PJM INTERCONNECTION, L.L.C.

FOR THE QUARTER ENDED JUNE 30, 2020

INDEX

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

	June 30, 2020	December 31, 2019
Assets		
Current assets:		
Deposits on hand	$ 1,682,296	$ 1,597,884
Operating cash	8,985	51,629
Receivables	31,845	57,190
Study and interconnection receivables	38,509	17,334
Prepaid income taxes	13	16
Prepaid expenses and other	12,165	10,864
Note receivable	1,228	1,617
	1,775,041	1,736,534
Non-current assets:		
Fixed assets, net of accumulated depreciation and amortization of $730,957 and $712,616	93,907	98,790
Land	1,420	1,420
Projects in development	40,447	38,351
Deferred recovery of pension and postretirement costs	32,337	32,996
Deferred income taxes, net of valuation allowance	31,413	29,293
Prepaid expenses and other	3,281	2,735
Note receivable	1,076	1,521
Other	23,216	25,504
	227,097	230,610
Total assets	$ 2,002,138	$ 1,967,144
Liabilities, paid-in capital, retained earnings and accumulated other comprehensive (loss)		
Current liabilities:		
Accounts payable and accrued expenses	$ 54,023	$ 37,748
Due to members	1,639	102,498
Study and interconnection payables	42,746	17,902
Accrued payroll and benefits	21,542	38,455
Accrued income tax	3,596	1,361
Revolving line of credit	24,708	-
Current portion of long-term debt	2,886	2,886
Current portion of capital lease	1,818	1,781
Deferred regulatory liability	6,121	14,016
Deferred revenue	1,773	3,508
Deferred FERC fees	634	1,268
Postretirement healthcare benefits liability	1,522	1,439
Other employee benefits	850	3,044
Deposits	1,682,296	1,597,884
	1,846,154	1,823,790
Non-current liabilities:		
Long-term debt	12,264	13,707
Long-term capital lease	12,371	13,285
Deferred regulatory liability	18,000	6,032
Interest rate swap	1,113	648
Pension benefits liability	22,654	20,036
Postretirement health care benefits liability	51,006	50,175
Other employee benefits	26,837	28,637
	144,245	132,520
Total liabilities	1,990,399	1,956,310
Commitments and contingencies (Note 11)		
Paid in capital	722	722
Retained earnings	11,075	10,129
Accumulated other comprehensive (loss)	(58)	(17)
Total paid-in capital, retained earnings and accumulated other comprehensive (loss)	11,739	10,834
Total liabilities, paid-in capital, retained earnings and accumulated other comprehensive (loss)	$ 2,002,138	$ 1,967,144

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

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

	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Income				
Operating revenue:				
Service fees	$ 74,932	$ 74,676	$ 155,827	$ 156,384
Deferred regulatory (expense) income	(8,405)	583	(17,142)	(8,307)
FERC fees reimbursement	13,947	14,626	29,833	30,992
Study and interconnection fees	1,319	997	2,518	1,999
Membership fees	886	931	1,769	1,856
Other	729	1,583	1,835	2,349
Total operating revenue	83,408	93,396	174,640	185,273
Operating expenses:				
Compensation	34,828	38,375	70,535	75,562
FERC fees	13,947	14,626	29,833	30,992
Outside services	12,711	15,492	26,480	29,519
Depreciation and amortization	9,158	8,980	18,350	18,972
Software licenses and fees	4,991	4,562	9,870	9,424
Pension benefits - service cost	2,949	2,476	5,901	5,714
Other expenses	1,780	4,324	4,365	6,408
Computer maintenance and office supplies	1,483	1,910	4,168	4,912
Study and interconnection services	1,319	997	2,518	1,999
Lease expenses	515	487	1,074	975
Postretirement health care benefits - service cost	463	375	925	744
Total operating expenses	84,144	92,604	174,019	185,221
Operating (loss) income	(736)	792	621	52
Other income (expense):				
Interest income	1,344	10,502	6,898	17,960
Interest expense	1,392	10,918	7,691	18,658
Pension and postretirement health care benefits - other components of net benefit cost	(1,355)	(344)	(1,804)	(1,498)
Total other income (expense)	1,307	(72)	1,011	800
Income before income taxes	571	720	1,632	852
Income tax expense	258	253	686	412
Net income	$ 313	$ 467	$ 946	$ 440
Paid-in capital, retained earnings and accumulated other comprehensive income (loss)				
Beginning balance	$ 11,356	$ 9,942	$ 10,834	$ 9,969
Net income	313	467	946	440
Other comprehensive income (loss)	70	(830)	(41)	(830)
Ending balance	$ 11,739	$ 9,579	$ 11,739	$ 9,579

