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PJM 2024 FINANCIAL REPORT

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Management's Discussion and Analysis

3

Management's Responsibility for Financial Reporting

8

Report of Independent Auditors

9

Consolidated Statements of Financial Position

10

**Consolidated Statements of Income, Comprehensive Income
and Paid-in Capital, Retained Earnings and Accumulated Other
Comprehensive Income (Loss)**

11

Consolidated Statements of Cash Flows

12

Notes to the Consolidated Financial Statements

13

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, inflation, interest rates, actuarial assumptions, availability of credit, liquidity and general economic conditions; tax policies; changes in accounting principles and practices; acts of terrorists; cybersecurity risks, including security breaches; the actions of adjacent control areas and other regional transmission organizations (RTOs); extreme weather; 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.

SIGNIFICANT ACCOUNTING POLICIES

Preparation of the financial statements and related disclosures in compliance with generally accepted accounting principles in the United States (GAAP) 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.

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 pension benefit obligation of the PJM defined benefit pension plan (PJM Pension Plan) and PJM Other Postretirement Employee Benefit Plan (PJM OPEB 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 regulatory asset or liability, deferred recovery of pension and postretirement costs, has been recognized in the Consolidated Statements of Financial Position.

PJM's selection of the discount rate, expected rate of return on assets and health care cost-trend rate 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, 2024, 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. The method excludes 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, 2024, the discount rates for the PJM Pension Plan, PJM Supplemental Executive Retirement Plan (PJM SERP) and PJM OPEB Plan were 5.89%, 5.70% and 5.78%, respectively.

The results during 2024 for the PJM Pension Plan, PJM SERP and PJM OPEB Plan were derived using discount rates of 5.35%, 5.17% and 5.25%, 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. For the period from December 1, 2024, through December 31, 2024, and at December 31, 2024, the assumption for the expected rate of return on assets was 6.50%. The assumption for the expected rate for which compensation will increase was 3.98% during 2024 and at December 31, 2024. In selecting health care cost trend rates, PJM considers past performance and forecasts of health care costs. The rate selected at December 31, 2024, for both pre-65 and post-64 plan participants was 7.00%, declining to 5.00% over the next 8 years.

RESULTS OF OPERATIONS FOR 2024, 2023 AND 2022

REVENUES AND EXPENSES

PJM's service fees were \$360.1 million for the year ended December 31, 2024, an increase of \$25.6 million, or 8%, as compared with service fees for the year ended December 31, 2023. PJM's service fees were \$334.4 million for the year ended December 31, 2023, an increase of \$14.9 million, or 5%, as compared with service fees for the year ended December 31, 2022. The service fees for 2024, 2023 and 2022 reflect actual costs, billed under a formula rate mechanism included in the Company's Open Access Transmission Tariff (Tariff) for PJM Interconnection, L.L.C. and PJM Settlement, Inc. (PJM Settlement).

Total PJM Interconnection, L.L.C. expenses, excluding FERC fees, study and interconnection services, interest income and interest expense associated with customer credit, increased in line with the increase in service fees for the years ended December 31, 2024 and 2023.

PJM reported an increase in compensation expense in 2024 due to higher staffing levels period-over-period and normal merit increases reflected in 2024 results. Higher software licenses and fees reflect higher license and maintenance expense period-over-period.

The increase in expenses in 2023 resulted primarily from an increase in compensation expense, due to higher staffing levels period-over-period and normal merit increases reflected in 2023 results. The period-over-period increase also reflected higher outside services related to the increased cost of insurance premiums; higher professional services expense, including legal, accounting and auditing fees; and contractor expense. The period-over-period increase was partially offset by increased interest income on operational cash balances due to high interest rates and higher cash balances and a decrease in benefit plan expense resulting from higher discount rates used to calculate 2023 pension and postretirement benefit expense.

Financial results for the years ended December 31, 2024, 2023 and 2022, included accounting for the impact of dividends from PJM Connex, L.L.C. to PJM Interconnection, L.L.C. The dividends were made in accordance with the dividend agreement in place between the entities. While the dividends eliminate upon consolidation, the dividends resulted in lower collections from PJM members.

Net income is derived from PJM's non-FERC-regulated subsidiaries. Net income was \$2.2 million, \$1.9 million and \$1.5 million for each of the years ended December 31, 2024, 2023 and 2022, respectively.

For each of the years ended December 31, 2024, 2023 and 2022, outside services included amounts paid to PJM's independent auditor, PricewaterhouseCoopers LLP, totaling \$1.3 million, \$1.6 million and \$1.1 million, respectively, 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. The 2023 increase represents nonrecurring fees for services.

