7,462
Lease liabilities - Operating leases	2,020	2,143
Deferred recovery of pension and postretirement costs	1,489	1,891
Pension benefits liability	15,910	14,094
Postretirement health care benefits liability	46,398	46,017
Other employee benefits	26,364	24,370
	103,454	101,026
Total liabilities	4,033,312	4,418,272
Commitments and contingencies (Note 9)		
Paid in capital	722	722
Retained earnings	16,130	15,150
Accumulated other comprehensive income	23	25
Total paid-in capital, retained earnings and accumulated other comprehensive income	16,875	15,897
Total liabilities, paid-in capital, retained earnings and accumulated other comprehensive income	$ 4,050,187	$ 4,434,169

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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 (Loss) (Unaudited)
($ in thousands)

	Three months ended March 31, 2023	Three months ended March 31, 2022
Income		
Operating revenue:		
Service fees	$ 80,796	$ 77,171
FERC fees reimbursement	20,322	17,940
Study and interconnection fees	2,139	1,596
Membership fees	878	867
Other	1,470	960
Total operating revenue	105,605	98,534
Operating expenses:		
Compensation	43,598	40,446
FERC fees	20,322	17,940
Outside services	13,756	13,958
Depreciation and amortization	8,981	9,061
Software licenses and fees	6,152	5,517
Computer maintenance and office supplies	3,536	3,395
Pension benefits - service cost	1,929	3,225
Other expenses	4,172	2,874
Study and interconnection services	2,139	1,596
Lease expenses	511	499
Postretirement health care benefits - service cost	349	473
Total operating expenses	105,445	98,984
Operating income (loss)	160	(450)
Other income:		
Interest income	30,160	218
Interest expense	(28,572)	(86)
Pension and postretirement health care benefits - other components of net benefit cost	(254)	900
Total other income	1,334	1,204
Income before income taxes	1,494	754
Income tax expense	514	292
Net income	$ 980	$ 462

Paid-in capital, retained earnings and accumulated other comprehensive (loss)

	2023	2022
Beginning balance	$ 15,897	$ 14,476
Net income	980	462
Other comprehensive (loss)	(2)	(22)
Ending balance	$ 16,875	$ 14,916

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)

	Three months ended March 31, 2023	Three months ended March 31, 2022
Cash flows from operating activities:		
Net income	$ 980	$ 462
Adjustments:		
Depreciation and amortization expense	8,981	9,061
Deferred income taxes, net of valuation allowance	98	(432)
Deferred recovery of pension and postretirement costs	(402)	190
Employee benefit expense greater than funding	4,328	(88)
Net fair value changes related to interest rate swap	51	(301)
Changes in assets and liabilities:		
(Increase) in receivables	(51,081)	(850)
Decrease in study and interconnection receivables	57,923	6,335
Decrease in prepaid expenses and other	4,615	7,001
Change in deferred FERC fee position	(1,156)	466
Increase in accounts payable and accrued expenses	17,939	17,729
(Decrease) in study and interconnection payables	(55,697)	(719)
(Decrease) in accrued payroll and benefits	(23,366)	(22,584)
(Decrease) in deferred revenue	(863)	(831)
Refunds to members	-	(14,700)
Net cash (used in) provided by operating activities	(37,650)	739
Cash flows (used in) investing activities:		
Cost of projects in development	(9,801)	(10,907)
Note receivable	787	723
Net cash (used in) investing activities	(9,014)	(10,184)
Cash flows (used in) provided by financing activities:		
Borrowings under line of credit	-	483,719
Repayments under line of credit	-	(483,719)
Payments under finance lease	(529)	(516)
Repayments of long-term debt	(722)	(722)
(Decrease) in due to members	(499,494)	(34,598)
Increase in deposits	174,739	455,412
Net cash (used in) provided by financing activities	(326,006)	419,576
Net increase in cash and cash equivalents	(372,670)	410,131
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	$ 3,599,853	$ 3,051,309
Noncash activity:		
Projects in development additions included in ending accounts payable and accrued expenses	447	921

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

1. Company Overview

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

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

The interim financial data as of March 31, 2023 and for the 3-month periods ended March 31, 2023 and March 31, 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 May XX, 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 March 31, 2023, the $624.5 million due-to-members balance comprised $332.1 million held by PJM related to the March 1 – March 22, 2023, month-to-date market settlement billing statements, paid to market participants by PJM on April 4, 2023, $212.0 million of settled and unbilled excess congestion and $80.4 million of Winter Storm Elliott performance assessment interval (PAI) bonus holdback.