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

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

	Six months ended June 30, 2020	Six months ended June 30, 2019
Cash flows from operating activities:		
Net income	$ 946	$ 440
Adjustments:		
Depreciation and amortization expense	18,350	18,972
Deferred income taxes, net of valuation allowance	(2,120)	(969)
Deferred recovery of pension and postretirement costs	659	(2,265)
Deferred regulatory liability	17,145	8,297
Employee benefit expense (less than) greater than funding	(462)	9,227
Net fair value changes related to interest rate swap	465	383
Changes in assets and liabilities:		
Decrease (increase) in receivables	25,345	(4,728)
(Increase) decrease in study and interconnection receivables	(21,175)	2,928
(Increase) in prepaid expenses and other	(477)	(5,164)
Decrease in prepaid income taxes	3	448
Increase in accounts payable and accrued expenses	16,250	25,220
Increase (decrease) in study and interconnection payables	24,844	(1,861)
(Decrease) in accrued payroll and benefits	(16,913)	(7,222)
Decrease in deferred FERC fee liability	(634)	-
Increase in accrued income taxes	2,235	-
(Decrease) in deferred revenue	(1,735)	(1,552)
Refunds to members	(13,072)	(14,341)
Net cash provided by operating activities	49,654	27,813
Cash flows (used in) investing activities:		
Cost of projects in development	(15,538)	(19,088)
Note receivable	834	92
Net cash (used in) investing activities	(14,704)	(18,996)
Cash flows provided by (used in) financing activities:		
Borrowings under line of credit	71,250	117,066
Repayments under line of credit	(46,542)	(117,066)
Repayments of long-term debt	(1,443)	(1,443)
Decrease in due to members	(100,859)	(130,730)
Increase in deposits	84,412	84,909
Net cash provided by (used in) financing activities	6,818	(47,264)
Net increase (decrese) in cash and cash equivalents	41,768	(38,447)
Cash and cash equivalents balance (including customer deposits), beginning of year	1,649,513	1,863,079
Cash and cash equivalents balance (including customer deposits), end of period	$ 1,691,281	$ 1,824,632
Noncash activity:		
Projects in development additions included in ending accounts payable and accrued expenses	25	1,930

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

($ 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) 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. Certain reclassifications have been made to conform previously reported data to the current presentation.

The interim financial data as of June 30, 2020 and for the 3-month and 6-month periods ended June 30, 2020 and June 30, 2019 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 2019 consolidated financial statements and footnotes. Certain reclassifications have been made to conform previously reported data to the current presentation. PJM has performed an evaluation of subsequent events through August 10, 2020, which is the date the financial statements were issued.

COVID-19
Spread of Coronavirus disease 2019 (COVID-19) in the United States and globally has led to economic disruption. PJM is taking steps to mitigate the potential risks arising from the spread of the disease, however it is reasonably possible that PJM future results could be negatively affected by the impacts of COVID-19. The extent to which COVID-19 may impact results will depend on future developments, which have uncertain scope and duration. PJM cannot predict if there will be a material effect to PJM's financial position, results of operations or cash flows.

2. Revenue and Accounts Receivable

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

	Thee months ended June 30, 2020	Six months ended June 30, 2020
PJM Stated Rate Revenues		
Control Area Administration Service	$ 40,208	$ 84,090
Market Support Service	19,544	39,897
FTR Administration Service	8,882	18,690
Capacity resource and obligation management service	3,761	7,540
Regulation and frequency response	677	1,355
	73,072	151,572
PJM Settlement service fees	1,860	4,255
Total service fees	$ 74,932	$ 155,827

For the 3-month periods ended June 30, 2020 and June 30, 2019, PJM Connext, LLC (PJM Connext) recorded consolidated revenue of $0.7 million and $1.6 million, respectively, 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 (Loss).

