PJM INTERCONNECTION, L.L.C.

FOR THE QUARTER ENDED MARCH 31, 2021

INDEX

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

	March 31, 2021	December 31, 2020
Assets		
Current assets:		
Deposits on hand	$ 2,178,240	$ 1,801,300
Operating cash	29,877	103,081
Receivables	9,009	25,229
Study and interconnection receivables	15,262	14,752
Prepaid expenses and other	10,220	13,155
Deferred FERC Fees	365	2,700
Note receivable	2,489	2,697
	2,245,462	1,962,914
Non-current assets:		
Fixed assets, net of accumulated depreciation and amortization of $756,443 and $748,058	90,655	87,281
Land	1,420	1,420
Projects in development	47,871	53,376
Deferred recovery of pension and postretirement costs	90,264	91,238
Deferred income taxes, net of valuation allowance	35,365	34,478
Prepaid expenses and other	4,150	3,477
Note receivable	3,064	3,548
Other	25,195	26,117
	297,984	300,935
Total assets	$ 2,543,446	$ 2,263,849
Liabilities, paid-in capital, retained earnings and accumulated other comprehensive income		
Current liabilities:		
Accounts payable and accrued expenses	$ 41,815	$ 36,759
Due to members	39,524	151,315
Study and interconnection payables	17,827	15,505
Accrued payroll and benefits	14,118	37,599
Accrued income tax	2,330	1,336
Revolving line of credit	18,254	-
Current portion of long-term debt	2,886	2,886
Current portion of capital lease	1,881	1,860
Deferred regulatory liability	9,948	-
Deferred revenue	2,580	3,423
Postretirement healthcare benefits liability	1,593	1,548
Other employee benefits	294	288
Deposits	2,178,240	1,801,300
	2,331,290	2,053,819
Non-current liabilities:		
Long-term debt	10,099	10,821
Long-term capital lease	10,949	11,425
Deferred regulatory liability	19,140	17,742
Interest rate swap	735	896
Pension benefits liability	65,711	63,709
Postretirement health care benefits liability	63,132	62,700
Other employee benefits	29,037	29,736
	198,803	197,029
Total liabilities	2,530,093	2,250,848
Commitments and contingencies (Note 11)		
Paid in capital	722	722
Retained earnings	12,557	12,205
Accumulated other comprehensive income	74	74
Total paid-in capital, retained earnings and accumulated other comprehensive income	13,353	13,001
Total liabilities, paid-in capital, retained earnings and accumulated other comprehensive income	$ 2,543,446	$ 2,263,849

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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 March 31, 2021	Three months ended March 31, 2020
Income		
Operating revenue:		
Service fees	$ 82,753	$ 80,895
Deferred regulatory (expense)	(11,345)	(9,055)
FERC fees reimbursement	19,673	15,886
Study and interconnection fees	1,468	1,199
Membership fees	855	883
Other	781	1,106
Total operating revenue	94,185	90,914
Operating expenses:		
Compensation	38,053	35,707
FERC fees	19,673	15,568
Outside services	12,486	13,769
Depreciation and amortization	8,389	9,192
Software licenses and fees	4,626	4,879
Pension benefits - service cost	3,728	2,952
Computer maintenance and office supplies	2,388	2,685
Other expenses	2,386	2,585
Study and interconnection services	1,468	1,199
Lease expenses	489	559
Postretirement health care benefits - service cost	536	462
Total operating expenses	94,222	89,557
Operating (loss) income	(37)	1,357
Other income:		
Interest income	324	5,554
Interest expense	128	6,299
Pension and postretirement health care benefits - other components of net benefit cost	(444)	(449)
Total other income (loss)	640	(296)
Income before income taxes	603	1,061
Income tax expense	251	428
Net income	$ 352	$ 633
Paid-in capital, retained earnings and accumulated other comprehensive income (loss)		
Beginning balance	$ 13,001	$ 10,834
Net income	352	633
Other comprehensive income (loss)	-	(111)
Ending balance	$ 13,353	$ 11,356

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)