Key information systems, system enhancements and capital investments completed by PJM in 2024 include:

- *Market System Enhancements:* Developing the next generation of energy market systems, regulation market redesign, market-to-market refresh, reserve certainty enhancements and regulation market redesign
- *Operations and Planning System Enhancements:* Enhancing operations and planning applications – including the energy management system, dispatcher tools, and transmission and generation interconnection and project databases, applications and systems – and system enhancements to accommodate ambient air rating requirements
- *Technology Infrastructure and Visualization:* Upgrading security monitoring, intrusion detection, servers, storage, network, cloud capabilities and data protection
- *Facilities Infrastructure:* Replacing the uninterruptable power supply (UPS) and Valley Forge backup generators
- *Information Technology:* Expanding the data tool for providing PJM members with markets and operations information, data analytics capability and a dispatcher software tool refresh
- *Access Management:* 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:* Enhancing credit monitoring, risk simulation and compliance automation tools

BILLINGS FOR SERVICES

PJM had approximately 1,110 members at December 31, 2024. 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 2024, 2023 and 2022, settlements processed by PJM under the Tariff, Operating Agreement and Reliability Assurance Agreement, which are non-GAAP measures, were as follows:

(\$ in millions)	2024 Amount Billed	2023 Amount Billed	2022 Amount Billed
Energy markets	\$ 25,669	\$ 23,051	\$ 54,753
Network transmission service	11,556	10,450	9,729
Transmission congestion	4,084	3,353	6,382
Capacity	2,695	3,223	7,007
Financial Transmission Rights (FTR) auction revenues	2,362	2,394	1,817
Transmission enhancement	2,012	1,747	1,767
Transmission losses	1,342	1,119	2,817
Reactive supply	379	388	384
PJM scheduling, system control and dispatch (operating expense reimbursement)	341	315	288
Operating reserves	268	158	288
Point-to-point transmission service	243	318	244
Regulation Market	183	134	296
FERC annual charge recovery	114	77	71
Synchronized Reserve Market	87	84	82
Black start service	74	67	69
RTO scheduling, system control and dispatch (transmission owners' control center expenses)	72	63	59
Generation deactivation	65	73	47
Distribution facilities	60	62	58
ReliabilityFirst Corporation (RFC)	20	19	18
PJM Settlement	17	16	15
Monitoring Analytics, LLC	14	15	13
North American Electric Reliability Corporation (NERC)	14	13	12
Miscellaneous	11	11	12
Load response program	11	67	11
Inadvertent interchange	10	5	1
Midcontinent Independent System Operator Transmission Expansion Planning (MTEP) cost recovery	7	7	6
Reactive services	2	1	2
Organization of PJM States, Inc. (OPSI) fees	1	1	1
Performance assessment interval	—	1,383	1
Day-Ahead Scheduling Reserve Market	—	—	11
Emergency energy	—	—	9
Member default allocation assessments	—	(1)	—
Consumer Advocates of PJM States, Inc. (CAPS) fees	—	—	—
Total	\$ 51,713	\$ 48,613	\$ 86,270

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 26, 2023, to continue to borrow under this facility through May 2025. PJM anticipates submitting a filing to FERC to extend the term of this facility prior to the current expiry of authorization. The revolving line of credit is unsecured and available to fund short-term cash obligations. At December 31, 2024, 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, 2024, the outstanding borrowings under the term loan were \$2.2 million. The BoA loan agreement balance at December 31, 2024, is entirely current and represents the scheduled repayment of the loan agreement in July 2025.

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, 2024, 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 \$1,034.2 million and \$590.7 million at December 31, 2024 and 2023, 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 \$2.2 billion and \$2.4 billion at December 31, 2024 and 2023, respectively. These deposits are maintained in separate cash accounts that are not legally restricted. At December 31, 2024, PJM Settlement also held approximately \$3.4 billion in letters of credit as collateral for market activity.

For 2025, PJM's Board of Managers has approved a capital budget of \$50 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.

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 in high demand, 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 2024, approximately 60% of PJM's operating expenses were billed to approximately 15 of its members. PJM had approximately 1,110 members at year-end 2024. 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.

At December 31, 2024, 304 members are FTR holders related to 9.8 million megawatt hours (MWh). The estimated fair value of the FTR portfolio at December 31, 2024, under a mark-to-auction model, was \$1.6 billion. PJM held \$3.1 billion in collateral related to these FTR transactions. The collateral is based on the calculated net value of the positions held in each member's FTR portfolio. The collateral can be in the form of cash or a letter of credit.

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PJM 2024 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 with GAAP 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

Sr. 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, 2024 and 2023, 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, 2024, 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, 2024 and 2023, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2024 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 consolidated 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 consolidated 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 consolidated 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, 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 6, 2025