For the 6-month periods ended June 30, 2020 and June 30, 2019, PJM Connext, LLC (PJM Connext) recorded consolidated revenue of $1.8 million and $2.3 million, respectively, 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 (Loss).

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. Membership fees - recorded as deferred revenue - are considered contract liabilities. The January 1, 2020 opening balance of deferred revenue resulting from contracts with customers was $3.5 million. The June 30, 2020 closing balance of deferred revenue resulting from contracts with customers was $1.7 million. The amount of revenue recognized in the 3-month and 6-month periods ended June 30, 2020, that was included in the opening contract liability balance, was $0.9 million and $1.8 million, respectively. PJM expects to recognize $1.7 million of membership fees revenue during the remaining six months of 2020.

There were no material contract assets as of June 30, 2020.

PJM's accounts receivables at June 30, 2020, consisted of the following:

		June 30, 2020
Billed:		
PJM Connext	$	553
		553
Unbilled:		
PJM service fees, net of refunds to members	$	26,578
PJM recovery of pass-through charges		4,714
		31,292
	$	31,845

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 June 30, 2020.

3. Deferred Regulatory Liability

PJM recovers as service fees its administrative costs under its stated-rate Tariff.

The stated-rate tariff provides for the accumulation of a financial reserve. PJM is permitted to maintain a reserve as a deferred regulatory liability in an amount up to 6 percent of its annual stated-rate revenues, except that in every third year, the financial reserve must be reduced to 2 percent of annual stated-rate revenues. The amount accumulated under the financial reserve provisions is classified as a non-current liability in the Company's Consolidated Statements of Financial Position. On a quarterly basis, PJM refunds the deferred regulatory liability balance in excess of the permitted financial reserve for the previous quarter. The quarterly refund rate is established after the financial close of each quarter, and refunds are distributed to the members on a prospective basis in the following quarter. During the first six months of 2020 and 2019, PJM made refunds of $13.1 million and $14.3 million, respectively.

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

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

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

At June 30, 2020 and December 31, 2019, the deferred regulatory liability was \$24.1 million and \$20.0 million, respectively. At June 30, 2020 and December 31, 2019, the current portion of the deferred regulatory liability was \$6.1 million and \$14.0 million, respectively, 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 \$6.0 million represents the amount of PJM's reserve at June 30, 2020 and December 31, 2019, respectively.

4. Note Receivable

On March 21, 2008, FERC approved a settlement to restructure the relationship between PJM and PJM's former Market Monitoring Unit. As part of the settlement, the Market Monitoring Unit and its functions transitioned from being an internal PJM department to an external firm, Monitoring Analytics, LLC (MA). MA operates independent of PJM management and the Board of Managers. In order to facilitate the externalization of this function and as part of the settlement agreement approved by FERC, PJM entered into a revolving loan agreement with MA in March 2008. The revolving loan agreement was extended in November 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 \$11.0 million and is secured by MA's accounts receivable and future collections of accounts receivable. At June 30, 2020, the interest rate on the revolving loan agreement between PJM and MA was 3.25 percent. The interest rate on all loan advances is equal to the PNC Bank Base Rate. The PNC Bank Base Rate is the highest of (A) the Prime Rate, (B) the sum of the Federal Funds Rate plus 50 basis points (0.50 percent), or (C) the sum of the Daily London Interbank Offered Rate (LIBOR) plus 100 basis points (1.0 percent).

At June 30, 2020 and December 31, 2019, the outstanding balance due from MA recorded by PJM as a note receivable was \$2.3 million and \$3.1 million, respectively. At June 30, 2020 and December 31, 2019, the current portion of the note receivable was \$1.2 million and \$1.6 million, respectively. The current balance at June 30, 2020 represents the amount to be repaid in the next twelve months. The non-current portion of the note receivable was \$1.1 million at June 30, 2020 and \$1.5 million at December 31, 2019.

