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PJM 2021 FINANCIAL REPORT

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

Nature of Operations

The Company currently coordinates a pooled generating capacity of more than 185,442 megawatts (MW) and operates wholesale electricity markets with approximately 1,060 members. PJM enables the delivery of electric power to more than 65 million people in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.

PJM manages a sophisticated regional planning process for generation and transmission expansion to ensure continued reliability of the electric system. Using information technology, PJM provides real-time information to market participants to support their daily transactions and business decision-making. In addition to ensuring the reliable supply of electricity, PJM administers internet-based bid markets in which participants buy and sell day-ahead and spot-market energy, Financial Transmission Rights (FTRs), synchronized reserves and regulation services.

PJM Settlement, Inc. (PJM Settlement) is a wholly owned subsidiary of PJM, organized as a Pennsylvania nonprofit corporation, and is a FERC-regulated entity. PJM Settlement was formed to handle all of the credit, billing and settlement functions for PJM's members' transactions in the PJM markets and for transmission service. PJM Settlement acts as a counterparty to members' pool transactions in the PJM markets. For the pool transactions in the PJM markets, flash title passes through PJM Settlement immediately prior to passing to the ultimate buyer and seller of the product. This arrangement reinforces PJM's authority to continue to net a member's offsetting financial positions in PJM markets for credit and billing purposes, provides clarity in PJM Settlement's legal standing to pursue collection from a bankrupt member and complies with FERC's recommendation on credit policy requirements for competitive wholesale electricity markets.

PJM Connext, L.L.C. (PJM Connext) is a wholly owned subsidiary of PJM and is not a FERC-regulated entity. PJM Connext was formed to provide service and technology solutions to existing and emerging energy markets, system operators, RTOs and other entities.

PJM Technologies, Inc. (PJM Tech) is a wholly owned subsidiary of PJM Connext and is not a FERC-regulated entity. PJM Tech provides international consulting services including training, program planning and implementation advice regarding development of wholesale electric market design and market rules.

PJM Environmental Information Services, Inc. (PJM EIS) is a wholly owned subsidiary of PJM Connext formed to provide environmental and emissions attributes reporting and tracking services to its subscribers in support of renewable portfolio standards and other disclosure requirements that may be implemented by governmental agencies. PJM EIS is not a FERC-regulated entity.

Tariff Cost Recovery

During 2021, 2020 and 2019, PJM recovered its administrative costs through a stated-rate mechanism under the Company's Open Access Transmission Tariff (Tariff). The composite stated rate under the Tariff was 38.7 cents, 37.8 cents and 36.9 cents per megawatt hour (MWh) in 2021, 2020 and 2019, respectively.

During 2021, 2020 and 2019, PJM Settlement recovered its administrative costs under a separate schedule under the Tariff.

On October 1, 2021, PJM filed a rate revision proposal with FERC requesting changes to the Tariff associated with how PJM recovers administrative costs of serving as an RTO. The filing proposed a change in the form of administrative cost recovery, moving from the practice of initial charges at stated rate levels with a varying quarterly refund to a new practice of monthly formula rates based on that month's costs and that month's billing determinants. Under this proposal, PJM will no longer require the accumulation of a financial reserve. The filing also proposed adding stated percentage values to the Tariff, assigning PJM's costs among service categories to consolidate two existing service categories and to bill for services provided by PJM Settlement based on the number of invoices issued per member. On December 1, 2021, FERC issued an order accepting PJM's proposed Tariff revisions effective January 1, 2022, subject to refund, hearing and settlement judge proceedings specific to the proposed PJM Settlement cost allocation. Settlement judge proceedings took place on January 11, 2022, February 3, 2022 and March 3, 2022.

SIGNIFICANT ACCOUNTING POLICIES

Preparation of the financial statements and related disclosures in compliance with generally accepted accounting principles (GAAP) in the United States requires the application of appropriate technical accounting rules and guidance, as well as the use of estimates. PJM's application of those principles involves judgments regarding many factors, which, in and of themselves, could materially affect the financial statements and disclosures. A future change in the assumptions or judgments applied in determining the following matters, among others, could have a material impact on future financial results: revenue recognition; net presentation of member activity; accounting for deferred recovery of pension and postretirement costs; accounting for deferred regulatory liability; benefit plan accounting; fixed asset capitalization; income tax accounting; and study and interconnection activity.

Net Presentation of Member Activity

The Company has determined that although PJM has flash title to pooled transactions through the wholly owned subsidiary, PJM Settlement, all activity for which PJM Settlement is the central counterparty should be recorded on a net basis. The Company's determination is based on these facts: (1) the member company, not PJM Settlement, is the primary obligor in each transaction; (2) PJM Settlement earns a fixed amount per transaction; and (3) the member company has the credit risk, not PJM Settlement. As such, the Company presents member activity for which PJM Settlement is the central counterparty, including accounts receivable, accounts payable, revenue and expense, on a net basis in its consolidated financial statements.

Deferred Recovery of Pension and Postretirement Costs

The Company recognizes the funding status of the projected benefit obligation (PBO) of its defined benefit pension plan and other postretirement employee benefit plan as liabilities in the Consolidated Statements of Financial Position. The PBO represents the actuarial present value of benefits attributable to employee service rendered to date, including the effects of estimated future salary increases. At December 31, 2021 and 2020, in addition to recording the underfunded PBO as a liability, PJM recorded a net regulatory asset to reflect the anticipated future recovery of the amounts expected to be funded in the future through the Company's rate structure. This net regulatory asset, which will be amortized each quarter as the net periodic benefit cost of the underfunded liability is recognized, was $47.5 million and $91.2 million at December 31, 2021 and 2020, respectively.

Deferred Regulatory Liability

During 2021, 2020 and 2019, PJM recovered administrative costs under a stated-rate mechanism that provided for the accumulation of a financial reserve. PJM was permitted to maintain a reserve as a deferred regulatory liability in an amount up to 6% of its annual stated-rate revenues, except that in every third year, the financial reserve was reduced to 2% of annual stated-rate revenues. The amount accumulated under the financial reserve provisions was classified as a non-current liability in the Company's Consolidated Statements of Financial Position. On a quarterly basis, PJM refunded the deferred regulatory liability balance in excess of the permitted financial reserve for the previous quarter. The quarterly refund rate was established after the financial close of each quarter, and refunds were distributed to the members on a prospective basis in the following quarter. During calendar years 2021, 2020 and 2019, PJM made refunds of $31.4 million, $41.4 million and $30.7 million, respectively.

On December 16, 2020, the FERC approved PJM's filed proposal requesting revisions to the Tariff to modify how PJM allocated the amount in PJM's deferred regulatory liability account that exceeds 6% of PJM's annual stated-rate revenues at the end of the calendar quarter. Effective November 1, 2020, PJM eliminated the previous refund allocation percentages and commenced allocation of refund amounts among administrative service categories that had cumulative revenues in excess of cumulative expense during a defined reference period.

For PJM Settlement, the deferred regulatory liability was defined in its rate schedule in the Tariff and was equal to revenues collected in excess of accrual-basis expenses. This balance was refunded quarterly. The quarterly refund rate was established after the financial close of each quarter, and refunds were distributed to the members on a prospective basis in the following quarter. The PJM Settlement rate schedule did not include a financial reserve element.

PJM recognized 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 differed from applicable expenses in the reporting period. The amount by which cumulative revenues under the rate schedules exceeded cumulative expenses and refunds was reported as a deferred regulatory liability in the Consolidated Statements of Financial Position. In circumstances in which revenues were less than expenses, PJM reduced the deferred regulatory liability with an offset to deferred regulatory income.

At December 31, 2020, the deferred regulatory liability was $17.7 million. The entirety of the December 31, 2020, balance was classified as non-current, representing the amount of PJM's reserve at December 31, 2020.

Under PJM's October 1, 2021, administrative rate proposal, accepted by FERC on December 1, 2021, with rates effective January 1, 2022, subject to refund, hearing and settlement judge proceedings, specific to the proposed PJM Settlement cost allocation, PJM will no longer require the accumulation of a financial reserve. At December 31, 2021, the deferred regulatory liability balance of $14.7 million represents the reserve accrued under stated rates. The balance is classified as current liability, to be refunded to members in the first quarter of 2022.

Benefit Plan Accounting

PJM accrues the costs of providing future employee benefits in accordance with the guidance of Employers' Accounting for Pensions and Postretirement Benefits Other than Pensions. Under this guidance, assumptions are made regarding the valuation of benefit obligations and performance of plan assets. Delayed recognition of differences between actual results and those assumed is a guiding principle of these standards. This approach allows for a relatively even recognition of the effects of changes in benefit obligations and plan performance over the working lives of the employees who benefit under the plans.

In addition to recognizing the underfunded or overfunded PBO of a defined benefit pension plan as an asset or a liability in the Consolidated Statements of Financial Position, PJM recognizes annual changes in gains or losses, prior service costs or other credits that have otherwise not been recognized as a part of the liability for pension benefits in the Consolidated Statements of Financial Position. A corresponding regulatory asset, deferred pension and postretirement costs, has been recognized in the Consolidated Statements of Financial Position.

PJM's selection of the discount rate, health care cost trend rate and expected rate of return on pension assets is based on its review of available current, historical and projected rates, as applicable.

In selecting the discount rate assumption for the PJM retirement plan at December 31, 2021, the Company used a method that matches projected payouts from the plan with a yield curve that was produced from a universe containing high quality corporate bonds, all of which have a fixed- or zero-coupon and are rated AA or equivalent, and excluding the 10% of the bonds with the highest yields and the 40% with the lowest yields. The discount rate was then developed as a level equivalent rate that would produce the same present value as would result using spot rates to discount the projected pension or postretirement benefit payments. Based on this analysis, at December 31, 2021, the discount rate for the PJM pension plan, PJM Supplemental Executive Retirement Plan (SERP) and PJM postretirement plan increased to 3.19%, 3.01% and 3.06%, respectively.

The results during 2021 for the PJM pension plan, SERP and PJM postretirement health care plan were derived using discount rates of 2.76%, 2.69% and 2.70%, respectively.