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(\$ in thousands)	2024	2023
Assets		
Current assets:		
Deposits on hand	\$ 3,229,615	\$ 2,994,388
Operating cash	90,607	370,303
Receivables	8,489	39,032
Study and interconnection receivables	56,965	31,417
Prepaid income taxes	19	27
Prepaid expenses and other	19,699	19,776
Note receivable	3,961	3,367
	3,409,355	3,458,310
Noncurrent assets:		
Fixed assets, net of accumulated depreciation and amortization of \$620,040 and \$760,232	87,475	94,457
Land	1,420	1,420
Projects in development	57,833	43,840
Right-of-use assets – Finance lease	4,125	5,831
Right-of-use assets – Operating leases	2,087	2,731
Deferred recovery of pension and postretirement costs	–	225
Deferred income taxes, net of valuation allowance	43,926	39,639
Prepaid expenses and other	3,807	5,315
Note receivable	380	1,933
Other	29,292	25,567
	230,345	220,958
Total assets	\$ 3,639,700	\$ 3,679,268
Liabilities, paid-in capital, retained earnings and accumulated other comprehensive income		
Current liabilities:		
Accounts payable and accrued expenses	\$ 53,022	\$ 24,088
Due to members	94,637	432,067
Study and interconnection payables	57,018	31,247
Accrued payroll and benefits	55,296	48,465
Accrued income taxes	557	6,373
Current portion of long-term debt	2,163	2,886
Lease liability – Finance lease	2,186	2,103
Lease liability – Operating lease	1,131	1,127
Deferred FERC fees	2,665	3,826
Deferred revenue	3,595	3,581
Postretirement health care benefits liability	2,388	2,111
Other employee benefits	469	382
Deposits	3,229,615	2,994,388
	3,504,742	3,552,644
Noncurrent liabilities:		
Long-term debt	–	2,163
Lease liability – Finance lease	3,173	5,359
Lease liability – Operating leases	956	1,604
Deferred recovery of pension and postretirement costs	9,158	–
Pension benefits liability	26,606	21,283
Postretirement health care benefits liability	45,895	48,752
Other employee benefits	29,066	29,598
	114,854	108,759
Total liabilities	3,619,596	3,661,403
Commitments and contingencies (Note 11)		
Paid-in capital	722	722
Retained earnings	19,341	17,116
Accumulated other comprehensive income	41	27
Total paid-in capital, retained earnings and accumulated other comprehensive income	20,104	17,865
Total liabilities, paid-in capital, retained earnings and accumulated other comprehensive income	\$ 3,639,700	\$ 3,679,268

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)	2024	2023	2022
Income			
Operating revenue:			
Service fees	\$ 360,069	\$ 334,440	\$ 319,524
FERC fees reimbursement	111,446	81,291	71,760
Study and interconnection fees	12,968	10,794	6,763
Membership fees	3,579	3,522	3,546
Other	4,958	4,212	3,852
Total operating revenue	493,020	434,259	405,445
Operating expenses:			
Compensation	201,850	183,496	165,534
FERC fees	111,446	81,291	71,760
Outside services	70,554	65,964	60,331
Depreciation and amortization	38,659	37,726	36,434
Software licenses and fees	28,906	25,472	24,542
Other expenses	13,754	12,742	11,736
Study and interconnection services	12,968	10,794	6,763
Computer maintenance and office supplies	7,762	8,637	7,937
Pension benefits – service cost	9,117	8,348	12,799
Lease expenses	1,566	1,970	2,072
Postretirement health care benefits – service cost	1,537	1,433	2,010
Total operating expenses	498,119	437,873	401,918
Operating (loss) income	(5,099)	(3,614)	3,527
Other income:			
Interest income	148,950	140,433	43,652
Interest expense	140,837	132,731	41,972
Pension and postretirement health care benefits expense (benefit) – other components of net benefit cost	(366)	765	(569)
Total other income	8,479	6,937	2,249
Income before income taxes	3,380	3,323	5,776
Income tax expense	1,155	1,357	4,307
Net income	\$ 2,225	\$ 1,966	\$ 1,469
Other comprehensive income (loss):			
Unrealized gain (loss) on securities, net	14	2	(48)
Comprehensive income, net	\$ 2,239	\$ 1,968	\$ 1,421
Paid-in capital, retained earnings and accumulated other comprehensive income (loss)			
Beginning balance	\$ 17,865	\$ 15,897	\$ 14,476
Net income	2,225	1,966	1,469
Other comprehensive income (loss)	14	2	(48)
Ending balance	\$ 20,104	\$ 17,865	\$ 15,897

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ in thousands)	2024	2023	2022
Cash flows provided by operating activities:			
Net income	\$ 2,225	\$ 1,966	\$ 1,469
Adjustments:			
Depreciation and amortization expense	38,659	37,726	36,434
Deferred income taxes, net of valuation allowance	(4,287)	(8,212)	138
Deferred recovery of pension and postretirement costs	9,383	(2,116)	49,369
Employee benefit expense greater than (less than) funding	2,830	15,479	(42,833)
Net fair value changes related to interest rate swap	(22)	80	(580)
Changes in assets and liabilities:			
Decrease (increase) in receivables	30,543	92,352	(105,454)
(Increase) decrease in study and interconnection receivables	(25,548)	67,124	(64,974)
(Increase) in prepaid expenses and other	(1,348)	(2,238)	(12,678)
Change in deferred FERC fee position	(1,161)	(1,686)	(270)
Change in prepaid and accrued income taxes	(5,808)	8,722	3,660
Increase (decrease) in accounts payable and accrued expenses	28,840	(51,012)	45,245
Increase (decrease) in study and interconnection payables	25,771	(70,468)	64,972
Increase in accrued payroll and benefits	6,831	9,039	2,270
Increase in deferred revenue	14	83	56
Refunds to members	—	—	(14,700)
Net cash provided by (used in) operating activities	106,922	96,839	(37,876)
Cash flows (used in) investing activities:			
Cost of projects in development	(45,554)	(43,165)	(30,870)
Note receivable	959	(114)	245
Net cash (used in) investing activities	(44,595)	(43,279)	(30,625)
Cash flows provided by (used in) financing activities:			
Borrowings under line of credit	721,570	474,971	1,280,782
Repayments under line of credit	(721,570)	(474,971)	(1,280,782)
Repayments of long-term debt	(2,886)	(2,886)	(2,886)
Payments under finance lease	(1,707)	(1,707)	(2,095)
(Decrease) increase in due to members	(337,430)	(691,942)	969,523
Increase in deposits	235,227	35,143	435,304
Net cash (used in) provided by financing activities	(106,796)	(661,392)	1,399,846
Net (decrease) increase in cash and cash equivalents	(44,469)	(607,832)	1,331,345
Cash and cash equivalents balance (including customer deposits), beginning of year	3,364,691	3,972,523	2,641,178
Cash and cash equivalents balance (including customer deposits), end of year	\$ 3,320,222	\$ 3,364,691	\$ 3,972,523
Cash paid during the year for:			
Interest	\$ 441	\$ 423	\$ 510
Income taxes	11,571	1,438	663
Noncash activity:			
Projects in development additions included in ending accounts payable and accrued expenses	\$ 116	\$ 1,215	\$ 412