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 March 31, 2023	Three months ended March 31, 2022
PJM service fees		
Control area administrative service	$ 48,593	$ 47,023
Market support service	18,522	17,305
FTR administration service	3,805	3,482
Capacity resource and obligation management service	5,873	5,635
	76,793	73,445
PJM Settlement service fees	4,003	3,726
Total service fees	$ 80,796	$ 77,171

For the 3-month periods ended March 31, 2023 and March 31, 2022, PJM Connext, LLC (PJM Connext) recorded consolidated revenue of $1.8 million and $1.0 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 (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 March 31, 2023 closing balance of deferred revenue resulting from contracts with customers was $2.6 million. The amount of revenue recognized in the 3-month period ended March 31, 2023, that was included in the opening contract liability balance, was $0.9 million. PJM expects to recognize $2.6 million of membership fees revenue during the remaining nine months of 2023.

There were no material contract assets as of March 31, 2023.

PJM's receivables balance at March 31, 2023 included $51.8 million of unbilled service fees and excess congestion, $80.4 million of Winter Storm Elliott PAI bonus holdback invoiced, $32.5 million of Winter Storm Elliott PAI collateral invoiced, $16.7 million of unbilled PJM recovery of pass-through charges and $1.1 million of billed PJM Connext 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 March 31, 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 March 31, 2026.

The purpose of the PJM revolving loan to MA is to fund capital needs associated with MA's technology systems and working capital needs related to MA's responsibilities per Attachment M of the Tariff to monitor the markets administered by PJM. The revolving loan has a capacity of $11.0 million and is secured by MA's accounts receivable and future collections of accounts receivable. At March 31, 2023, 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 London Interbank Offered Rate (LIBOR) plus 100 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 March 31, 2023 and December 31, 2022, the outstanding balance due from MA recorded by PJM as a note receivable was $4.4 million and $5.2 million, respectively. At March 31, 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 March 31, 2023 represents the amount to be repaid in the next twelve months. The non-current portion of the note receivable was $1.9 million at March 31, 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. The facility expires on May 31, 2023, and is unsecured and available to fund short-term cash obligations. On March 29, 2023, PJM filed with FERC requesting approval to extend the maturity date of the facility to May 31, 2025 and substitute the Secured Overnight Financing Rate (SOFR) as the reference interest rate for the facility due to the scheduled cessation of publication of LIBOR.

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, 2023.

At both March 31, 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 based on the 30-day LIBOR plus a spread of 62.5 basis points (0.625%). At March 31, 2023, the interest rate was 5.48%.

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 March 31, 2023 and December 31, 2022, the outstanding borrowings under the term loan were $7.2 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 30-day LIBOR, on a month lag, plus a spread of 65 basis points (0.65%). As of March 31, 2023, the interest rate was 5.31%.

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, 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 March 31, 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 March 31, 2023 and March 31, 2022, in conjunction with changes in the fair value of the interest rate swap, PJM recognized $0.05 million and $0.3 million, respectively, in interest expense in the Consolidated Statements of Income, Comprehensive Income and Paid-in Capital, Retained Earnings and Accumulated Other Comprehensive (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 March 31, 2023 and December 31, 2022 by level within the fair value hierarchy.

($ in millions)	**March 31, 2023**				**December 31, 2022**
	Level 1	**Level 2**	**Level 3**	**Carrying Value**	**Carrying Value**
Cash and cash equivalents	$ 3,599	$ -	$ -	$ 3,599	$ 3,972
Deposit liabilities	3,134	-	-	3,134	2,959
Derivative asset (a)	-	-	-	-	-

(a) PJM's derivative asset at March 31, 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 March 31, 2023	Three months ended March 31, 2022
Income tax expense at the federal statutory rate	$ 314	$ 158
(Decrease) increase resulting from:		
Change in valuation allowance	(2)	-
Permanent differences	56	53
State income taxes, net of federal tax benefit	117	81
State income taxes, effect of rate change	160	-
Other	(131)	-
Income tax expense	$ 514	$ 292

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 periods ended March 31, 2023 and March 31, 2022 were as follows:

	Pension Benefits				Other Postretirement Benefits	
Components of Net Periodic Benefit Cost, January 1 to March 31	**Qualified**		**SERP**			
	2023	**2022**	**2023**	**2022**	**2023**	**2022**
Service cost	$ 1,674	$ 3,020	$ -	$ -	$ 349	$ 473
Interest cost	3,030	2,684	43	32	861	608
Expected return on assets	(2,888)	(3,957)	-	-	(201)	(239)
Prior service (gain)	-	-	-	-	(184)	(294)
Actuarial loss (gain)	-	482	(2)	3	(216)	-
Total net periodic benefit cost	$ 1,816	$ 2,229	$ 41	$ 35	$ 609	$ 548

PJM sponsors a defined contribution supplemental executive retirement plan (SERP). For the 3-month periods ended March 31, 2023 and March 31, 2022, PJM recognized $0.3 million and $0.2 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 (Loss).

For both 3-month periods ended March 31, 2023 and March 31, 2022, $0.2 million 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 March 31, 2023 and March 31, 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	4.51%	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 March 31, 2023 and December 31, 2022.

	March 31, 2023		December 31, 2022	
	Right-of-use assets	Lease Liabilities	Right-of-use assets	Lease Liabilities
Operating leases	$ 3,400	$ 3,400	$ 3,619	$ 3,618
Finance lease	7,113	8,988	7,538	9,484
	$ 10,513	$ 12,388	$ 11,157	$ 13,102

At March 31, 2023, the current portions of the operating lease liabilities and the finance lease liability were $1.4 million and $2.0 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 March 31, 2023 and 2022 was $0.5 million. Amortization and interest expense associated with PJM's finance lease for both the 3-month periods ended March 31, 2023 and 2022 was $0.5 million and $0.04 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. The collateral is expected to be sufficient to cover the costs of the Hill Energy default.

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.

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 addition, two entities Heritage Power, LLC and Lincoln Power, LLC (and in each case their affiliates) have sought protection from the PAI penalties by commencing bankruptcy 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. PJM cannot predict the outcome of these matters, including future non-payment.

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 $80.8 million, $3.6 million or 5% higher, for the 3-month period ended March 31, 2023 as compared with the 3-month period ended March 31, 2022. Service fees reflect actual costs, billed under formula rates.

Total PJM Interconnection, LLC expenses, excluding FERC fees, study and interconnection services, interest expense, and income taxes, increased in line with the increase in service fees period over period. PJM reported an increase in compensation expense, due to higher head count period over period and merit increases. The period over period increase also reflected higher software subscription fees due to inflation and a larger software subscription basis to support, and increased other expense resulting from higher costs of insurance premiums and increased member and employee training costs. The period over period increase was partially offset by 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.

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 27, 2021 to borrow under this facility through May 31, 2023. The revolving line of credit is unsecured and available to fund short-term cash obligations. At March 31, 2023, there were no outstanding borrowings under the revolving credit agreement.

On March 29, 2023, PJM filed with FERC requesting approval to extend the maturity date of the revolving line of credit agreement with PNC to May 31, 2025 and substitute the Secured Overnight Financing Rate (SOFR) as the reference interest rate for the facility due to the scheduled cessation of publication of LIBOR.

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. The BoA term loan has a seven-year term and is unsecured. At March 31, 2023, the outstanding borrowings under the term loan were $7.2 million.

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.

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 3-month period ended March 31, 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 March 31, 2023, 320 members are financial transmission right (FTR) holders related to 4.6 million megawatt hours. The estimated fair value of the FTR portfolio at March 31, 2023, under a mark-to-auction model, was $723.1 million. PJM held $2.5 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.

Winter Storm Elliott impacted the PJM region on December 23-December 25, 2022. During this event, PJM entered into performance assessment intervals (PAI) for 277 intervals across December 23 and December 24. Under PJM's Tariff, units that under-performed relative to their committed capacity obligation during the PAIs will be penalized, and those that over-performed will receive bonuses. Penalty and bonus billing began in the March 2023 month-end invoicing issued in April 2023.

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. The collateral is expected to be sufficient to cover the costs of the Hill Energy default.

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.

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 addition, two entities Heritage Power, LLC and Lincoln Power, LLC (and in each case their affiliates) have sought protection from the PAI penalties by commencing bankruptcy 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. PJM cannot predict the outcome of these matters, including future non-payment.