In selecting an expected return on plan assets, PJM considers past performance and economic forecasts for the types of investments held by the plans. The assumption for the expected rate of return on assets was 5.50% both during 2021 and at December 31, 2021. The assumption for the expected rate for which compensation will increase remained at 4.50% during 2021 and at December 31, 2021. In selecting health care cost trend rates, PJM considers past performance and forecasts of health care costs. The rate selected at December 31, 2021, for pre-65 plan participants was 5.39%, declining to 4.46% over the next 17 years. The rate selected at December 31, 2021, for post-65 plan participants was 5.55%, declining to 4.45% over the next 17 years.

During 2021, PJM expensed net periodic pension and other postretirement benefit costs of $15.3 million.

Fixed Asset Capitalization

PJM's fixed assets principally comprise software and capitalized software development costs, leasehold improvements, computer hardware and buildings. The costs incurred to acquire and develop computer software for internal use, including financing costs, are capitalized. However, costs incurred prior to the determination of feasibility of developed software and costs incurred following the in-service date of developed software are expensed. Fixed assets are depreciated or amortized using the straight-line method over the useful lives of the assets as follows:

Software and capitalized software development costs	3 to 10 years
Computer hardware	3 to 5 years
Vehicles	5 years
Furniture and fixtures	10 years
Leasehold improvements	10 to 15 years
Buildings	25 years

Income Tax Accounting

PJM has elected to be taxed as a corporation for both federal and state income tax purposes. PJM and its subsidiaries file a consolidated federal income tax return. The consolidated financial statements include prepaid income taxes, accrued income taxes and deferred income taxes. Prepaid income taxes relate to federal and state overpayments on deposit with taxing authorities. These overpayments will be applied to future federal and state income tax liabilities. Deferred income taxes represent the temporary differences between the Company's financial statement basis and tax basis in existing assets and liabilities measured using presently enacted tax rates. A valuation allowance has been provided against certain deferred tax assets for which management has concluded it is more likely than not the Company will be unable to recognize the income tax benefit associated with those future tax deductions.

Study and Interconnection Activity

Under the Tariff, PJM's transmission provider role is to direct the operation and coordinate the maintenance of the transmission system and indicate, based on studies conducted by PJM, necessary enhancements or modifications to the transmission system. The modifications that are performed on the transmission system, such as network upgrades and generation additions, are conducted principally by third-party vendors at the request of transmission customers. In its system planning capacity as a transmission service provider, PJM provides billing and collection services in the interconnection service agreement process. Billings and collections by PJM for work it performs on behalf of the counterparties to the specific interconnection agreements are reported on a net basis in the Consolidated Statements of Income, Comprehensive Income and Paid-in Capital, Retained Earnings and Accumulated Other Comprehensive Income (Loss).

RESULTS OF OPERATIONS FOR 2021, 2020 AND 2019

REVENUES

PJM's service fees increased $6.4 million, or 2%, to $326.2 million from 2020 to 2021. Service fees reflect slightly higher transmission volumes year over year and a 2.5% increase in the composite stated rate on January 1, 2021. Transmission volumes for 2021 were 821 terawatt-hours (TWhs) as compared with 800 TWhs for 2020.

PJM's service fees decreased $0.7 million, less than 1%, to $319.7 million from 2019 to 2020. Service fees reflect lower transmission volumes year over year, offset by a 2.5% increase in the composite stated rate on January 1, 2020, and increased bidding activity under the various PJM auctions. Transmission volumes for 2020 were 800 TWhs as compared to 823 TWhs for 2019.

Deferred regulatory income represents the change in PJM's deferred regulatory liability for the period, resulting from PJM's stated-rate Tariff service fees in excess of, or lower than, expenses. For the years ended December 31, 2021, 2020 and 2019, PJM recorded $28.4 million, $39.0 million and $26.5 million in deferred regulatory income, respectively. For each year, deferred regulatory income was a reduction to Operating Revenues.

Net income is derived from PJM's non-FERC regulated subsidiaries. Net income was $1.5 million, $2.1 million and $1.8 million for each of the years ended December 31, 2021, 2020 and 2019, respectively.

EXPENSES

Total expenses, excluding FERC fees, study and interconnection services, interest expense and income taxes, increased $16.9 million to $301.0 million in 2021 as compared to a decrease of $12.8 million in 2020. The increase in expenses in 2021 resulted primarily from an increase in compensation expense, due to COVID-19-related costs, higher head count period over period and normal merit increases reflected in 2021 results. The period over period increase also reflects an increase in benefit plan expense resulting from lower discount rates used to calculate 2021 pension and postretirement benefit expense.

Total expenses, excluding FERC fees, study and interconnection services, interest expense and income taxes, decreased $12.8 million to $284.1 million in 2020 as compared to an increase of $8.2 million in 2019. The decrease in expenses in 2020 resulted primarily from decreased compensation due to lower head count year over year and 2019 incremental costs associated with employee retirements that were one time in nature, decreased outside services attributable to lower building maintenance expense year over year, and decreased other expenses reflecting decreased travel, meeting and training expense resulting from COVID-19 restrictions.

For each of the years ended December 31, 2021, 2020 and 2019, outside services included amounts paid to PJM's independent auditor, PricewaterhouseCoopers LLP, totaling $1.0 million, which were predominantly for audits of the PJM Consolidated Financial Statements and examination of certain internal controls related to PJM's market settlements and associated information technology systems and processes.

Key information systems, system enhancements and capital investments completed by PJM in 2021 include:

- *Market System Enhancements:* Enhancing capacity markets, demand response, market coordination and Real-Time Markets
- *Operations and Planning System Enhancements:* Enhancing operations and planning applications, including the energy management system, dispatch interactive map application, forecasting applications, dispatcher tools and interconnection database and planning applications
- *Technology Infrastructure and Visualization:* Upgrading firewalls, servers, storage, network, dispatch video wall and telecommunications
- *Facilities Infrastructure:* Replacing cooling and lighting systems and enhancing work spaces for protocols associated with the COVID-19 pandemic
- *Information Technology:* Expanding the data tool for providing PJM members with markets and operations information and a dispatcher software tool refresh
- *Access Management:* Automating and enhancing PJM's applications used to monitor and grant user access to systems and facilities to ensure PJM meets compliance requirements and to gain operating efficiencies
- *Credit and Risk Monitoring:* Enhancements to credit monitoring and risk simulation tools

BILLINGS FOR SERVICES

PJM had approximately 1,060 members at December 31, 2021. The billings presented below are administered on behalf of the members; however, the associated receivables and payables are presented net in PJM's Consolidated Statements of Income, Comprehensive Income and Paid-in Capital, Retained Earnings and Accumulated Other Comprehensive Income (Loss). The only billings included in PJM's consolidated financial statements are PJM Scheduling, System Control and Dispatch, PJM Settlement and FERC annual charge recovery. For 2021, 2020 and 2019, settlements processed by PJM under the Tariff, Operating Agreement and Reliability Assurance Agreement, which is a non-GAAP measure, were as follows:

($ in millions)	2021 Amount Billed	2020 Amount Billed	2019 Amount Billed
Energy markets	$ 27,362	$ 14,551	$ 18,668
Capacity	9,446	7,466	8,989
Network transmission service	9,039	8,232	7,436
Transmission congestion	2,664	1,363	1,625
Transmission enhancement	1,750	1,568	1,449
Transmission losses	1,215	642	865
FTR auction revenues	1,090	1,126	1,281
Reactive supply	367	353	311
PJM scheduling, system control and dispatch (operating expense reimbursement, net of stated-rate refunds)	286	270	290
Operating reserves	177	90	79
Point-to-point transmission service	157	149	77
Regulation Market	144	77	91
FERC annual charge recovery	78	63	63
Synchronized Reserve Market	74	33	44
RTO scheduling, system control and dispatch (transmission owners' control center expenses)	70	69	68
Black Start Service	68	65	65
Distribution facilities	60	63	63
ReliabilityFirst Corporation (RFC)	17	17	16
Miscellaneous	12	13	12
Monitoring Analytics, LLC	11	12	10
North American Electric Reliability Corporation (NERC)	11	11	11
Day-Ahead Scheduling Reserve Market	10	13	18
PJM Settlement	9	9	9
Midcontinent Independent System Operator Transmission Expansion Planning (MTEP) cost recovery	7	7	7
Inadvertent interchange	4	3	2
Organization of PJM States, Inc. (OPSI) fees	1	1	1
Load response program	1	–	2
Reactive services	1	–	1
Member default allocation assessments	–	20	74
Generation deactivation	–	–	17
Expansion cost recovery and RTO startup cost recovery	–	1	2
Consumer Advocates of PJM States, Inc. (CAPS) fees	–	–	–
Total	**$ 54,131**	**$ 36,287**	**$ 41,696**

In 2021, PJM changed the methodology for calculating gross billing of market activity, a non-GAAP measure. Prior periods were revised for consistency with 2021 disclosure.

LIQUIDITY AND CAPITAL RESOURCES

PJM maintains with PNC Bank (PNC) a FERC-approved revolving line of credit agreement with a capacity amount of $200 million. PJM received approval from FERC, on May 27, 2021, to continue to borrow under this facility through May 31, 2023. The revolving line of credit is unsecured and available to fund short-term cash obligations. At December 31, 2021, there were no outstanding borrowings under the revolving credit agreement.

On June 28, 2018, FERC approved PJM's application to refinance the Company's existing bank loan with 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 December 31, 2021, the outstanding borrowings under the term loan were $10.8 million. PJM is expected to make $2.9 million of principal payments during 2022.

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

At December 31, 2021, PJM and PJM Settlement were assigned an Aa2 issuer rating by Moody's Investors Service.

For study and interconnection work performed, PJM obtains liquid collateral from the transmission customer for the estimated costs of the transmission system modifications. PJM's study and interconnection receivables comprise billings to transmission customers for services performed under these interconnection service agreements. PJM's study and interconnection payables represent amounts due to the transmission owners for services performed under these interconnection service agreements. PJM held deposits related to study and interconnection activity totaling $344.5 million and $214.6 million at December 31, 2021, and 2020, respectively.