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2024

(\$ 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, nonstock 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 182,036 megawatts (MW) and operates wholesale electricity markets with approximately 1,110 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, 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 Connex, L.L.C. (PJM Connex) is a wholly owned subsidiary of PJM and is not a FERC-regulated entity. PJM Connex 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 Connex 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 Connex 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

PJM recovers its administrative costs through a formula rate mechanism under the Company's Open Access Transmission Tariff (Tariff). PJM's formula rate mechanism, approved by FERC on December 1, 2021, and effective January 1, 2022, provides for monthly rates based on that month's costs and that month's billing determinants.

PJM Settlement recovers its administrative costs under a separate schedule under the Tariff. Recovery of PJM Settlement's cost allocation was approved by FERC on November 9, 2022, and was effective and implemented on February 1, 2023.

Summary of Service Fees

	2024	2023	2022
PJM service fee revenues	\$ 342,773	\$ 318,256	\$ 304,328
PJM Settlement revenues	17,296	16,184	15,196
Total service fees	\$ 360,069	\$ 334,440	\$ 319,524

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SELECTED FINANCIAL INFORMATION

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 (GAAP) in the United States of America and include the accounts of PJM and its wholly owned subsidiaries. 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 has operating and financing leases involving real property and equipment, which are recognized as right-of-use assets and lease liabilities on the Consolidated Statements of Financial Position. Right-of-use assets represent the right to use an underlying asset for the lease term. Lease liabilities represent the obligation to make lease payments arising from the lease.

The Company determines if an arrangement is a lease at inception. The discount rate utilized to measure PJM's operating leases was risk-free rates matched to lease duration.

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 original 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 2024, approximately 60% of PJM's operating expenses were billed to approximately 15 of its members. PJM had approximately 1,110 members at year-end 2024.

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 the PJM defined benefit pension plan (PJM Pension Plan) and the PJM Other Postretirement Employee Benefit Plan (PJM OPEB 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, 2024, PJM recorded the underfunded PBO as a liability.

At December 31, 2024, in addition to recording the underfunded PBO as a liability, PJM recorded a \$9.2 million regulatory liability to reflect net over recovery of amounts funded through the Company's rate structure. At December 31, 2023, PJM recorded a \$0.2 million regulatory asset to reflect the anticipated future recovery of the amounts expected to be funded in the future through the Company's rate structure.

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, which are reported on a gross basis in the Consolidated Statements of Income, Comprehensive Income and Paid-in Capital, Retained Earnings and Accumulated Other Comprehensive Income (Loss).

At December 31, 2024, PJM had a \$2.6 million deferred FERC fee liability. The liability 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. At December 31, 2023, PJM had a \$3.8 million deferred FERC fee liability that resulted from over-collections during 2023.

Deferred Regulatory Liability

During 2021, PJM recovered administrative costs under a stated-rate mechanism that provided for the accumulation of a financial reserve as a deferred regulatory liability. During 2022, PJM made \$14.7 million of refunds, representing the deferred regulatory liability balance in excess of the permitted financial reserve.

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, 2024, the deposits balance comprised \$1,034.2 million received for study and interconnection fees and \$2,195.4 million for customer credit. At December 31, 2023, the deposits balance comprised \$590.7 million received for study and interconnection fees and \$2,403.6 million for customer credit. These deposits are maintained in separate cash accounts that are not legally restricted.

Due to Members

At December 31, 2024, the \$94.6 million due-to-members balance comprised \$92.6 million held by PJM related to market settlement billing, primarily the December 1–December 25, 2024, month-to-date market settlement billing statements, paid to market participants by PJM on January 2, 2025; \$1.4 million of settled and unbilled excess congestion; and \$0.6 million of Winter Storm Elliott performance assessment interval (PAI) bonus holdback, net of PAI nonpayments.

At December 31, 2023, the \$432.1 million due-to-members balance comprised \$375.2 million held by PJM related to the December 1–December 21, 2023, month-to-date market settlement billing statements, paid to market participants by PJM on January 2, 2024; \$27.6 million of settled and unbilled excess congestion; and \$29.3 million of Winter Storm Elliott PAI bonus holdback, net of PAI nonpayments.

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 the PJM Pension Plan, PJM Supplemental Executive Retirement Plan (PJM SERP) and PJM OPEB 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 regulatory asset or liability, deferred recovery of 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 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 Connex, PJM Tech and PJM EIS recognize as revenue amounts both billed and unbilled.