	Three months ended March 31, 2021	Three months ended March 31, 2020
Cash flows from operating activities:		
Net income	$ 352	$ 633
Adjustments:		
Depreciation and amortization expense	8,389	9,192
Deferred income taxes, net of valuation allowance	(887)	(909)
Deferred recovery of pension and postretirement costs	974	422
Deferred regulatory liability	11,346	9,057
Employee benefit expense greater than funding	1,786	(4,880)
Net fair value changes related to interest rate swap	(161)	464
Changes in assets and liabilities:		
Decrease in receivables	16,220	22,870
(Increase) decrease in study and interconnection receivables	(510)	13,949
Decrease in prepaid expenses and other	2,729	3,652
Change in deferred FERC fee position	2,335	(317)
Increase in accounts payable and accrued expenses	4,196	8,503
Imcrease (decrease) in study and interconnection payables	2,322	(14,615)
(Decrease) in accrued payroll and benefits	(23,481)	(25,433)
Increase in accrued income taxes	994	1,276
(Decrease) in deferred revenue	(843)	(852)
Refunds to members	-	(13,072)
Net cash provided by operating activities	25,761	9,940
Cash flows (used in) investing activities:		
Cost of projects in development	(5,398)	(7,490)
Note receivable	692	417
Net cash (used in) investing activities	(4,706)	(7,073)
Cash flows provided by (used in) financing activities:		
Borrowings under line of credit	345,120	-
Repayments under line of credit	(326,866)	-
Repayments of long-term debt	(722)	(722)
(Decrease) increase in due to members	(111,791)	24,557
Increase (decrease) in deposits	376,940	(55,332)
Net cash provided by (used in) financing activities	282,681	(31,497)
Net increase (decrease) in cash and cash equivalents	303,736	(28,630)
Cash and cash equivalents balance (including customer deposits), beginning of year	1,904,381	1,649,513
Cash and cash equivalents balance (including customer deposits), end of period	$ 2,208,117	$ 1,620,883
Noncash activity:		
Projects in development additions included in ending accounts payable and accrued expenses	861	500

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

The interim financial data as of March 31, 2021 and for the 3-month periods ended March 31, 2021 and March 31, 2020 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 2020 consolidated financial statements and footnotes.

PJM has performed an evaluation of subsequent events through April 30, 2021, which is the date the financial statements were issued.

COVID-19 Pandemic

The spread of the coronavirus (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 virus; however, it is reasonably possible that PJM future results could be negatively affected by the impacts of the COVID-19 pandemic. The extent to which the COVID-19 pandemic 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 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).

	Three months ended March 31, 2021	Three months ended March 31, 2020
PJM stated-rate revenues		
Control area administration service	$ 46,940	$ 43,882
Market support service	20,517	20,353
FTR administration service	8,083	9,808
Capacity resource and obligation management service	3,763	3,779
Regulation and frequency response	705	678
	80,008	78,500
PJM Settlement service fees	2,745	2,395
Total service fees	$ 82,753	$ 80,895

For the 3-month periods ended March 31, 2021 and March 31, 2020, PJM Connext, LLC (PJM Connext) recorded consolidated revenue of $0.8 million and $1.1 million, respectively, which is included in other operating revenue in the Consolidated Statements of Income, Comprehensive Income and Paid-in Capital, Retained Earnings and Accumulated Other Comprehensive Income (Loss).

Contract Balances

PJM membership fees, which are billed and collected in advance of the year for which they apply, are recognized as revenue ratably over the related annual membership period. Under the revenue guidance, membership fees - recorded as deferred revenue - are considered contract liabilities. The January 1, 2021 opening balance of deferred revenue resulting from contracts with customers was $3.4 million. The March 31, 2021 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, 2021, that was included in the opening contract liability balance, was $0.8 million. PJM expects to recognize $2.6 million of membership fees revenue during the remaining nine months of 2021.

There were no material contract assets as of March 31, 2021.

PJM's receivables balance at March 31, 2021 included $8.5 million of unbilled recovery of pass-through charges and $0.5 million of billed PJM Connext receivables. At March 31, 2021, PJM recorded $39 million of refunds to members associated with FERC orders requiring reallocation and refunds; these refunds have been netted against PJM's unbilled service fees, with the excess reclassified as a liability in the financial statement line item Due to Members.

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

All study and interconnection receivables were billed at March 31, 2021.

3. Deferred Regulatory Liability

PJM recovers its administrative costs through a stated-rate mechanism under the Company's 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. PJM did not make any refunds during the first quarter of 2021. During the first quarter of 2020, PJM made refunds of $13.1 million.

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

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 expense 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 expense. For both 3-month periods ended March 31, 2021 and March 31, 2020, deferred regulatory expense was a reduction to operating revenues.

At March 31, 2021 and December 31, 2020, the deferred regulatory liability was $29.0 million and $17.7 million, respectively. At March 31, 2021, the current portion of the deferred regulatory liability was $9.9 million, representing PJM and PJM Settlement's expected refunds to members during the subsequent quarter. There was no current portion of the deferred regulatory liability at December 31, 2020. The non-current portion of the deferred regulatory liability of $19.1 million and $17.7 million represents the amount of PJM's reserve at March 31, 2021 and December 31, 2020, 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 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, 2021, 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 March 31, 2021 and December 31, 2020, the outstanding balance due from MA recorded by PJM as a note receivable was $5.5 million and $6.2 million, respectively. At March 31, 2021 and December 31, 2020, the current portion of the note receivable was $2.5 million and $2.7 million, respectively. The current balance at March 31, 2021 represents the amount to be repaid in the next twelve months. The non-current portion of the note receivable was $3.0 million at March 31, 2021 and $3.5 million at December 31, 2020.