5. Short-Term Debt

PNC Bank Revolving Line of Credit

PJM maintains with PNC Bank (PNC) a FERC-approved revolving line of credit agreement with a capacity amount of $150 million. PJM received approval from FERC, on January 13, 2020, to continue to borrow under this facility through January 31, 2022. On January 24, 2020, the extension in term to the facility was executed with PNC. The revolving line of credit is unsecured and available to fund short-term cash obligations.

Under the loan covenants for the revolving credit agreement, PJM is required to meet certain financial and non-financial covenants. PJM was in compliance with these covenants as of June 30, 2020.

At June 30, 2020, $24.7 million was outstanding under the revolving credit agreement. At December 31, 2019, 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 June 30, 2020, the interest rate was 0.78 percent.

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

364-day Revolving Line of Credit

On April 23, 2020, PJM entered into a $50 million, 364-day revolving line of credit agreement with PNC. The revolving line of credit is unsecured and available to manage near-term uncertainties stemming from the COVID-19 pandemic. On May 14, 2020, PJM received approval from FERC providing authorization for a total revolving line of credit with PNC of $200 million, consisting of the existing $150 million revolving line of credit and the new short-term revolving line of credit for $50 million.

At June 30, 2020, there was no amount outstanding under the revolving credit agreement. The interest rate on borrowings under this revolving credit agreement is based on the 30-day LIBOR. At June 30, 2020, the interest rate was 1.66 percent.

The facility also has a commitment fee of 25.00 basis points (0.25 percent) on the unused balance. This fee is calculated daily and paid quarterly.

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

Bank of America Bank Loan Agreement

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

As of June 30, 2020 and December 31, 2019, the outstanding borrowings under the term loan were $15.2 million and $16.6 million, respectively. As defined in the loan agreement, the term loan bears interest at a rate per annum equal to the LIBOR rate plus a spread of 62.5 basis points (0.625 percent). As of June 30, 2020, the interest rate was 0.82 percent.

Under the loan agreement, PJM is required to meet certain financial and non-financial covenants. PJM was in compliance with these covenants as of June 30, 2020.

Derivative Financial Instrument - Interest Rate Swap

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

While PJM has entered into an economic hedge of its interest rate, the Company has elected not to designate this instrument as a cash flow or fair value hedge for accounting purposes. Accordingly, the interest rate swap is carried at fair value in the Consolidated Statements of Financial Position with changes in fair value recorded through earnings. At June 30, 2020 and December 31, 2019, the fair value of the swap was a liability of $1.1 million and $0.6 million, respectively.

For the 3-month periods ended June 30, 2020 and June 30, 2019, in conjunction with changes in the fair value of the interest rate swap, PJM recognized an immaterial and $0.3 million loss, respectively, as interest expense in the Consolidated Statements of Income, Comprehensive Income and Paid-in Capital, Retained Earnings and Accumulated Other Comprehensive Income (Loss).

For the 6-month periods ended June 30, 2020 and June 30, 2019, in conjunction with changes in the fair value of the interest rate swap, PJM recognized a $0.5 million loss and $0.4 million loss, respectively, as interest expense in the Consolidated Statements of Income, Comprehensive Income and Paid-in Capital, Retained Earnings and Accumulated Other Comprehensive Income (Loss).

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

7. Derivative Financial Instrument – Financial Transmission Rights

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

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

The gross fair value of both the FTR assets and FTR liabilities as of June 30, 2020, was $634 million. A total of 283 members are FTR holders related to a total of 3.2 million megawatt-hours. As of June 30, 2020, PJM held $1.7 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 June 30, 2020, consisted of the following:

($ in millions)	
Balance at April 1, 2020	$ 164
Auction additions	611
Settlement and change in fair value	(141)
Balance at June 30, 2020	$ 634

8. Fair Value Disclosures

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

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

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

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

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

The following table presents PJM's cash and cash equivalents as well as financial assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2020 and December 31, 2019 by level within the fair value hierarchy.

($ in millions)	**June 30, 2020**				**December 31, 2019**
	Level 1	**Level 2**	**Level 3**	**Carrying Value**	**Carrying Value**
Cash and cash equivalents	$ 1,691	$ -	$ -	$ 1,691	$ 1,650
Deposit liabilities	1,682	-	-	1,682	1,598
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 (Loss) and are not presented in the table above.