PJM Settlement requires deposits from various parties in connection with services to be performed or as collateral for market activity. PJM Settlement held credit deposits of $2,179.4 million and $1,586.7 million at December 31, 2021, and 2020, respectively. These deposits are maintained in separate cash accounts that are not legally restricted. At December 31, 2021, PJM Settlement also held approximately $2.5 billion in letters of credit as collateral for market activity.

For 2022, PJM's Board of Managers has approved a capital budget of $43 million. These capital expenditures will be used for application replacements, system reliability applications, new products and services for PJM's membership, risk management and interregional coordination. Actual expenditures may differ from these amounts as PJM continues to assess its capital needs.

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.

CONTINGENCIES AND RECENT REGULATORY ACTIONS

Third-Party Relationships

PJM engages third parties as suppliers in arrangements to provide services in areas other than core competencies to ensure the service and support of members and timely product development. Although PJM seeks to establish strong working relationships with parties that share PJM's industry goals and have adequate resources to fulfill their responsibilities, these relationships lead to a number of risks. These suppliers may suffer financial or operational difficulties that may affect their performance, which could lead to delays in product development or timely completion of projects. Also, major companies from which PJM purchases components or services may be competitors in other areas, which could affect pricing, new product development or future performance. Finally, difficulties in coordinating activities may lead to gaps in delivery and performance of PJM services.

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. During 2021, approximately 60% of PJM's operating expenses were billed to approximately 17 of its members. PJM had approximately 1,060 members at year-end 2021. In the event of a default of any PJM members, PJM has the right to bill the remaining PJM members a ratable portion of the operating expenses previously billed to the defaulting member.

In accordance with PJM's credit policy, PJM obtains collateral from certain members in order to secure their credit positions. The collateral can be in the form of a cash deposit or letter of credit. Corporate guaranties are also accepted from creditworthy affiliates to fulfill certain credit requirements.

PJM continues to implement significant FTR credit policy enhancements, including adoption of mark-to-auction provisions in April 2019 and a December 2021 initial margining filing with FERC. At December 31, 2021, 309 members are FTR holders related to 5.1 million MWh. The estimated fair value of the FTR portfolio at December 31, 2021, under a mark-to-auction model, was $1.2 billion. PJM held $2.5 billion in collateral related to these FTR transactions. The collateral is based on the calculated net value of the positions held in each member's FTR portfolio. The collateral can be in the form of cash or a letter of credit.

Other Items

Credit Matter – GreenHat Energy, LLC (GreenHat)

On June 21, 2018, GreenHat 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. The $179.6 million aggregate payment default of GreenHat, net of collateral held, has been billed to the non-defaulting members in accordance with the default allocation assessment formula in the PJM Operating Agreement. Those default allocation billings and payments continued through the end of the current planning year, which ended on May 31, 2021.

On November 5, 2021, FERC issued an order finding that GreenHat engaged in energy market manipulation by engaging in a manipulative scheme in the FTR market operated by PJM in violation of the Federal Power Act, FERC's regulations and PJM's Tariff and Operating Agreement. FERC ordered the assessment of civil penalties against GreenHat and its principals in the amount of $229.6 million and disgorgement of profits in the amount of $13.1 million. On January 6, 2022, FERC filed a complaint in the U.S. District Court for the Eastern District of Pennsylvania to enforce its $242 million fraud penalties against GreenHat. Any recovery by PJM will be distributed to Members to offset default allocation assessments.

On January 6, 2022, PJM filed a complaint in California state court, PJM v. Estate of Andrew Kittel, in order to preserve its rights to recover any dollars from the Kittel estate. The Commission is proceeding in parallel. On January 6, 2022, the Commission filed a complaint in the federal U.S. District Court, FERC v. GreenHat Energy, LLC, to enforce its $242 million fraud penalties against GreenHat Energy.

Credit Matter – Hill Energy Resource & Services (Hill Energy)

On January 11, 2022, PJM declared a PJM member and FTR market participant, Hill, in default on its obligations to comply with a collateral call in the amount of $0.9 million under PJM's credit policies. PJM placed the portfolio in default in accordance with PJM's credit rules and policies. As of March 1, 2022, PJM holds $2.5 million in collateral while assessing the total potential exposure of Hill's defaulted portfolio, which includes FTR positions through May 2025.

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 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 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 January 19, 2022, the Circuit Court issued an order affirming on appeal the judgment of the District Court granting PJM's motion to dismiss ODEC's claims for costs allegedly incurred during the January 2014 Polar Vortex. The Circuit Court agreed with the District Court 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. Therefore, the judgment of the District Court denying remand and dismissing ODEC claims with prejudice is affirmed.

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 December 2, 2021, FERC issued an Order Clarifying Resettlement Obligations in response to PJM's and Com-Ed's May 18, 2020 rehearing request. In this Order, FERC found: (1) that Radford is not entitled to ICTRs in the 2016 Base Residual Auction for the 2019/2020 Delivery Year; (2) rejected PJM's 2020 compliance filing in part; and (3) directed PJM to resettle the ICTR payments for the 2019/2020 Delivery Year. As a result, PJM will resettle the approximately $9.9 million of ICTR payments for the 2019/2020 Delivery Year reversing the payments given to Radford Run and giving it back to the Com-Ed Load Serving Entities. January 3, 2022, was the deadline for rehearing of the December 2, 2021, Order and no rehearing requests or petitions for review were filed. Accordingly, FERC's proceedings on the case have been completed.

Illinois Municipal Electric Agency v. PJM Complaint

On May 28, 2021, Illinois Municipal Electric Agency (IMEA) filed a complaint (IMEA Complaint) at FERC against PJM. The IMEA Complaint seeks to compel PJM to apply the full allocation of 1,097 MW of ICTRs from IMEA's Upgrade Construction Service Agreement without proration in the 2021/2022 Delivery Year and future Delivery Years contrary to the Tariff. On January 20, 2022, FERC issued an order dismissing the IMEA Complaint. FERC found that PJM correctly interpreted the Tariff, and that the requested relief would unjustly and unreasonably result in load overpaying for congestion.

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PJM 2021 FINANCIAL REPORT

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The management of PJM Interconnection, L.L.C. is responsible for the preparation and objectivity of the following consolidated financial statements and for their integrity. These financial statements have been prepared to conform to accounting principles generally accepted in the United States of America and, where required, include amounts that represent management's best judgments and estimates. PJM's management is responsible for the preparation of other information in this annual report and for its accuracy and consistency with the financial statements.

PJM has established a system of internal accounting and financial controls and procedures designed to provide reasonable assurance as to the integrity and reliability of financial reporting. Management continually reviews the effectiveness and efficiency of this system and takes actions when opportunities for improvement are identified.

This system includes a separate Internal Audit Department, which monitors internal controls and reports directly to the Risk and Audit Committee of the Board of Managers. Management views the purpose of internal auditing to be an independent examination and assessment of PJM's activities related to compliance with policy, procedures and the law, as well as safeguarding of assets. The Risk and Audit Committee meets with management, internal auditors and the independent auditors on a regular basis to review financial information, internal controls and the internal audit process.

PJM's independent auditors, PricewaterhouseCoopers LLP, are engaged to conduct an independent audit of PJM's consolidated financial statements in accordance with generally accepted auditing standards promulgated by the American Institute of Certified Public Accountants.

Manu Asthana
President and Chief Executive Officer

Lisa M. Drauschak
Vice President, Chief Financial Officer and Treasurer

REPORT OF INDEPENDENT AUDITORS

To the Management and the Board of Managers of PJM Interconnection, L.L.C.:

Opinion

We have audited the accompanying consolidated financial statements of PJM Interconnection, L.L.C. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income and paid-in capital, retained earnings and accumulated other comprehensive income (loss), and of cash flows for each of the three years in the period ended December 31, 2021, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021 in accordance with accounting principles generally accepted in the United States of America.

Basis For Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises Management's Discussion & Analysis and Management's Responsibility for Financial Reporting Letter, but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

PricewaterhouseCoopers LLP

Philadelphia, PA
March 7, 2022

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($ in thousands)	2021	2020
Assets		
Current assets:		
Deposits on hand	$ 2,523,941	$ 1,801,300
Operating cash	117,237	103,081
Receivables	25,930	25,229
Study and interconnection receivables	33,567	14,752
Prepaid income taxes	6,036	35
Prepaid expenses and other	11,343	13,120
Deferred FERC fees	–	2,700
Note receivable	2,771	2,697
	2,720,825	1,962,914
Non-current assets:		
Fixed assets, net of accumulated depreciation and amortization of $783,618 and $748,058	95,263	87,281
Land	1,420	1,420
Projects in development	44,786	53,376
Deferred recovery of pension and postretirement costs	47,478	91,238
Deferred income taxes, net of valuation allowance	31,565	34,478
Prepaid expenses and other	2,361	3,477
Note receivable	2,660	3,548
Other	26,978	26,117
	252,511	300,935
Total assets	$ 2,973,336	$ 2,263,849
Liabilities, paid-in capital, retained earnings and accumulated other comprehensive income		
Current liabilities:		
Accounts payable and accrued expenses	$ 30,458	$ 36,759
Due to members	154,486	151,315
Study and interconnection payables	36,744	15,505
Accrued payroll and benefits	37,156	37,599
Accrued income taxes	–	1,336
Current portion of long-term debt	2,886	2,886
Current portion of capital lease	1,941	1,860
Deferred FERC fees	5,782	–
Deferred regulatory liability	14,700	–
Deferred revenue	3,442	3,423
Postretirement health care benefits liability	1,775	1,548
Other employee benefits	325	288
Deposits	2,523,941	1,801,300
	2,813,636	2,053,819
Non-current liabilities:		
Long-term debt	7,935	10,821
Long-term capital lease	9,484	11,425
Deferred regulatory liability	–	17,742
Interest rate swap	425	896
Pension benefits liability	36,647	63,709
Postretirement health care benefits liability	59,321	62,700
Other employee benefits	31,412	29,736
	145,224	197,029
Total liabilities	2,958,860	2,250,848
Commitments and contingencies (Note 11)		
Paid-in capital	722	722
Retained earnings	13,680	12,205
Accumulated other comprehensive income	74	74
Total paid-in capital, retained earnings and accumulated other comprehensive income	14,476	13,001
Total liabilities, paid-in capital, retained earnings and accumulated other comprehensive income	$ 2,973,336	$ 2,263,849