Subsequent Events

PJM has performed an evaluation of subsequent events through March 6, 2025, which is the date the consolidated financial statements were issued.

3. REVENUE AND ACCOUNTS RECEIVABLE

Disaggregated Revenues

The table below provides disaggregation of PJM service fee revenues as defined in Schedule 9 of the Company's Tariff.

	2024	2023	2022
Control area administration service	\$ 219,487	\$ 204,450	\$ 195,772
Market support service	80,842	74,914	71,062
Capacity resource and obligation management service	25,898	23,698	22,882
FTR administration service	16,546	15,194	14,612
	342,773	318,256	304,328
PJM Settlement service fees	17,296	16,184	15,196
Total service fees	\$ 360,069	\$ 334,440	\$ 319,524

For the years ended December 31, 2024, 2023 and 2022, PJM Connex recorded consolidated revenue of \$6.8 million, \$5.9 million and \$4.9 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. Membership fees – recorded as deferred revenue – are considered contract liabilities. At both December 31, 2024 and 2023, the balances of deferred revenue resulting from contracts with customers were \$3.6 million. During each year 2024, 2023, and 2022, PJM recognized \$3.6 million, \$3.5 million and \$3.5 million of revenue for PJM membership fees, respectively.

There were no material contract assets as of December 31, 2024.

PJM's receivables balance at December 31, 2024, included \$12.0 million of unbilled service fees, \$20.2 million of unbilled PJM recovery of pass-through charges and \$1.0 million of billed PJM Connex receivables, offset by \$24.7 million of excess congestion returned in the December market settlement billing statements.

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, 2024.

4. FIXED ASSETS

A summary of fixed assets by classification as of December 31, 2024 and 2023, follows:

	2024	2023
Buildings	\$ 18,812	\$ 18,812
Leasehold improvements	68,768	72,127
Software development	499,034	608,210
Computer hardware	114,894	149,533
Furniture and fixtures	5,866	5,866
Vehicles	141	141
Subtotal	707,515	854,689
Accumulated depreciation and amortization	(620,040)	(760,232)
Total fixed assets, net of accumulated depreciation and amortization	\$ 87,475	\$ 94,457

Amortization of software development costs for the years ended December 31, 2024, 2023 and 2022, were \$24.4 million, \$21.8 million and \$20.5 million, respectively.

Amortization of capitalized lease costs was \$1.7 million for each of the years ended December 31, 2024, 2023 and 2022.

Total interest costs incurred, excluding interest on deposits for study and interconnection fees and customer credit, for the years ended December 31, 2024, 2023 and 2022, were \$1.0 million, \$0.9 million and \$1.1 million, respectively. For the years ended December 31, 2024, 2023 and 2022, interest capitalized for assets under development was \$0.5 million, \$0.4 million and \$0.5 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 revolving loan agreement was extended in November 2019 to March 31, 2026.

Effective July 1, 2023, the revolving loan agreement was amended to substitute the Secured Overnight Financing Rate (SOFR) within the definition of the PNC Bank Base Rate, due to the cessation of the London Inter-Bank Offered Rate (LIBOR).

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 December 31, 2024 and 2023, the interest rate on the revolving loan agreement between PJM and MA was 7.50% and 8.50%, respectively. The interest rate on all loan advances is equal to the PNC Bank Base Rate. The PNC Bank Base Rate is the highest of (1) the Prime Rate, (2) the sum of the Federal Funds Rate plus 50 basis points (0.50%), or (3) the sum of the daily SOFR plus 100 basis points (1.00%).

The Company's revolving note receivable is accounted for in accordance with authoritative guidance governing receivables and is classified as held for investment. At December 31, 2024 and 2023, the outstanding balance due from MA recorded by PJM as a note receivable was \$4.3 million and \$5.3 million, respectively.

At December 31, 2024 and 2023, the current portion of the note receivable was \$3.9 million and \$3.4 million, respectively. The current balance at December 31, 2024, represents the amount to be repaid during 2025. The noncurrent portion of the note receivable was \$0.4 million at December 31, 2024, and \$1.9 million at December 31, 2023.

Subsequent to year-end, on February 21, 2025, the maturity date for revolving loan agreement with MA was extended to March 31, 2032. All other terms and conditions of the loan agreement remain unchanged.

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 26, 2023, to continue to borrow under this facility and substitute SOFR as the reference rate for the facility due to the cessation of LIBOR. On June 1, 2023, PJM executed an amendment to the facility with PNC, substituting SOFR as the reference interest rate for the facility and extending the term through May 29, 2025. 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 nonfinancial covenants. PJM was in compliance with these covenants as of December 31, 2024.

At both December 31, 2024 and 2023, there were no amounts outstanding under the revolving line of credit agreement. The interest rate on borrowings under this facility is interest at a rate per annum equal to daily SOFR, plus a 10 basis point (0.1%) credit spread adjustment, plus a margin of 62.5 basis points (0.625%). At December 31, 2024, the interest rate was 5.18%.

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

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. On April 3, 2023, PJM amended the BoA term loan to substitute SOFR as the reference interest rate for the term loan due to cessation of LIBOR. The BoA term loan has a seven-year term and is unsecured.