9. Income Taxes

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

	June 30, 2020	June 30, 2019
Income tax expense at the federal statutory rate	$ 343	$ 179
Increase (decrease) resulting from:		
Change in valuation allowance	(6)	(1)
Permanent differences	173	123
State income taxes, net of federal tax benefit	176	138
Other	-	(27)
Income tax expense	$ 686	$ 412

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 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 2016 remain open to examination by various state taxing authorities. There are no ongoing audits at this time.

10. Benefit Plans

The schedules that follow show the components of net periodic pension and postretirement health care costs for the 3-month and 6-month periods ended June 30, 2020 and June 30, 2019.

Components of Net Periodic Benefit Cost, April 1 to June 30	Pension Benefits – Qualified 2020	Pension Benefits – Qualified 2019	Pension Benefits – SERP 2020	Pension Benefits – SERP 2019	Other Postretirement Benefits 2020	Other Postretirement Benefits 2019
Service cost	$ 2,866	$ 2,389	$ 83	$ 87	$ 463	$ 375
Interest cost	2,492	2,439	39	80	577	594
Expected return on assets	(4,049)	(3,331)	-	-	(227)	(181)
Settlement charge	-	-	(40)	-	-	-
Prior service cost / (gain)	1	(4)	8	2	(322)	(322)
Actuarial loss / (gain)	399	628	25	71	(45)	(158)
Total net periodic benefit cost	$ 1,709	$ 2,121	$ 115	$ 240	$ 446	$ 308

Components of Net Periodic Benefit Cost, January 1 to June 30	Pension Benefits – Qualified 2020	Pension Benefits – Qualified 2019	Pension Benefits – SERP 2020	Pension Benefits – SERP 2019	Other Postretirement Benefits 2020	Other Postretirement Benefits 2019
Service cost	$ 5,732	$ 4,798	$ 169	$ 172	$ 925	$ 744
Interest cost	4,985	4,850	83	157	1,156	1,190
Expected return on assets	(8,099)	(6,672)	-	-	(455)	(363)
Settlement charge	-	-	738	-	-	-
Prior service cost / (gain)	1	(9)	16	3	(644)	(643)
Actuarial loss / (gain)	798	1,203	68	130	(90)	(310)
Total net periodic benefit cost	$ 3,417	$ 4,170	$ 1,074	$ 462	$ 892	$ 618

During first six months of 2020, PJM recognized a settlement charge of $0.7 million within SERP pension expense related to the payment of a lump-sum benefit on January 1, 2020.

For both of the 3-month periods ended June 30, 2020 and June 30, 2019, $0.2 million of total pension and postretirement benefits expense were included in capitalized project costs. For each of the 6-month periods ended June 30, 2020 and June 30, 2019, $0.4 million and $0.3 million of total pension and postretirement benefits expense were included in capitalized project costs, respectively.

The following schedule shows the assumptions used to calculate the pension and postretirement benefit obligations for as of June 30, 2020 and June 30, 2019.

	Pension Benefits – Qualified 2020	Pension Benefits – Qualified 2019	Pension Benefits – SERP 2020	Pension Benefits – SERP 2019	Other Postretirement Benefits 2020	Other Postretirement Benefits 2019
Discount rate	3.65%	4.30%	3.55%	4.30%	3.55%	4.30%
Expected return on plan assets	6.40%	6.40%	N/A	N/A	6.40%	6.40%
Rate of compensation increase	4.50%	4.50%	4.50%	4.50%	N/A	N/A
Medical care cost trend rate						
Current (Pre-65)					5.65%	5.92%
Current (Post-65)					6.02%	6.48%
Ultimate (Pre-65)					4.46%	4.46%
Ultimate (Post-65)					4.45%	4.45%
Years to ultimate					18	19

11. Commitments and Contingencies

Other Items

Credit Matter

On June 21, 2018, GreenHat Energy, LLC defaulted on its obligations related to its FTR portfolio, which includes positions applicable to the then current planning year as well as the 2019/2020 and 2020/2021 planning years. In January 2019, FERC denied PJM's waiver requesting to only offer the August 2018 defaulted FTRs for liquidation in the FTR auction conducted in July 2018. In June 2019, FERC issued an order on clarification and set the matter for paper hearing and settlement judge procedures.