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

CONSOLIDATED STATEMENTS OF INCOME, COMPREHENSIVE INCOME AND PAID-IN CAPITAL, RETAINED EARNINGS AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

($ in thousands)	**2021**	**2020**	**2019**
Income			
Operating revenue:			
Service fees	$ 326,152	$ 319,718	$ 320,410
Deferred regulatory income	(28,404)	(39,049)	(26,510)
FERC fees reimbursement	72,065	65,309	62,395
Study and interconnection fees	6,055	5,585	4,323
Membership fees	3,471	3,516	3,602
Other	3,270	3,741	4,523
Total operating revenue	382,609	358,820	368,743
Operating expenses:			
Compensation	153,643	145,378	150,043
FERC fees	72,065	65,309	62,395
Outside services	56,153	55,560	59,932
Depreciation and amortization	35,619	35,459	37,192
Software licenses and fees	20,378	20,049	19,466
Other expenses	9,895	8,853	10,243
Pension benefits – service cost	15,015	11,182	9,924
Computer maintenance and office supplies	7,941	7,699	8,233
Study and interconnection services	6,055	5,585	4,323
Lease expenses	2,039	2,096	1,959
Postretirement health care benefits – service cost	2,121	1,795	1,493
Total operating expenses	380,924	358,965	365,203
Operating income (loss)	1,685	(145)	3,540
Other income:			
Interest income	1,029	5,879	33,123
Interest expense	(502)	(6,456)	(34,329)
Pension and postretirement health care benefits (benefit) – other components of net benefit cost	1,813	3,899	1,468
Total other income	2,340	3,322	262
Income before income taxes	4,025	3,177	3,802
Income tax expense	2,550	1,101	1,959
Net income	$ 1,475	$ 2,076	$ 1,843
Other comprehensive income (loss): Unrealized gain (loss) on securities, net	–	91	(978)
Comprehensive income, net	$ 1,475	$ 2,167	$ 865
Paid-in capital, retained earnings and accumulated other comprehensive income (loss)			
Beginning balance	$ 13,001	$ 10,834	$ 9,969
Net income	1,475	2,076	1,843
Other comprehensive income (loss)	–	91	(978)
Ending balance	$ 14,476	$ 13,001	$ 10,834

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in thousands)	2021	2020	2019
Cash flows provided by operating activities:			
Net income	$ 1,475	$ 2,076	$ 1,843
Adjustments:			
Depreciation and amortization expense	35,619	35,459	37,192
Deferred income taxes, net of valuation allowance	2,913	(5,185)	(2,862)
Deferred recovery of pension and postretirement costs	43,760	(58,242)	(2,904)
Deferred regulatory liability	28,401	39,049	26,497
Employee benefit expense (less than) greater than funding	(28,501)	54,650	15,257
Net fair value changes related to interest rate swap	(471)	248	323
Changes in assets and liabilities:			
(Increase) decrease in receivables	(701)	31,961	(17,496)
(Increase) decrease in study and interconnection receivables	(18,815)	2,582	(7,877)
Decrease (increase) in prepaid expenses and other	172	(5,301)	(9,711)
Change in deferred FERC fee position	8,482	(3,968)	1,268
(Increase) decrease in prepaid income taxes	(6,001)	(19)	2,465
(Decrease) increase in accounts payable and accrued expenses	(5,976)	(68)	3,198
(Decrease) increase in accrued income taxes	(1,336)	(25)	1,361
Increase (decrease) in study and interconnection payables	21,239	(2,397)	8,655
(Decrease) increase in accrued payroll and benefits	(443)	(856)	10,072
Increase (decrease) in deferred revenue	19	(85)	65
Refunds to members	(31,443)	(41,355)	(30,685)
Net cash provided by operating activities	48,393	48,524	36,661
Cash flows (used in) investing activities:			
Cost of projects in development	(35,336)	(39,896)	(41,147)
Note receivable	814	(3,107)	(802)
Net cash (used in) investing activities	(34,522)	(43,003)	(41,949)
Cash flows provided by (used in) financing activities:			
Borrowings under line of credit	1,985,973	967,715	498,557
Repayments under line of credit	(1,985,973)	(967,715)	(498,557)
Repayments of long-term debt	(2,886)	(2,886)	(2,886)
Increase (decrease) in due to members	3,171	48,817	(302,482)
Increase in deposits	722,641	203,416	97,090
Net cash provided by (used in) financing activities	722,926	249,347	(208,278)
Net increase (decrease) in cash and cash equivalents	736,797	254,868	(213,566)
Cash and cash equivalents balance (including customer deposits), beginning of year	1,904,381	1,649,513	1,863,079
Cash and cash equivalents balance (including customer deposits), end of year	$ 2,641,178	$ 1,904,381	$ 1,649,513
Cash paid during the year for:			
Interest	$ 554	$ 609	$ 787
Income taxes	7,374	6,838	784
Noncash activity:			
Projects in development additions included in ending accounts payable and accrued expenses	$ 325	$ 921	$ 588

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021

($ in tables in thousands, unless otherwise noted)

1. COMPANY OVERVIEW

Background

PJM Interconnection, L.L.C. (PJM or the Company) is a Regional Transmission Organization (RTO) responsible for the operation of wholesale electric markets and for centrally dispatching electric systems in the PJM region. PJM's services and the markets PJM operates are subject to regulation by the Federal Energy Regulatory Commission (FERC).

PJM is a limited liability, non-stock company incorporated in the state of Delaware. PJM's Board of Managers is constituted as an independent body, and PJM operates independently from its members.

Nature of Operations

The Company currently coordinates a pooled generating capacity of more than 185,442 megawatts (MW) and operates wholesale electricity markets with approximately 1,060 members. PJM enables the delivery of electric power to more than 65 million people in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.

PJM manages a sophisticated regional planning process for generation and transmission expansion to ensure continued reliability of the electric system. Using information technology, PJM provides real-time information to market participants to support their daily transactions and business decision-making. In addition to ensuring the reliable supply of electricity, PJM administers internet-based bid markets in which participants buy and sell day-ahead and spot-market energy, Financial Transmission Rights (FTRs), synchronized reserves and regulation services.

PJM Settlement, Inc. (PJM Settlement) is a wholly owned subsidiary of PJM, organized as a Pennsylvania nonprofit corporation, and is a FERC-regulated entity. PJM Settlement was formed to handle all of the credit, billing and settlement functions for PJM's members' transactions in the PJM markets and for transmission service. PJM Settlement acts as a counterparty to members' pool transactions in the PJM markets. For the pool transactions in the PJM markets, flash title passes through PJM Settlement immediately prior to passing to the ultimate buyer and seller of the product. This arrangement reinforces PJM's authority to continue to net a member's offsetting financial positions in PJM markets for credit and billing purposes, provides clarity in PJM Settlement's legal standing to pursue collection from a bankrupt member and complies with FERC's recommendation on credit policy requirements for competitive wholesale electricity markets.

PJM Connext, L.L.C (PJM Connext) is a wholly owned subsidiary of PJM and is not a FERC-regulated entity. PJM Connext was formed to provide service and technology solutions to existing and emerging energy markets, system operators, RTOs and other entities.

PJM Technologies, Inc. (PJM Tech) is a wholly owned subsidiary of PJM Connext and is not a FERC-regulated entity. PJM Tech provides international consulting services including training, program planning and implementation advice regarding development of wholesale electric market design and market rules.

PJM Environmental Information Services, Inc. (PJM EIS) is a wholly owned subsidiary of PJM Connext formed to provide environmental and emissions attributes reporting and tracking services to its subscribers in support of renewable portfolio standards and other disclosure requirements that may be implemented by governmental agencies. PJM EIS is not a FERC-regulated entity.

Tariff Cost Recovery

During 2021, 2020 and 2019, PJM recovered its administrative costs through a stated-rate mechanism under the Company's Open Access Transmission Tariff (Tariff). The composite stated rate under the Tariff was 38.7 cents, 37.8 cents and 36.9 cents per megawatt hour (MWh) in 2021, 2020 and 2019, respectively.

During 2021, 2020 and 2019, PJM Settlement recovered its administrative costs under a separate schedule under the Tariff.

Summary of Service Fees

	2021	2020	2019
PJM stated-rate revenues	$ 317,546	$ 311,105	$ 311,588
PJM Settlement revenues	8,606	8,613	8,822
Total service fees	**$ 326,152**	**$ 319,718**	**$ 320,410**

On October 1, 2021, PJM filed a rate revision proposal with FERC requesting changes to the Tariff associated with how PJM recovers administrative costs of serving as an RTO. The filing proposed a change in the form of administrative cost recovery, moving from the practice of initial charges at stated rate levels with a varying quarterly refund to a new practice of monthly formula rates based on that month's costs and that month's billing determinants. Under this proposal, PJM will no longer require the accumulation of a financial reserve. The filing also proposed adding stated percentage values to the Tariff, assigning PJM's costs among service categories to consolidate two existing service categories and to bill for services provided by PJM Settlement based on the number of invoices issued per member. On December 1, 2021, FERC issued an order accepting PJM's proposed Tariff revisions effective January 1, 2022, subject to refund, hearing and settlement judge proceedings specific to the proposed PJM Settlement cost allocation. Settlement judge proceedings took place on January 11, 2022, February 3, 2022 and March 3, 2022.

COVID-19 Pandemic

Spread of the COVID-19 pandemic 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SELECTED FINANCIAL INFORMATION

Accounting Standards Not Yet Adopted

Leases

In February 2016, the Financial Accounting Standards Board (FASB) issued new guidance related to lease accounting. The key objective of the new standard is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). For income statement purposes, a dual model has been retained, with leases to be designated as operating leases or finance leases. Expenses will be recognized on a straight-line basis for operating leases and a front-loaded basis for finance leases. This standard became effective on January 1, 2022, and the Company is currently evaluating the effect of the new standard on the Company's Consolidated Statements of Financial Position; Consolidated Statements of Income, Comprehensive Income and Paid-in Capital, Retained Earnings and Accumulated Other Comprehensive Income (Loss); and Consolidated Statements of Cash Flows.