As of December 31, 2024 and 2023, the outstanding borrowings under the term loan were \$2.2 million and \$5.0 million, respectively. The BoA loan agreement balance at December 31, 2024, is entirely current and represents the scheduled repayment of the loan agreement in July 2025. As defined in the loan agreement, the term loan bears interest at a rate per annum equal to daily SOFR, plus a 10 basis point (0.1%) credit spread adjustment, plus a margin of 65.0 basis points (0.65%). As of December 31, 2024, the interest rate was 5.28%.

Under the loan agreement, PJM is required to meet certain financial and nonfinancial covenants. PJM was in compliance with these covenants as of December 31, 2024.

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. On April 3, 2023, PJM terminated the existing interest rate swap with BoA and entered into a new interest rate swap agreement with BoA to substitute SOFR as the reference interest rate due to the cessation of LIBOR.

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, 2024 and 2023, the fair value of the swap was an asset of \$0.01 million and \$0.08 million, respectively.

For the years ended December 31, 2024, 2023 and 2022, in conjunction with changes in the fair value of the interest rate swap, PJM recognized a \$0.06 million derivative mark-to-market loss, a \$0.08 million derivative mark-to-market loss and a \$0.6 million derivative mark-to-market gain, respectively, in 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, 2024 and 2023, by level within the fair value hierarchy.

(\$ in millions)	Dec. 31, 2024			Dec. 31, 2023	
	Level 1	Level 2	Level 3	Carrying Value	Carrying Value
Cash and cash equivalents	\$ 3,320	\$ —	\$ —	\$ 3,320	\$ 3,365
Deposit liabilities	3,229	—	—	3,229	2,994
Derivative asset (a)	—	—	—	—	—

(a) PJM's Level 2 interest rate swap was valued as a \$0.01 million asset at December 31, 2024, and as a \$0.08 million asset at December 31, 2023. At December 31, 2024, PJM's interest rate swap was recorded as a component of other current assets. At December 31, 2023, PJM's interest rate swap was recorded as a component of other noncurrent assets.

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:

	2024	2023	2022
Federal income taxes			
Current	\$ 4,073	\$ 6,809	\$ 2,653
Deferred	(4,073)	(5,874)	(3,324)
Change in valuation allowance	—	—	147
	—	935	(524)
State income taxes			
Current	1,375	1,836	1,496
Deferred	(220)	(1,364)	4,037
Change in valuation allowance	—	(50)	(702)
	1,155	422	4,831
Income tax expense	\$ 1,155	\$ 1,357	\$ 4,307

The effects of temporary differences giving rise to deferred income tax assets at December 31, 2024 and 2023, consisted of the following:

	2024	2023
Deferred tax liabilities		
Deferred pension and postretirement costs	\$ —	\$ (56)
	—	(56)
Deferred tax assets		
Postretirement health care	12,063	12,712
Accrued expenses	17,966	18,151
Pension	6,367	6,168
Net operating loss carryforwards	2,062	2,376
Fixed assets and other capitalized costs	5,739	2,847
Deferred pension and postretirement costs	2,288	—
	46,485	42,254
Net deferred income tax assets	46,485	42,198
Valuation allowance	(2,559)	(2,559)
Deferred income tax assets, net	\$ 43,926	\$ 39,639

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

	2024	2023	2022
Income tax expense at the federal statutory rate	\$ 710	\$ 698	\$ 1,213
Income resulting from:			
Change in valuation allowance	—	(50)	(555)
Permanent differences	260	261	149
State income taxes, net of federal tax benefit	653	331	504
State income taxes, effect of rate change	264	312	3,867
Research and development tax credits	(750)	(247)	(875)
Other	18	52	4
Income tax expense	\$ 1,155	\$ 1,357	\$ 4,307

On July 8, 2022, the Commonwealth of Pennsylvania's tax code was amended to reduce the corporate net income tax rate from 9.99% to 8.99%, effective January 1, 2023. The corporate net income tax rate will continue to decrease by 0.5% annually until 2031, when it reaches 4.99%. Accounting standards applicable for PJM require that the effects of a change in tax law or rates be recognized in the period that includes the enactment date. Accordingly, PJM was required to revalue the Company's deferred tax assets and liabilities in 2022. The revaluation resulted in \$3.9 million of state income tax expense.

PJM recorded a \$0.8 million and \$0.2 million tax benefit in December 31, 2024, and December 31, 2023, related to research and development tax credit analysis for the tax years ended December 31, 2024 and 2023, respectively. PJM recorded a \$0.9 million tax benefit in December 31, 2022, related to research and development tax credit analysis for the tax years ended December 31, 2019, 2020, 2021 and 2022.

PJM has net operating loss carryforwards of \$48.4 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 2022, PJM decreased the valuation allowance against these net operating loss carryforwards by \$7.0 million. The total valuation allowance recorded against these net operating loss carryforwards and state deferred tax assets was \$64.0 million at December 31, 2024.

PJM and its subsidiaries file a U.S. consolidated federal income tax return and consolidated or separate company tax returns in various states, including the Commonwealth of Pennsylvania. The tax years subsequent to 2018 remain open to examination by the United States Internal Revenue Service, and generally, the tax years subsequent to 2020 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 (PJM Pension Plan) that covers all regular full-time employees and part-time employees hired prior to January 1, 2014. Benefits under the PJM Pension 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 401(k) Savings Plan (the Savings Plan) based on their age and years of service.