5. Short-Term Debt

PNC 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 March 31, 2021.

At March 31, 2021, $18.3 million was outstanding under the revolving credit agreement. At December 31, 2020, 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 plus a spread of 62.5 basis points (0.625 percent). At March 31, 2021, the interest rate was 0.74 percent.

The line of credit facility 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 was unsecured and available to manage near-term uncertainties stemming from the COVID-19 pandemic. On February 12, 2021, PJM terminated the 364-day revolving line of credit agreement with PNC.

Subsequent Event

On April 29, 2021, PJM filed with FERC requesting authorization for a total revolving line of credit with PNC of $200 million, consisting of the existing $150 million revolving line of credit and a $50 million requested increase of the capacity on the existing facility.

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 then 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 March 31, 2021 and December 31, 2020, the outstanding borrowings under the term loan were $12.9 million and $13.7 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 March 31, 2021, the interest rate was 0.76 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 March 31, 2021.

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, 2021 and December 31, 2020, the fair value of the swap was a liability of $0.7 million and $0.9 million, respectively.

For the 3-month periods ended March 31, 2021 and March 31, 2020, in conjunction with changes in the fair value of the interest rate swap, PJM recognized a $0.2 million gain and $0.5 million loss, 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.

Historically, PJM has determined the fair value of FTR assets and liabilities for disclosure utilizing a valuation model based on a three-year weighted average of historical location marginal prices by month, by node. In the first quarter 2021, PJM adopted an accounting principle change to value FTR positions, for financial statement disclosure, under a mark-to-auction model. Mark-to-auction provides a valuation of the cleared FTR portfolio based on the most recent auction prices. PJM considers mark-to-auction an industry standard, preferred valuation technique.

The gross fair value of both FTR assets and FTR liabilities as of March 31, 2021, December 31, 2020 and March 31, 2020 was $138.2 million, $240.6 million and $182.8 million, respectively. The value of additions to and settlements of the FTR asset and FTR liabilities balances for the first quarter 2021 was $15.1 million and $16.9 million, respectively. The value of additions to and settlements of the FTR asset and FTR liabilities balances for the first quarter 2020 was $16.7 million and $14.6 million, respectively.

At March 31, 2021, 305 members are FTR holders related to 3.8 million megawatt-hours and PJM held $2.1 billion in collateral related to these FTR transactions. The collateral is based on the calculated net value of the positions held in each member's FTR portfolio. The collateral can be in the form of cash or a letter of credit.

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 March 31, 2021 and December 31, 2020 by level within the fair value hierarchy.

($ in millions)	March 31, 2021				December 31, 2020
	Level 1	Level 2	Level 3	Carrying Value	Carrying Value
Cash and cash equivalents	$ 2,208	$ -	$ -	$ 2,208	$ 1,904
Deposit liabilities	2,178	-	-	2,178	1,801
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. 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. Refer to Note 7 for additional information regarding valuation of FTR positions.

9. Income Taxes

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

	March 31, 2021	March 31, 2020
Income tax expense at the federal statutory rate	$ 127	$ 223
Increase (decrease) resulting from:		
Change in valuation allowance	1	(7)
Permanent differences	56	104
State income taxes, net of federal tax benefit	67	108
Income tax expense	$ 251	$ 428

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

10. Benefit Plans

The schedule that follows shows the components of net periodic pension and postretirement health care costs for the 3-month periods ended March 31, 2021 and March 31, 2020.

	Pension Benefits				Other Postretirement Benefits	
Components of Net Periodic Benefit Cost	**Qualified**		**SERP**			
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Service cost	$ 3,524	$ 2,866	$ -	$ 86	$ 536	$ 462
Interest cost	2,415	2,492	29	43	538	578
Expected return on assets	(3,937)	(4,049)	-	-	(223)	(227)
Settlement charge	-	-	-	779	-	-
Prior service cost / (gain)	1	1	-	8	(322)	(322)
Actuarial loss / (gain)	1,291	399	4	44	-	(45)
Total net periodic benefit cost	$ 3,294	$ 1,709	$ 33	$ 960	$ 529	$ 446

On December 31, 2020, benefit accruals in the PJM defined benefit supplemental executive retirement plan (SERP) were frozen, and, on January 1, 2021, PJM established a defined contribution SERP. PJM recognized $0.2 million in expense related to the defined contribution SERP during the first quarter of 2021. This expense is included as a component of pension expense in the Consolidated Statements of Income, Comprehensive Income and Paid-in Capital, Retained Earnings and Accumulated Other Comprehensive Income (Loss).