Rate Reference Reform

In March 2020, the FASB issued guidance addressing the potential accounting burden expected when global capital markets move away from the London Interbank Offered Rate (LIBOR) as a benchmark interest rate. The guidance provides optional expedients and exceptions for contract modifications and hedging relationships that reference LIBOR or another reference rate expected to be discontinued. The new standard is effective from issuance through December 31, 2022. The Company is currently evaluating the effect of the new standard on the Company's Consolidated Statements of Financial Position; Consolidated Statements of Income, Comprehensive Income and Paid-in Capital, Retained Earnings and Accumulated Other Comprehensive Income (Loss); and Consolidated Statements of Cash Flows.

Significant Accounting Policies

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 (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 requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying disclosures. The following accounting policies are particularly important to PJM's financial position or results of operations, and some require estimates or other judgments of matters of uncertainty. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the financial statements. These estimates are based on management's best knowledge of current events and actions the Company may undertake in the future.

Net Presentation of Member Activity

The Company has determined that although PJM has flash title to pooled transactions through its wholly owned subsidiary PJM Settlement, all activity for which PJM Settlement is the central counterparty should be recorded on a net basis. The Company's determination is based on these facts: (1) the member company, not PJM Settlement, is the primary obligor in each transaction; (2) PJM Settlement earns a fixed amount per transaction; and (3) the member company has the credit risk, not PJM Settlement. As such, the Company presents member activity for which PJM Settlement is the central counterparty, including accounts receivable, accounts payable, revenue and expense, on a net basis in its consolidated financial statements.

Lease Transactions

The Company accounts for lease transactions as either capital leases or operating leases, depending on the terms of the underlying lease agreements.

Assets leased under a capital lease are recorded at cost, which is the net present value of the future lease payments. Such assets are included in fixed assets in the Company's Consolidated Statements of Financial Position and depreciated using the straight-line method over the shorter of the lease term or estimated useful lives. The aggregate lease payments are recorded as a capital lease obligation, net of interest charges as determined by the excess of lease payments over the cost of the leased asset. This implicit interest cost is charged to expense over the lease term using the effective interest rate method.

The lease payments under an operating lease are recognized as current expenses on an accrual basis over the term of the lease agreement.

Study and Interconnection Activity

Under the Tariff, PJM's transmission provider role is to direct the operation and coordinate the maintenance of the transmission system and indicate, based on studies conducted by PJM, necessary enhancements or modifications to the transmission system. The modifications that are performed on the transmission system, such as network upgrades and generation additions, are conducted principally by third-party vendors at the request of transmission customers. In its system planning capacity as a transmission service provider, PJM provides billing and collection services in the interconnection service agreement process. Billings and collections by PJM for work it performs on behalf of the counterparties to the specific interconnection agreements are reported on a net basis in the Consolidated Statements of Income, Comprehensive Income and Paid-in Capital, Retained Earnings and Accumulated Other Comprehensive Income (Loss).

Cash Equivalents

Highly liquid investments with maturities of three months or less when purchased are considered cash equivalents.

Concentration of Credit Risk

Financial instruments that subject PJM to credit risk consist primarily of accounts receivable relating to monthly service fee billings. As provided in PJM's Operating Agreement, members are required either to maintain approved credit ratings or to post specified financial security to obtain credit within the PJM markets. During 2021, approximately 60% of PJM's operating expenses were billed to approximately 17 of its members. PJM had approximately 1,060 members at year-end 2021.

Under the terms of the PJM Operating Agreement, any payment defaults may be billed to and collected from PJM's other member companies.

Fixed Asset Capitalization

PJM's fixed assets principally comprise software and capitalized software development costs, leasehold improvements, computer hardware and buildings. The costs incurred to acquire and develop computer software for internal use, including financing costs, are capitalized. However, costs incurred prior to the determination of feasibility of developed software and costs incurred following the in-service date of developed software are expensed. Fixed assets are depreciated or amortized using the straight-line method over the useful lives of the assets as follows:

Software and capitalized software development costs	3 to 10 years
Computer hardware	3 to 5 years
Vehicles	5 years
Furniture and fixtures	10 years
Building and leasehold improvements	10 to 15 years
Buildings	25 years

Deferred Recovery of Pension and Postretirement Costs

The Company recognizes the funding status of the projected benefit obligation (PBO) of its defined benefit pension plan and other postretirement employee benefit plan as liabilities in the Consolidated Statements of Financial Position. The PBO represents the actuarial present value of benefits attributable to employee service rendered to date, including the effects of estimated future salary increases. At December 31, 2021 and 2020, in addition to recording the underfunded PBO as a liability, PJM recorded a net regulatory asset to reflect the anticipated future recovery of the amounts expected to be funded in the future through the Company's rate structure. This net regulatory asset, which will be amortized each quarter as the net periodic benefit cost of the underfunded liability is recognized, was $47.5 million and $91.2 million at December 31, 2021 and 2020, respectively.

Deferred FERC Fees and Deferred FERC Fee Asset/Liability

FERC charges an annual assessment to all public utilities based on kilowatt hours of interstate transmission service provided. PJM recovers from its members the annual charges from FERC. At December 31, 2021, PJM had a $5.8 million deferred FERC fee liability that resulted from over-collections during 2021 and will be netted into amounts billed to PJM's members during 2022. At December 31, 2020, PJM had a $2.7 million deferred FERC fee asset. This asset represents the difference between amounts collected from PJM members and amounts ultimately assessed by FERC during the year and is a factor considered in determining the FERC fee charges billed to PJM members during the subsequent year.

Deferred Regulatory Liability

During 2021, 2020 and 2019, PJM recovered administrative costs under a stated-rate mechanism that provided for the accumulation of a financial reserve. PJM was permitted to maintain a reserve as a deferred regulatory liability in an amount up to 6% of its annual stated-rate revenues, except that in every third year, the financial reserve was reduced to 2% of annual stated-rate revenues. The amount accumulated under the financial reserve provisions was classified as a non-current liability in the Company's Consolidated Statements of Financial Position. On a quarterly basis, PJM refunded the deferred regulatory liability balance in excess of the permitted financial reserve for the previous quarter. The quarterly refund rate was established after the financial close of each quarter, and refunds were distributed to the members on a prospective basis in the following quarter. During calendar years 2021, 2020 and 2019, PJM made refunds of $31.4 million, $41.4 million and $30.7 million, respectively.

On December 16, 2020, the FERC approved PJM's filed proposal requesting revisions to the Tariff to modify how PJM allocated the amount in PJM's deferred regulatory liability account that exceeds 6% of PJM's annual stated-rate revenues at the end of the calendar quarter. Effective November 1, 2020, PJM eliminated the previous refund allocation percentages and commenced allocation of refund amounts among administrative service categories that had cumulative revenues in excess of cumulative expense during a defined reference period.

For PJM Settlement, the deferred regulatory liability was defined in its rate schedule in the Tariff and was equal to revenues collected in excess of accrual-basis expenses. This balance was refunded quarterly. The quarterly refund rate was established after the financial close of each quarter, and refunds were distributed to the members on a prospective basis in the following quarter. The PJM Settlement rate schedule did not include a financial reserve element.

PJM recognized 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 differed from applicable expenses in the reporting period. The amount by which cumulative revenues under the rate schedules exceeded cumulative expenses and refunds was reported as a deferred regulatory liability in the Consolidated Statements of Financial Position. In circumstances in which revenues were less than expenses, PJM reduced the deferred regulatory liability with an offset to deferred regulatory income.

At December 31, 2020, the deferred regulatory liability was $17.7 million. The entirety of the December 31, 2020, balance was classified as a non-current liability, representing the amount of PJM's reserve at December 31, 2020.

Under PJM's October 1, 2021, administrative rate proposal, accepted by FERC December 1, 2021, with rates effective January 1, 2022, subject to refund, hearing and settlement judge proceedings, specific to the proposed PJM Settlement cost allocation, PJM will no longer require the accumulation of a financial reserve.

At December 31, 2021, the deferred regulatory liability balance of $14.7 million represents the reserve accrued under stated rates. The balance is classified as current liability, to be refunded to members in the first quarter of 2022.

Deferred Revenue

PJM membership fees, which are billed and collected in advance of the year for which they apply, are amortized ratably over the related annual membership period.

Deposits

At December 31, 2021, the deposits balance comprised $344.5 million received for study and interconnection fees and $2,179.4 million for customer credit. At December 31, 2020, PJM held deposits of $214.6 million for study and interconnection fees and $1,586.7 million for customer credit. These deposits are maintained in separate cash accounts that are not legally restricted.

Income Tax Accounting

PJM has elected to be taxed as a corporation for both federal and state income tax purposes. PJM and its subsidiaries file a consolidated federal income tax return. The consolidated financial statements include prepaid income taxes, accrued income taxes and deferred income taxes. Prepaid income taxes relate to federal and state overpayments on deposit with taxing authorities. These overpayments will be applied to future federal and state income tax liabilities. Deferred income taxes represent the temporary differences between the Company's financial statement basis and tax basis in existing assets and liabilities measured using presently enacted tax rates. A valuation allowance has been provided against certain deferred tax assets for which management has concluded it is more likely than not the Company will be unable to recognize the income tax benefit associated with those future tax deductions.

Fair Values of Financial Instruments

The carrying amounts reported in the Consolidated Statements of Financial Position for current financial assets and liabilities generally approximate their fair values.

Benefit Plan Accounting

PJM accrues the costs of providing future employee benefits based on assumptions made regarding the valuation of benefit obligations and performance of plan assets. Delayed recognition of differences between actual results and those assumed allows for a relatively even recognition of the effects of changes in benefit obligations and plan performance over the working lives of the employees who benefit under the plans.

In addition to recognizing the underfunded or overfunded PBO of a defined benefit pension plan as an asset or liability in the Consolidated Statements of Financial Position, PJM recognizes annual changes in gains or losses, prior service costs or other credits that have otherwise not been recognized as a part of the liability for pension benefits in the Consolidated Statements of Financial Position. A corresponding net regulatory asset, deferred recovery of pension and postretirement costs, has been recognized as a non-current asset in the Consolidated Statements of Financial Position.