The parties submitted a settlement with FERC on October 9, 2019, that resolves all issues in this proceeding and avoids the resettlement of the stopped liquidation auction. FERC accepted the settlement by order dated December 30, 2019. The settlement provides for payment of $17.5 million that will be allocated to members as part of the default allocation. The aggregate payment default of GreenHat, net of collateral held, was billed to the non-defaulting members in accordance with the default allocation assessment formula in the Operating Agreement. Those default allocation billings and payments will continue through the end of the current planning year which ends on May 31, 2021.

Old Dominion Electric Cooperative v. PJM 2014 Polar Vortex Complaint

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

On March 31, 2020, the District Court issued an opinion and order granting PJM's Motion to Dismiss with prejudice. The District Court found that ODEC's claims for compensation fall entirely within the PJM Tariff and therefore are exclusively governed by federal law and barred by the filed-rate doctrine. On April 23, 2020, ODEC filed a Notice of Appeal to the United States Court of Appeals for the Fourth Circuit ("Circuit Court") of the District Court's Order on Motion to Dismiss. On June 3, 2020, ODEC filed an opening brief and joint appendix with the Circuit Court. On July 20, 2020, PJM filed its response brief.

Radford's Run Complaint

On November 15, 2018, FERC issued an order ("Order") granting in part a complaint filed by Radford's Run Wind Farm, LLC ("Radford") against PJM. Radford filed the complaint on June 26, 2018 ("Complaint"). In the Complaint, Radford alleged that it is entitled to 279 MW of Incremental Capacity Transfer Rights ("ICTRs") because Radford funded a network upgrade that improved a transmission-constraint.

In the Order, FERC granted the Complaint in part because FERC found that "PJM did not comply with its Tariff," which provides that PJM must determine in the System Impact Study whether a customer is entitled to any ICTRs resulting from its Customer-Funded Upgrade. Because FERC was not able to determine based on the record if Radford should have been awarded ICTRs if PJM had followed its Tariff, FERC established paper hearing procedures for PJM to assess whether Radford's Upgrades increases the CETL of a LDA, and thus is eligible for ICTRs. There is no monetary claim for damages stated in the Complaint.

On April 16, 2020, FERC issued its order on the paper hearing ("April 16 Order") finding that the PJM Tariff required PJM to use the information available to PJM at the time it completed the SIS for Radford's interconnection request when it evaluated the Radford Upgrade for ICTRs. The April 16 Order requires PJM to award any ICTRs that would have been assigned to Radford based on data as of December 2015; and requires PJM to make a compliance filing within 60 days (i.e., by June 15, 2020) detailing its determination on ICTRs for the Radford Upgrade using the information available to PJM at the time it completed the SIS. The April 16 order further requires that, if PJM determines Radford is entitled to ICTRs, PJM must determine whether Radford would have been entitled to payment relating to the Base Residual Auctions held in 2016, 2017, and 2018, which provide payments for the 2019/2020, 2020/2021, and 2021/2022 Delivery Years, respectively. For the latter two Delivery Years, PJM will be expected to include any Radford ICTRs as a result of the Radford Upgrade for certification in the Base Residual Auctions for the 2020/2021 and 2021/2022 Delivery Years.

For the 2019/2020 Delivery Year, for which payments have largely already been made, the April 16 Order requires PJM to resettle payments for ICTRs resulting from the 2016 Base Residual Auction during the 2019/2020 Delivery Year and to rebill affected entities for that period. This directive required PJM to rebill ICTR holders in the Com Ed zone nearly $10 million in payments if PJM determines that ICTRs would have been assigned to Radford based on data as of December 2015. On May 18, 2020, PJM (joined by Commonwealth Edison Company) filed a request for rehearing on the 2019/2020 Delivery Year rebilling directive in the April 16 Order. The rehearing request remains pending.