During first quarter of 2020, PJM recognized a settlement charge of $0.8 million within SERP pension expense related to the payment of lump-sum benefits on January 1, 2020.

For both of the 3-month periods ended March 31, 2021 and March 31, 2020, $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, 2021 and March 31, 2020.

	Pension Benefits				Other Postretirement Benefits	
	Qualified		**SERP**			
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Discount rate	2.76%	3.65%	2.69%	3.55%	2.70%	3.55%
Expected return on plan assets	5.50%	6.40%	N/A	N/A	5.50%	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)					5.39%	5.65%
Current (Post-65)					5.55%	6.02%
Ultimate (Pre-65)					4.46%	4.46%
Ultimate (Post-65)					4.45%	4.45%
Years to ultimate					17	18

11. Commitments and Contingencies

Other Items

Credit Matter

On June 21, 2018, GreenHat Energy, LLC (GreenHat) defaulted on its obligations related to its FTR portfolio, which included 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 was 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 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. The parties have filed briefs with the Circuit Court and oral arguments are set for May 2021.

Radford's Run Complaint

On November 15, 2018, FERC issued an order (November 15 Order) granting in part a complaint filed by Radford's Run Wind Farm, LLC (Radford) against PJM on June 26, 2018 (Complaint), alleging that Radford is entitled to 279 MW of Incremental Capacity Transfer Rights (ICTRs) because Radford funded a network upgrade that improved a transmission constraint. In the November 15 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. FERC established paper hearing procedures for PJM to assess whether Radford's upgrades would have made Radford eligible for ICTRs.

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 at the time PJM completed the System Impact Study for Radford's interconnection request (i.e., December 2015) when it evaluated the Radford upgrade for ICTRs. The April 16 Order required PJM to award any ICTRs that would have been assigned to Radford based on data as of December 2015, and required 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 System Impact Study. For the 2019/2020 Delivery Year, for which payments had already been made, the April 16 Order required PJM to resettle payments for ICTRs resulting from the 2016 Base Residual Auction and to rebill affected entities for that period. As a result of that directive, PJM had to rebill ICTR holders in the ComEd Zone nearly $10 million in payments. On June 15, 2020, PJM submitted its compliance filing to FERC together with a refund report showing the resettlement.

On May 18, 2020, PJM (joined by ComEd) filed a request for rehearing on the 2019/2020 Delivery Year rebilling directive in the April 16 Order. As a result, on December 2, 2020, FERC issued an order (December 2 Order) that granted rehearing and set aside the resettlement of ICTRs for the 2019/2020 Delivery Year; however, FERC directed PJM on compliance to explain and support its position on the 2019/2020 resettlement, including why a 2015 System Impact Study would not have been enough to make Radford "obligated to fund" ICTRs for purposes of the 2016 Base Residual Auction because of the Tariff requirement that to receive ICTRs, Radford must have been obligated to fund the network upgrade prior to the 2016 Base Residual Auction. On January 4, 2021, PJM filed its compliance filing, and the matter is pending FERC action.

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 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 $1.8 million or 2 percent higher for the 3-month period ended March 31, 2021 as compared with the 3-month period ended March 31, 2020. Service fees reflect higher transmission volumes year over year and a 2.5 percent increase in the composite stated-rate on January 1, 2021. Transmission volumes for the 3-month period ended March 31, 2021 were 207 terawatt hours (TWhs), as compared with 198 TWhs for the 3-month period ended March 31, 2020.

Total expenses, excluding FERC fees, study and interconnection services, interest expense, and income taxes, were constant for the 3-month period ended March 31, 2021 as compared with the 3-month period ended March 31, 2020. Period over period, PJM reported an increase in compensation expense, due to COVID-19 related expense, and an increase in benefit plan expense resulting from lower discount rates. Increases in expenses were offset by decreased outside services, attributable to decreased travel, meeting and training expense, and lower depreciation expense period over period.

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 March 31, 2021, there was $18.3 million of outstanding borrowings under this revolving credit agreement.

On April 29, 2021, PJM filed with FERC requesting authorization for a total revolving line of credit with PNC of $200 million, consisting of the existing $150 million revolving line of credit and a $50 million requested increase of the capacity on the existing facility.

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, 2021, the outstanding borrowings under the term loan were $12.9 million.

Risks and Uncertainties

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

Credit Risks

PJM bills and collects its operating expenses monthly from its members. Payment of all operating expense bills is due from PJM's members three business days after the month-end bill is issued by PJM, generally within the first two weeks of each month. For the 3-month period ended March 31, 2021, 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.

Other Items

Credit Matter

On June 21, 2018, GreenHat Energy, LLC (GreenHat) defaulted on its obligations related to its FTR portfolio, which included 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 was 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 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

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