Between January 1, 2022, and December 31, 2022, \$26.2 million of lump-sum payments were distributed to plan participants, exceeding the sum of the plan's service cost and interest cost. As a result, during 2022, PJM recognized a settlement charge of \$1.6 million within pension expense related to the payment of lump-sum benefits.

PJM Supplemental Executive Retirement Plan (PJM SERP)

The Company sponsors a PJM 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 PJM SERP. There were no contributions made during the years ended December 31, 2024 and 2023. The investment is included in other noncurrent assets in the Consolidated Statements of Financial Position at its market value of \$0.2 million as of December 31, 2024 and \$0.3 million as of December 31, 2023.

PJM recognized \$1.5 million and \$1.3 million in expense related to the defined contribution PJM SERP during 2024 and 2023, respectively. This expense is included as a component of pension expense in the Consolidated Statements of Income, Comprehensive Income and Paid-in Capital, Retained Earnings and Accumulated Other Comprehensive 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, 2024 and 2023, the value of this employee liability amounted to \$29.1 million and \$22.8 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 (PJM 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 PJM 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, 2024 and 2023, and components of net periodic pension and postretirement health care costs of these plans for the years ended December 31, 2024, 2023 and 2022.

	Pension Benefits				Other Postretirement Benefits	
	Qualified		SERP			
	2024	2023	2024	2023	2024	2023
CHANGE IN BENEFIT OBLIGATION						
Net benefit obligation at beginning of year	\$ 239,661	\$ 211,155	\$ 3,395	\$ 3,233	\$ 66,236	\$ 61,289
Service cost	7,657	7,006	—	—	1,566	1,433
Interest cost	13,065	12,201	164	166	3,512	3,470
Plan participants' contributions	—	—	—	—	83	71
Actuarial loss (gain)	(17,600)	15,984	(192)	67	(5,172)	2,182
Gross benefits paid	(5,981)	(6,685)	(67)	(71)	(2,405)	(2,209)
Net obligation at end of year	\$ 236,802	\$ 239,661	\$ 3,300	\$ 3,395	\$ 63,820	\$ 66,236

PJM uses a measurement date of December 31 for all of its pension and postretirement benefit plans. Discount rates of 5.89%, 5.70% and 5.78% were used to calculate year-end 2024 pension, SERP and other postretirement benefit obligations, respectively.

	Pension Benefits				Other Postretirement Benefits	
	Qualified		SERP			
	2024	2023	2024	2023	2024	2023
CHANGE IN PLAN ASSETS						
Fair value of plan assets at beginning of year	\$ 218,378	\$ 197,061	\$ —	\$ —	\$ 15,373	\$ 13,395
Actual return on plan assets	2,234	28,002	—	—	164	1,975
Employer contributions	—	—	67	70	2,322	2,138
Plan participants' contributions	—	—	—	—	83	71
Gross benefits paid	(5,981)	(6,685)	(67)	(70)	(2,405)	(2,206)
Fair value of plan assets at end of year	\$ 214,631	\$ 218,378	\$ —	\$ —	\$ 15,537	\$ 15,373
Funded status at end of year	(22,171)	(21,283)	(3,300)	(3,395)	(48,283)	(50,863)
Net amount recognized at end of year and amounts recognized in the Statements of Financial Position	\$ (22,171)	\$ (21,283)	\$ (3,300)	\$ (3,395)	\$ (48,283)	\$ (50,863)

	Pension Benefits				Other Postretirement Benefits	
	Qualified		SERP			
	2024	2023	2024	2023	2024	2023
AMOUNTS RECOGNIZED IN DEFERRED PENSION AND POSTRETIREMENT COSTS						
Net actuarial loss (gain)	\$ 12,734	\$ 18,801	\$ (614)	\$ (426)	\$ (20,290)	\$ (16,612)
Prior service (credit)	—	—	—	—	(988)	(1,538)
Total	\$ 12,734	\$ 18,801	\$ (614)	\$ (426)	\$ (21,278)	\$ (18,150)

	Pension Benefits				Other Postretirement Benefits	
	Qualified		SERP			
	2024	2023	2024	2023	2024	2023
AMOUNTS RECOGNIZED IN THE STATEMENT OF FINANCIAL POSITION CONSIST OF						
Current liability	\$ —	\$ —	\$ 469	\$ 382	\$ 2,388	\$ 2,111
Noncurrent liability	22,171	21,283	2,831	3,013	45,895	48,752
Total	\$ 22,171	\$ 21,283	\$ 3,300	\$ 3,395	\$ 48,283	\$ 50,863

At the end of 2024 and 2023, 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			
	2024	2023	2024	2023	2024	2023
End of year						
Projected benefit obligation/ accumulated benefit obligation	\$ 236,802	\$ 239,661	\$ 3,300	\$ 3,395	\$ 63,820	\$ 66,236
Fair value of plan assets	214,631	218,378	—	—	15,537	15,373

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 2025 to plan trusts	\$	5,000	\$	—	\$	—
Expected employer contributions in form of direct benefit payments for 2025		—		482		2,456
Expected benefit payments						
2025		12,096		482		2,456
2026		13,013		413		2,740
2027		14,204		397		3,006
2028		14,434		315		3,267
2029		15,619		304		3,531
2030–2034		92,439		1,187		21,803