PJM's selection of the discount rate, health care cost-trend rate and expected rate of return on assets is based on its review of available current, historical and projected rates, as applicable.

Derivatives

PJM has one interest rate swap that qualifies as a derivative instrument. The Company accounts for this derivative as either an asset or liability at fair value in the Consolidated Statements of Financial Position with changes in fair value recorded through earnings. Refer to Note 7 for additional details related to PJM's interest rate swap.

Revenue Recognition

PJM recognizes as revenue amounts both billed and unbilled under PJM and PJM Settlement's Tariff rate schedules.

Revenues recorded as study and interconnection fees arise from billing and collection services in the interconnection service agreement process performed by PJM. These revenues are presented on a gross basis in the Company's Consolidated Statements of Income, Comprehensive Income and Paid-in Capital, Retained Earnings and Accumulated Other Comprehensive Income (Loss), and are offset directly by the corresponding interconnection expenses.

PJM Connext, PJM Tech and PJM EIS recognize as revenues amounts both billed and unbilled.

Subsequent Events

PJM has performed an evaluation of subsequent events through March 7, 2022, which is the date the consolidated financial statements were issued.

3. 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 Tariff.

	2021	2020
PJM stated-rate revenues		
Control area administration service	$ 185,721	$ 176,473
Market support service	82,689	83,273
FTR administration service	31,076	33,567
Capacity resource and obligation management service	15,256	15,048
Regulation and frequency response	2,804	2,744
	317,546	311,105
PJM Settlement service fees	8,606	8,613
Total service fees	**$ 326,152**	**$ 319,718**

For the years ended December 31, 2021, and 2020, PJM Connext recorded consolidated revenue of $3.8 million and $3.7 million, respectively, which is included in membership fees and other operating revenue in the Consolidated Statements of Income, Comprehensive Income and Paid-in Capital, Retained Earnings and Accumulated Other Comprehensive Income (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. At both December 31, 2021, and 2020, balances of deferred revenue resulting from contracts with customers were $3.4 million. During both 2021 and 2020, PJM recognized $3.5 million of revenue for PJM membership fees.

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

PJM's receivables balance at December 31, 2021, included $11.5 million of unbilled service fees, net of refunds to members, $13.8 million of unbilled PJM recovery of pass-through charges and $0.6 million of billed PJM Connext receivables. PJM's receivables balance at December 31, 2020, included $22.0 million of unbilled service fees, net of refunds to members, $14.8 million of unbilled PJM recovery of pass-through charges, $0.8 million of billed PJM Connext receivables and $0.4 million of default allocation assessments, offset by $12.7 million of member refunds associated with FERC orders requiring refunds and reallocations.

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 December 31, 2021.

4. FIXED ASSETS

A summary of fixed assets by classification as of December 31, 2021 and 2020, follows:

	2021	2020
Buildings	$ 18,812	$ 18,812
Leasehold improvements	69,246	68,369
Capitalized lease	25,889	25,889
Software development	598,178	570,422
Computer hardware	160,708	145,799
Furniture and fixtures	5,866	5,866
Vehicles	182	182
Subtotal	878,881	835,339
Accumulated depreciation and amortization	(783,618)	(748,058)
Total fixed assets, net of accumulated depreciation and amortization	**$ 95,263**	**$ 87,281**

Amortization of software development costs for the years ended December 31, 2021, 2020 and 2019, were $20.6 million, $22.1 million and $24.9 million, respectively.

Amortization of capitalized lease costs was $1.7 million for each of the years ended December 31, 2021, 2020 and 2019.

Total interest costs incurred for the years ended December 31, 2021, 2020 and 2019, were $1.1 million, $7.1 million and $35.0 million, respectively. For the years ended December 31, 2021, 2020 and 2019, interest capitalized for assets under development was $0.6 million, $0.6 million and $0.7 million, respectively.

5. 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 independently of PJM management and the Board of Managers. In order to facilitate the externalization of this function and as part of the settlement agreement approved by FERC, PJM entered into a revolving loan agreement with MA during March 2008. The original 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 both December 31, 2021 and 2020, the interest rate on the revolving loan agreement between PJM and MA was 3.25%. The interest rate on all loan advances is equal to the PNC Bank Base Rate. The PNC Bank Base Rate is the highest of (A) the Prime Rate; (B) the sum of the Federal Funds Rate plus 50 basis points (0.50%); or (C) the sum of the daily LIBOR plus 100 basis points (1.0%).

The Company's revolving loan receivable is accounted for in accordance authoritative guidance governing receivables, and is classified as held for investment. At December 31, 2021, and 2020, the outstanding balance due from MA recorded by PJM as a note receivable was $5.4 million and $6.2 million, respectively. At both December 31, 2021, and 2020, the current portion of the note receivable was $2.7 million. The current balance at December 31, 2021, represents the amount to be repaid during 2022. The non-current portion of the note receivable was $2.7 million at December 31, 2021, and $3.5 million at December 31, 2020.

6. SHORT-TERM DEBT

PNC Bank (PNC) Revolving Line of Credit

PJM maintains with PNC a FERC-approved revolving line of credit agreement with a capacity amount of $200 million. PJM received approval from FERC, on May 27, 2021, to continue to borrow under this facility through May 31, 2023. The revolving line of credit is unsecured and available to fund short-term cash obligations.

Under the loan covenants for the revolving line of credit agreement, PJM is required to meet certain financial and non-financial covenants. PJM was in compliance with these covenants as of December 31, 2021.

At both December 31, 2021, and 2020, there were no amounts outstanding under the revolving line of credit agreement. The interest rate on borrowings under this facility is based on the 30-day LIBOR rate plus a spread of 62.5 basis points (0.625%). At December 31, 2021, the interest rate was 0.73%.

The line of credit facility has a commitment fee of 6.00 basis points (0.6%) on the unused balance. This fee is calculated daily and paid quarterly.

7. LONG-TERM DEBT AND DERIVATIVE FINANCIAL INSTRUMENT – INTEREST RATE SWAP

Bank of America (BoA) Loan Agreement

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

As of December 31, 2021 and 2020, the outstanding borrowings under the term loan were $10.8 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 65 basis points (0.65%). As of December 31, 2021, the interest rate was 0.75%.

Under the loan agreement, PJM is required to meet certain financial and non-financial covenants. PJM was in compliance with these covenants as of December 31, 2021.

Repayments of principal under the BoA Bank Loan Agreement are scheduled as follows:

Year ended December 31,		
2022		2,886
2023		2,886
2024		2,886
2025		2,163
Total	**$**	**10,821**

Derivative Financial Instrument – Interest Rate Swap

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

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 December 31, 2021, and 2020, the fair value of the swap was a liability of $0.4 million and $0.9 million, respectively.

For the years ended December 31, 2021, 2020 and 2019, in conjunction with changes in the fair value of the interest rate swap, PJM recognized a $0.5 million derivative mark-to-market gain, a $0.3 million derivative mark-to-market loss and a $0.3 million derivative mark-to-market 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.

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

($ in millions)	**Dec. 31, 2021**				**Dec. 31, 2020**
	Level 1	**Level 2**	**Level 3**	**Carrying Value**	**Carrying Value**
Cash and cash equivalents	$ 2,641	$ –	$ –	$ 2,641	$ 1,904
Deposit liabilities	2,524	–	–	2,524	1,801
Derivative liabilities	1	–	–	1	1

9. INCOME TAXES

Income tax expense shown on the Consolidated Statements of Income and Paid-in Capital, Retained Earnings and Accumulated Other Comprehensive Income (Loss) consisted of the following:

	2021	2020	2019
Federal income taxes			
Current	$ (585)	$ 5,002	$ 3,381
Deferred	499	(4,003)	(2,124)
Change in valuation allowance	(2,240)	–	42
	(2,326)	999	1,299
State income taxes			
Current	221	1,197	849
Deferred	211	(1,086)	(189)
Change in valuation allowance	4,444	(9)	–
	4,876	102	660
Income tax expense	**$ 2,550**	**$ 1,101**	**$ 1,959**

The effect of temporary differences giving rise to deferred income tax assets at December 31, 2021 and 2020 consisted of the following:

	2021	2020
Deferred tax liabilities		
Deferred pension and postretirement costs	$ (13,726)	$ (26,379)
Fixed asset	(358)	–
	(14,084)	(26,379)
Deferred tax assets		
Postretirement health care	17,663	18,576
Accrued expenses	14,396	13,933
Pension	11,873	19,703
Net operating loss carryforwards	7,410	5,748
Deferred regulatory liability	–	5,397
Fixed assets	–	989
	51,342	64,346
Net deferred income tax assets	37,258	37,967
Valuation allowance	(5,693)	(3,489)
Deferred income tax assets, net	**$ 31,565**	**$ 34,478**

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

	2021	2020	2019
Income tax expense at the federal statutory rate	$ 845	$ 667	$ 798
Income resulting from:			
Changes in valuation allowance	2,698	(5)	42
Meals and entertainment	116	210	431
State income taxes, net of federal tax benefit	(155)	270	510
Research and Development tax credits	(884)	–	–
Other	(70)	(41)	178
Income tax expense	**$ 2,550**	**$ 1,101**	**$ 1,959**

PJM has net operating loss carryforwards of $79.0 million for Pennsylvania state tax purposes that begin expiring in 2029. PJM has concluded that it is more likely than not, due to enacted statutory restrictions, that certain Pennsylvania net operating loss carryforwards will expire. During 2021, PJM increased the valuation allowance against these deferred tax assets by $4.0 million. The total valuation allowance recognized against these deferred tax assets was $5.6 million at December 31, 2021.

PJM had recognized a deferred tax asset associated with the deferred regulatory liability accrued under stated rates. Under PJM's October 1, 2021, administrative rate proposal, accepted by FERC December 1, 2021, with rates effective January 1, 2022, subject to refund, hearing and settlement judge proceedings, specific to the proposed PJM Settlement cost allocation, PJM will no longer require the accumulation of a financial reserve. At December 31, 2021, PJM wrote off the deferred tax asset associated with the deferred regulatory liability and the associated $1.8 million valuation allowance.