In compliance with the April 16 Order, on June 15, 2020, PJM submitted the compliance filing together with a refund report showing the resettlement among PJM members, which did not impact PJM's financial statements.

Part I. FINANCIAL INFORMATION (continued)

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

Forward-Looking Statements

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

Many factors could cause actual results to differ materially from these statements. These factors include, but are not limited to, the results of regulatory proceedings, the conditions of the capital markets, interest rates, actuarial assumptions, availability of credit, liquidity and general economic conditions, including those resulting from COVID-19; 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 consistent for both the 3-month and 6-month periods ended June 30, 2020 as compared with the 3-month and 6-month periods ended June 30, 2019. Service fees reflect lower transmission volumes year over year, offset by a 2.5 percent increase in the composite stated-rate on January 1, 2020 and increased bidding activities under the various PJM auctions. Transmission volumes for the 3-month and 6-month periods ended June 30, 2020 were 183 terawatt hours (TWhs) and 381 TWhs, respectively, as compared with 189 TWhs and 406 TWhs for the 3-month and 6-month periods ended June 30, 2019, respectively.

Total expenses, excluding FERC fees, study and interconnection services, interest expense, and income taxes, decreased $8.1 million, or 11 percent, to $68.8 million for the 3-month period ended June 30, 2020 as compared with the 3-month period ended June 30, 2019. Total expenses, excluding FERC fees, study and interconnection services, interest expense, and income taxes, decreased $10.6 million, or 7 percent, to $141.6 million for the 6-month period ended June 30, 2020 as compared with the 6-month period ended June 30, 2019. The decrease in expenses in 2020 resulted primarily from decreased compensation due to lower headcount period over period and 2019 incremental costs associated with employee retirements that were one time in nature, decreased outside services attributable to lower building maintenance expense period over period, and decreased other expenses reflecting decreased travel, meeting and training expense resulting from COVID-19 restrictions.

Liquidity and Capital Resources

PJM maintains with PNC Bank (PNC) a FERC-approved revolving line of credit agreement with a capacity amount of $150 million. The revolving line of credit agreement expires on January 31, 2022 and is unsecured and available to fund short-term cash obligations. At June 30, 2020, there was $24.7 million of outstanding borrowings under this revolving credit agreement.

On April 23, 2020, PJM entered into a $50 million, 364-day revolving line of credit agreement with PNC. The revolving line of credit is unsecured and available to manage near-term uncertainties stemming from the COVID-19 pandemic. At June 30, 2020, there was no amount outstanding 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 June 30, 2020, the outstanding borrowings under the term loan were $15.2 million.

Risks and Uncertainties

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

COVID-19

Spread of Coronavirus disease 2019 (COVID-19) in the United States and globally has led to economic disruption. PJM is taking steps to mitigate the potential risks arising from the spread of the disease, however it is reasonably possible that PJM future results could be negatively affected by the impacts of COVID-19. The extent to which COVID-19 may impact results will depend on future developments, which have uncertain scope and duration. PJM cannot predict if there will be a material effect to PJM's financial position, results of operations or cash flows.

Credit Risks

PJM bills and collects its operating expenses monthly from its members. Payment of all operating expense bills is due from PJM's members three business days after the month-end bill is issued by PJM, generally within the first two weeks of each month. For the 6-month period ended June 30, 2020, approximately 60 percent of PJM's operating expenses were billed to 23 of its members, the majority 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.

PJM implemented significant FTR credit policy enhancements during 2019, including FERC-approved adoption of mark-to-auction provisions in April 2019. Mark-to-auction provides a valuation of the cleared FTR portfolio based on the most recent auction prices and also takes into consideration the value of auction revenue right entitlements allocated to firm transmission service customers. The value of FTRs as of June 30, 2020, under a mark-to-auction model was $226.9 million.

Other Items

Credit Matter

On June 21, 2018, GreenHat Energy, LLC defaulted on its obligations related to its FTR portfolio, which includes positions applicable to the then current planning year as well as the 2019/2020 and 2020/2021 planning years. In January 2019, FERC denied PJM's waiver requesting to only offer the August 2018 defaulted FTRs for liquidation in the FTR auction conducted in July 2018. In June 2019, FERC issued an order on clarification and set the matter for paper hearing and settlement judge procedures.

The parties submitted a settlement with FERC on October 9, 2019, that resolves all issues in this proceeding and avoids the resettlement of the stopped liquidation auction. FERC accepted the settlement by order dated December 30, 2019. The settlement provides for payment of $17.5 million that will be allocated to members as part of the default allocation. The aggregate payment default of GreenHat, net of collateral held, was billed to the non-defaulting members in accordance with the default allocation assessment formula in the Operating Agreement. Those default allocation billings and payments will continue through the end of the current planning year which ends on May 31, 2021.

Old Dominion Electric Cooperative v. PJM 2014 Polar Vortex Complaint

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

On March 31, 2020, the District Court issued an opinion and order granting PJM's Motion to Dismiss with prejudice. The District Court found that ODEC's claims for compensation fall entirely within the PJM Tariff and therefore are exclusively governed by federal law and barred by the filed-rate doctrine. On April 23, 2020, ODEC filed a Notice of Appeal to the United States Court of Appeals for the Fourth Circuit ("Circuit Court") of the District Court's Order on Motion to Dismiss. On June 3, 2020, ODEC filed an opening brief and joint appendix with the Circuit Court. On July 20, 2020, PJM filed its response brief.

Radford's Run Complaint

On November 15, 2018, FERC issued an order ("Order") granting in part a complaint filed by Radford's Run Wind Farm, LLC ("Radford") against PJM. Radford filed the complaint on June 26, 2018 ("Complaint"). In the Complaint, Radford alleged that it is entitled to 279 MW of Incremental Capacity Transfer Rights ("ICTRs") because Radford funded a network upgrade that improved a transmission-constraint.

In the Order, FERC granted the Complaint in part because FERC found that "PJM did not comply with its Tariff," which provides that PJM must determine in the System Impact Study whether a customer is entitled to any ICTRs resulting from its Customer-Funded Upgrade. Because FERC was not able to determine based on the record if Radford should have been awarded ICTRs if PJM had followed its Tariff, FERC established paper hearing procedures for PJM to assess whether Radford's Upgrades increases the CETL of a LDA, and thus is eligible for ICTRs. There is no monetary claim for damages stated in the Complaint.

On April 16, 2020, FERC issued its order on the paper hearing ("April 16 Order") finding that the PJM Tariff required PJM to use the information available to PJM at the time it completed the SIS for Radford's interconnection request when it evaluated the Radford Upgrade for ICTRs. The April 16 Order requires PJM to award any ICTRs that would have been assigned to Radford based on data as of December 2015; and requires PJM to make a compliance filing within 60 days (i.e., by June 15, 2020) detailing its determination on ICTRs for the Radford Upgrade using the information available to PJM at the time it completed the SIS. The April 16 order further requires that, if PJM determines Radford is entitled to ICTRs, PJM must determine whether Radford would have been entitled to payment relating to the Base Residual Auctions held in 2016, 2017, and 2018, which provide payments for the 2019/2020, 2020/2021, and 2021/2022 Delivery Years, respectively. For the latter two Delivery Years, PJM will be expected to include any Radford ICTRs as a result of the Radford Upgrade for certification in the Base Residual Auctions for the 2020/2021 and 2021/2022 Delivery Years.

For the 2019/2020 Delivery Year, for which payments have largely already been made, the April 16 Order requires PJM to resettle payments for ICTRs resulting from the 2016 Base Residual Auction during the 2019/2020 Delivery Year and to rebill affected entities for that period. This directive required PJM to rebill ICTR holders in the Com Ed zone nearly $10 million in payments if PJM determines that ICTRs would have been assigned to Radford based on data as of December 2015. On May 18, 2020, PJM (joined by Commonwealth Edison Company) filed a request for rehearing on the 2019/2020 Delivery Year rebilling directive in the April 16 Order. The rehearing request remains pending.

In compliance with the April 16 Order, on June 15, 2020, PJM submitted the compliance filing together with a refund report showing the resettlement among PJM members, which did not impact PJM's financial statements.