PJM recorded a $0.9 million tax benefit in December 31, 2021, the results of which were related to research and development tax credit analysis for the tax years ended December 31, 2016, 2017 and 2018.

PJM and its subsidiaries file a U.S. consolidated federal income tax return and consolidated or separate company tax returns in various states, including of the 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 2017 remain open to examination by various state taxing authorities. There are no ongoing audits at this time.

10. BENEFIT PLANS

Pension Plan

PJM sponsors a defined benefit Pension Plan (the plan) that covers all regular full-time employees and part-time employees hired prior to January 1, 2014. Benefits under the plan are based on years of service and the employee's compensation. PJM's funding of the plan is determined according to the funding requirements set forth by the Employee Retirement Income Security Act of 1974 (ERISA). Plan assets are invested primarily in stocks and bonds and are monitored by PJM's Benefits Administration Committee. This plan was closed to new participants beginning January 1, 2014. Employees hired on or after January 1, 2014, are given a supplemental benefit in their 401k Savings Plan (the Savings Plan) based on their age and years of service.

Supplemental Executive Retirement Plan (SERP)

PJM sponsors a SERP to provide certain members of executive management with benefits in excess of normal pension benefits. PJM invested $4.2 million in equity securities in prior years, with the intention to use the proceeds to offset future obligations under the SERP. There were no contributions made during the years ended December 31, 2021, and 2020. The investment is included in other non-current assets in the Consolidated Statements of Financial Position at its market value of $0.4 million and $0.5 million as of December 31, 2021 and 2020, respectively.

During 2020, PJM recognized a settlement charge of $1.0 million within SERP pension expense related to the payment of lump-sum benefits on January 1, 2020 and July 1, 2020.

In conjunction with the establishment of a defined contribution SERP on January 1, 2021, benefit accruals in the existing defined benefit SERP were frozen as of December 31, 2020. PJM recognized a curtailment charge of $0.2 million at December 31, 2020, related to the freeze of benefit accruals.

PJM recognized $1.2 million in expense related to the defined contribution SERP during 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).

Deferred Compensation Plan

PJM sponsors a deferred compensation plan to provide an opportunity to certain members of executive management and the PJM Board of Managers to defer a portion of compensation. At December 31, 2021, and 2020, the value of this employee liability amounted to $26.5 million and $25.6 million, respectively. This amount is included in other employee benefits in the Consolidated Statements of Financial Position.

Postretirement Benefits

The Other Postretirement Employee Benefit Plan (OPEB Plan) provides certain health care and other benefits to retired employees and their spouses and dependents. The amount of the pre-65 benefit is dependent upon the employee's years of service at retirement. The amount of post-65 benefit at retirement is dependent upon the employee's age and years of service as of January 1, 2016. The post-65 OPEB Plan was closed to new hires as of January 1, 2010.

The schedules that follow show the changes in the benefit obligations, plan assets and funded status of the respective plans as of December 31, 2021 and 2020, and components of net periodic pension and postretirement health care costs of these plans for the years ended December 31, 2021, 2020 and 2019.

	Pension Benefits				Other Postretirement Benefits	
	Qualified		SERP			
	2021	2020	2021	2020	2021	2020
CHANGE IN BENEFIT OBLIGATION						
Net benefit obligation at beginning of year	$ 354,239	$ 276,847	$ 4,437	$ 7,394	$ 80,464	$ 65,826
Service cost	13,734	10,813	–	369	2,121	1,795
Interest cost	9,688	9,895	119	172	2,175	2,358
Plan settlements	–	–	–	(3,199)	–	–
Plan curtailments	–	–	–	(2,001)	–	–
Plan participants' contributions	–	–	–	–	62	54
Actuarial (gain) loss	(31,122)	67,851	(60)	1,775	(4,731)	11,937
Gross benefits paid	(17,092)	(11,167)	(73)	(73)	(1,598)	(1,506)
Net obligation at end of year	**$ 329,447**	**$ 354,239**	**$ 4,423**	**$ 4,437**	**$ 78,493**	**$ 80,464**

PJM uses a measurement date of December 31 for all of its pension and postretirement benefit plans. Actuarial gains recognized in 2021 resulted primarily from an increase in the discount rate actuarial assumption at the December 31, 2021, measurement date. Discount rates of 3.19%, 3.01% and 3.06% were used to calculate year-end 2021 pension, SERP and other postretirement benefit obligations, respectively.

	Pension Benefits				Other Postretirement Benefits	
	Qualified		SERP			
	2021	2020	2021	2020	2021	2020
CHANGE IN PLAN ASSETS						
Fair value of plan assets at beginning of year	$ 290,530	$ 256,811	$ –	$ –	$ 16,216	$ 14,212
Actual return on plan assets	19,362	34,886	–	–	1,182	2,003
Employer contributions	–	10,000	73	3,273	1,536	1,452
Plan settlements	–	–	–	(3,199)	–	–
Plan participants' contributions	–	–	–	–	62	55
Gross benefits paid	(17,092)	(11,167)	(73)	(74)	(1,599)	(1,506)
Fair value of plan assets at end of year	292,800	290,530	–	–	17,397	16,216
Funded status at end of year	(36,647)	(63,709)	(4,423)	(4,437)	(61,096)	(64,248)
Unrecognized net actuarial loss	–	–	–	–	–	–
Unrecognized prior service cost	–	–	–	–	–	–
Unrecognized net transition obligation	–	–	–	–	–	–
Net amount recognized at end of year and amounts recognized in the Statements of Financial Position	**$ (36,647)**	**$ (63,709)**	**$ (4,423)**	**$ (4,437)**	**$ (61,096)**	**$ (64,248)**

	Pension Benefits				Other Postretirement Benefits	
	Qualified		SERP			
	2021	2020	2021	2020	2021	2020
AMOUNTS RECOGNIZED IN DEFERRED PENSION AND POSTRETIREMENT COSTS:						
Net actuarial loss (gain)	$ 53,575	$ 93,540	$ 760	$ 844	$ (3,406)	$ 1,615
Prior service (gain)	–	–	–	–	(3,451)	(4,761)
Total	**$ 53,575**	**$ 93,540**	**$** 760	**$ 844**	**$ (6,857)**	**$ (3,146)**

	Pension Benefits				Other Postretirement Benefits	
	Qualified		SERP			
	2021	2020	2021	2020	2021	2020
AMOUNTS RECOGNIZED IN THE STATEMENT OF FINANCIAL POSITION CONSIST OF:						
Current liability	$ –	$ –	$ 325	$ 288	$ 1,775	$ 1,548
Noncurrent liability	36,647	63,709	4,098	4,149	59,321	62,700
Net amount recognized at end of year	**$ 36,647**	**$ 63,709**	**$ 4,423**	**$ 4,437**	**$ 61,096**	**$ 64,248**

At the end of 2021 and 2020, the PBO, the accumulated benefit obligation and the fair value of plan assets for all of PJM's pension and postretirement benefit plans are as follows:

	Pension Benefits				Other Postretirement Benefits	
	Qualified		SERP			
	2021	2020	2021	2020	2021	2020
End of year						
Projected benefit obligation	$ 329,447	$ 354,239	$ 4,423	$ 4,437	$ 78,496	$ 80,464
Accumulated benefit obligation	257,912	274,347	–	4,437	–	–
Fair value of plan assets	292,800	290,530	–	–	17,397	16,216

Expected Cash Flows

Information about expected cash flows for the pension and postretirement benefit plans follows:

	Qualified Benefits	SERP Benefits	Other Postretirement Benefits
Employer contributions			
Expected employer contributions for 2022 to plan trusts	$ 10,000	$ –	$ –
Expected employer contributions in form of direct benefit payments for 2022	–	325	1,775
Expected benefit payments			
2022	9,134	288	1,775
2023	10,232	309	1,955
2024	11,115	286	2,159
2025	12,812	326	2,422
2026	14,215	460	2,670
2027–2032	87,840	1,612	17,051

The table above reflects the benefits expected to be paid from the plan or from PJM's assets for PJM's share of the benefit cost. The participants' share of the cost, which is funded by participant contributions to the plan, is not included in this table. Expected contributions to plan trusts reflect expected amounts to be contributed by PJM to the fund.

	Pension Benefits						Other Postretirement Benefits		
	Qualified			SERP					
	2021	2020	2019	2021	2020	2019	2021	2020	2019
COMPONENT OF NET PERIODIC BENEFIT COST									
Service cost	$ 13,734	$ 10,812	$ 9,577	$ –	$ 370	$ 347	$ 2,121	$ 1,795	$ 1,493
Interest cost	9,688	9,895	9,728	120	172	317	2,178	2,358	2,379
Expected return on assets	(15,718)	(16,167)	(13,333)	–	–	–	(892)	(910)	(726)
Prior service cost (gain)	–	3	(18)	–	29	7	(1,309)	(1,287)	(1,287)
Actuarial loss (gain)	5,198	1,428	2,458	22	171	271	–	(83)	(627)
Curtailment charge	–	–	–	–	191	–	–	–	–
Settlement charge	–	–	–	–	1,064	–	–	–	–
Total net periodic benefit cost	**$ 12,902**	**$ 5,971**	**$ 8,412**	**$ 142**	**$ 1,997**	**$ 942**	**$ 2,098**	**$ 1,873**	**$ 1,232**

For each of the years ended December 31, 2021, 2020 and 2019, $1.1 million, $0.8 million and $0.6 million of total pension and postretirement benefits expense was included in capitalized project costs, respectively.

The following schedule shows the assumptions used to calculate the pension and postretirement benefit expense for the years ended December 31, 2021, 2020 and 2019.

	Pension Benefits			SERP			Postretirement Benefits		
	2021	2020	2019	2021	2020	2019	2021	2020	2019
Discount rate	2.76%	3.65%	4.30%	2.69%	(a)	4.30%	2.70%	3.55%	4.30%
Expected return on plan assets	5.50%	6.40%	6.40%	N/A	N/A	N/A	5.50%	6.40%	6.40%
Rate of comparison increase	4.50%	4.50%	4.50%	N/A	4.50%	4.50%	NA	N/A	N/A
Medical care cost trend rate									
Current (Pre-65)							5.39%	5.65%	5.92%
Current (Post-65)							5.55%	6.02%	6.48%
Ultimate (Pre-65)							4.46%	4.46%	4.46%
Ultimate (Post-65)							4.45%	4.45%	4.45%
Years to ultimate							17	18	19

(a) – Pension expense for the SERP for the period January 1, 2020 to June 30, 2020, was calculated using a discount rate of 3.55%, from July 1, 2020 through December 30, 2020, using a discount rate of 3.00% and on December 31, 2020, using a discount rate of 2.69%.

The expected return on plan assets assumption has been determined based on PJM's investment objectives and is supported by analysis of simulated investment return using capital market assumptions published in Mercer Investment Consulting's Capital Markets Outlook for the plan's target asset mix, net of an adjustment for expense to be paid from the plan assets.

The asset allocation for the PJM pension plan and other postretirement benefits plan at the end of 2021 and 2020 and the target allocation for 2021 and 2020 by asset category follows. The fair value of plan assets for the PJM pension plan and other postretirement benefit plans was $310.2 million and $306.7 million at the end of 2021 and 2020, respectively.

Asset Category	Target Allocation	2021	Target Allocation	2020
Equity securities	35%–45%	48%	35%–45%	49%
Debt securities	55%–65%	52%	55%–65%	51%
Other	0%–2%	0%	0%–2%	1%
Total	100%	100%	100%	100%

The assets of the PJM pension plan and other postretirement benefit plan are invested to provide a source of retirement income for participants and beneficiaries of the plan. The financial objectives of the plans have been established in conjunction with the comprehensive review of the current and projected financial requirements of the plans. The financial objectives are to maximize assets in order to consistently and materially exceed the accumulated benefit obligation under the plans and to reduce contributions over time.

The assets of the PJM pension plan and other postretirement benefit plan are invested in accordance with all relevant legislation and regulation, in a manner consistent with fiduciary standards of ERISA and other applicable law. Specifically, the investment program includes such safeguards and diversity to which a prudent investor would adhere, and all transactions undertaken on behalf of the plans are in the sole interest of plan participants and their beneficiaries.

Fair Value Measurements

The following table presents PJM's pension and other postretirement benefit plan assets measured at fair value and their respective levels within the fair value hierarchy as of December 31, 2021 and 2020:

As of December 31, 2021 (a)	Level 1	Level 2	Level 3	Carrying Value
Plan assets:				
Cash and cash equivalents	$ 841	$ –	$ –	$ 841
Commingled funds	–	148,721	–	148,721 (b)
Mutual funds	–	160,635	–	160,635 (c)
Total plan assets	**$ 841**	**$ 309,356**	**$ –**	**$ 310,197**

As of December 31, 2020 (a)	Level 1	Level 2	Level 3	Carrying Value
Plan assets:				
Cash and cash equivalents	$ 1,920	$ –	$ –	$ 1,920
Commingled funds	–	149,704	–	149,704 (b)
Mutual funds	–	155,122	–	155,122 (c)
Total plan assets	**$ 1,920**	**$ 304,826**	**$ –**	**$ 306,746**

(a) See Note 8 for a description of levels within the fair value hierarchy.
(b) The benefit plans own commingled funds that invest in equity and fixed-income securities.
(c) This category predominantly represents diverse issues of domestic investment-grade fixed-income securities.

Valuation Techniques Used to Determine Fair Value

Cash equivalents – Investments with maturities of three months or less when purchased, including certain short-term fixed-income securities, are considered cash equivalents and are included in the recurring fair value measurements hierarchy as Level 1.

Commingled funds – Commingled funds are maintained by investment companies that hold certain investments in accordance with a stated set of fund objectives, which are consistent with PJM's overall investment strategy. The values of the majority of commingled funds are not publicly quoted and must trade through a broker. For equity and fixed-income commingled funds traded through a broker, the fund administrator values the fund using the net asset value per fund share, derived from quoted prices in active markets of the underlying securities. These funds are valued at Net Asset Value (NAV) and have been categorized as Level 2.

Mutual funds – Mutual funds are pooled instruments that hold certain investments in accordance with a stated set of fund objectives, which are consistent with PJM's overall investment strategy. These funds consist of fixed income, developing markets and indexed securities. Fidelity Investments, the fund manager, monitors prices supplied by pricing services and may use a supplemental price source or change the primary price source of a given security if the portfolio managers challenge an assigned price and Fidelity determines that another price source is considered to be preferable. These funds are valued at NAV and have been categorized as Level 2.

Savings Plan

PJM also sponsors the savings plan for all eligible employees of the Company. The savings plan permits employees to contribute up to 75% of their gross compensation on a pretax basis, subject to limitations as described in the savings plan. PJM makes matching contributions equal to 100% of the employee's first 5% of gross salary contributed. PJM contributions to the savings plan were approximately $5.9 million, $5.7 million and $5.3 million for the years ended December 31, 2021, 2020 and 2019, respectively. This expense is included in compensation in the Consolidated Statements of Income, Comprehensive Income and Paid-in Capital, Retained Earnings and Accumulated Other Comprehensive Income (Loss).

11. COMMITMENTS AND CONTINGENCIES

Leases

PJM leases office space under operating leases with various vendors. These leases are non-cancelable and expire during the period from 2022 to 2027.

Future minimum rentals under non-cancelable lease agreements are as follows:

Year ended December 31,	**Operating**	**Capital**
2022	$ 1,271	$ 1,941
2023	1,232	2,022
2024	879	2,103
2025	822	2,186
2026	802	2,269
2027	605	904
Total	**$ 5,611**	**$ 11,425**

Other Items

Credit Matter – GreenHat Energy, LLC (GreenHat)

On June 21, 2018, GreenHat 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. The $179.6 million aggregate payment default of GreenHat, net of collateral held, has been billed to the non-defaulting members in accordance with the default allocation assessment formula in the PJM Operating Agreement. Those default allocation billings and payments continued through the end of the current planning year which ended on May 31, 2021.

On November 5, 2021, FERC issued an order finding that GreenHat engaged in energy market manipulation by engaging in a manipulative scheme in the FTR market operated by PJM in violation of the Federal Power Act, FERC's regulations and PJM's Tariff and Operating Agreement. FERC ordered the assessment of civil penalties against GreenHat and its principals in the amount of $229.6 million and disgorgement of profits in the amount of $13.1 million. On January 6, 2022, FERC filed a complaint in the U.S. District Court for the Eastern District of Pennsylvania to enforce its $242 million fraud penalties against GreenHat. Any recovery by PJM will be distributed to Members to offset default allocation assessments.

On January 6, 2022, PJM filed a complaint in California state court, PJM v. Estate of Andrew Kittel, in order to preserve its rights to recover any dollars from the Kittel estate. The Commission is proceeding in parallel. On January 6, 2022, the Commission filed a complaint in the federal U.S. District Court, FERC v. GreenHat Energy, LLC, to enforce its $242 million fraud penalties against GreenHat Energy.

Credit Matter – Hill Energy Resource & Services (Hill Energy)

On January 11, 2022, PJM declared a PJM member and FTR market participant, Hill, in default on its obligations to comply with a collateral call in the amount of $0.9 million under PJM's credit policies. PJM placed the portfolio in default in accordance with PJM's credit rules and policies. As of March 1, 2022, PJM holds $2.5 million in collateral while assessing the total potential exposure of Hill's defaulted portfolio, which includes FTR positions through May 2025.

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 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 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 January 19, 2022, the Circuit Court issued an order affirming on appeal the judgment of the District Court granting PJM's motion to dismiss ODEC's claims for costs allegedly incurred during the January 2014 Polar Vortex. The Circuit Court agreed with the District Court 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. Therefore, the judgment of the District Court denying remand and dismissing Old Dominion's claims with prejudice is affirmed.

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), which 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.

On December 2, 2021, FERC issued an Order Clarifying Resettlement Obligations in response to PJM's and Com-Ed's May 18, 2020 rehearing request. In this Order, FERC found: (1) that Radford is not entitled to ICTRs in the 2016 Base Residual Auction for the 2019/2020 Delivery Year; (2) rejected PJM's 2020 compliance filing in part; and (3) directed PJM to resettle the ICTR payments for the 2019/2020 Delivery Year. As a result, PJM will resettle the approximately $9.9 million of ICTR payments for the 2019/2020 Delivery Year reversing the payments given to Radford Run and giving it back to the Com-Ed Load Serving Entities. January 3, 2022 was the deadline for rehearing of the December 2, 2021 Order and no rehearing requests or petitions for review were filed. Accordingly, FERC's proceedings on the case have been completed.

Illinois Municipal Electric Agency v. PJM Complaint

On May 28, 2021, Illinois Municipal Electric Agency (IMEA) filed a complaint (IMEA Complaint) at FERC against PJM. The IMEA Complaint seeks to compel PJM to apply the full allocation of 1,097 MW of ICTRs from IMEA's Upgrade Construction Service Agreement without proration in the 2021/2022 Delivery Year and future Delivery Years contrary to the Tariff. On January 20, 2022, FERC issued an order dismissing the IMEA Complaint. FERC found that PJM correctly interpreted the Tariff, and that the requested relief would unjustly and unreasonably result in load overpaying for congestion.

12. RELATED-PARTY TRANSACTIONS

PJM occupies two buildings that are owned by a subset of PJM's members. One of the buildings was purchased in 1992 at a cost of $2.9 million. This building was subsequently renovated at a cost of $2.9 million. A second building occupied by PJM and used as one of PJM's control centers was purchased in July 1995 at a cost of $4.8 million. Through December 31, 2000, the facilities' owners elected not to charge PJM rent for the use of these facilities. Effective January 1, 2001, PJM commenced paying a nominal rent of two dollars per year for the use of these facilities. PJM is responsible for facility maintenance, property taxes, insurance and other related costs associated with these two buildings. Estimated annual market rent for these two buildings is approximately $1.6 million.

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