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						
	2024	2023	2022	2024	2023	2022	2024	2023	2022
COMPONENT OF NET PERIODIC BENEFIT COST									
Service cost	\$ 7,657	\$ 7,006	\$ 11,858	\$ —	\$ —	\$ —	\$ 1,566	\$ 1,433	\$ 2,010
Interest cost	13,065	12,201	11,135	164	166	131	3,512	3,468	2,493
Expected return on assets	(13,768)	(11,506)	(15,495)	—	—	—	(999)	(804)	(910)
Prior service (gain)	—	—	—	—	—	—	(1,208)	(1,540)	(1,176)
Actuarial loss (gain)	—	—	2,567	(3)	(10)	17	—	—	—
Settlement charge	—	—	1,644	—	—	—	—	—	—
Total net periodic benefit cost	\$ 6,954	\$ 7,701	\$ 11,709	\$ 161	\$ 156	\$ 148	\$ 2,871	\$ 2,557	\$ 2,417

For each of the years ended December 31, 2024, 2023 and 2022, \$1.1 million, \$1.2 million and \$1.0 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, 2024, 2023 and 2022.

	Pension Benefits			SERP			Postretirement Benefits		
	2024	2023	2022	2024	2023	2022	2024	2023	2022
Discount rate	5.35%	5.68%	(a)	5.17%	5.53%	3.01%	5.25%	5.58%	3.06%
Expected return on plan assets	6.50%	6.00%	(a)	N/A	N/A	N/A	6.00%	6.00%	5.50%
Rate of comparison increase	3.98%	4.04%	3.86%	N/A	N/A	N/A	N/A	N/A	N/A
Medical care cost trend rate									
Current (Pre-65)							6.25%	6.50%	5.07%
Current (Post-65)							6.25%	6.50%	5.12%
Ultimate (Pre-65)							5.00%	5.00%	4.45%
Ultimate (Post-65)							5.00%	5.00%	4.46%
Years to ultimate							4	5	16

(a) Pension expense for the period January 1, 2022, to November 30, 2022, was calculated using a discount rate of 3.19% and an expected return on plan assets of 5.50%. From December 1, 2022, through December 31, 2022, pension expense was calculated using a discount rate of 5.57% and an expected return on plan assets of 6.00%.

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 by the Company's independent actuaries for the PJM Pension Plan and PJM OPEB Plan's target asset mix, net of an adjustment for expense to be paid from the plan assets.

During 2024, PJM updated the investment strategy for the PJM Pension Plan and PJM OPEB Plan. The change transitioned fixed-income investments to STRIPS (separate trading of registered interest and principle securities) and moved to a 50% return seeking allocation of investments. The target allocation for the PJM Pension Plan and PJM OPEB Plan in 2023 was 35–45% Equity Securities, 55–65% Debt Securities and 0–2% Other. PJM's asset allocation was in line with investment strategies at both December 31, 2024 and 2023. The fair value of plan assets for PJM's benefit plans was \$230.1 million and \$233.7 million at the end of 2024 and 2023, respectively.

The assets of PJM's benefit plans 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 PJM's benefit plans 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 benefit plan assets measured at fair value and their respective levels within the fair value hierarchy as of December 31, 2024 and 2023:

As of December 31, 2024 (a)	Level 1		Level 2		Level 3		Carrying Value
Plan assets:							
Cash and cash equivalents	\$	2,085	\$	—	\$	—	\$ 2,085
Commingled funds		—		151,556		—	151,556 (b)
Mutual funds		—		76,527		—	76,527 (c)
Total plan assets	\$	2,085	\$	228,083	\$	—	\$ 230,168
As of December 31, 2023 (a)	Level 1		Level 2		Level 3		Carrying Value
Plan assets:							
Cash and cash equivalents	\$	915	\$	—	\$	—	\$ 915
Commingled funds		—		101,227		—	101,227 (b)
Mutual funds		—		131,609		—	131,609 (c)
Total plan assets	\$	915	\$	232,836	\$	—	\$ 233,751

(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 that 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 that 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 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. For all eligible employees of the Company, PJM makes matching contributions equal to 100% of the employee's first 5% of gross salary contributed. Employees hired on or after January 1, 2014, are given a supplemental benefit in the Savings Plan based on their age and years of service.

PJM contributions to the Savings Plan were \$8.8 million, \$7.7 million and \$6.8 million for the years ended December 31, 2024, 2023 and 2022, 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 and telecommunication equipment under operating leases and a finance lease. These leases expire during the period 2025–2027 and have been recorded as right-of-use assets, with associated lease liabilities, in the Consolidated Statements of Financial Position at December 31, 2024.

		Right-of-Use Assets		Lease Liabilities
December 31, 2024				
Operating leases	\$	2,087	\$	2,087
Finance lease		4,125		5,359
	\$	6,212	\$	7,446
December 31, 2023				
Operating leases	\$	2,731	\$	2,731
Finance lease		5,831		7,462
	\$	8,562	\$	10,193

At December 31, 2024, the current portions of the operating lease liabilities and the finance lease liability were \$1.1 million and \$2.2 million, respectively. At December 31, 2023, the current portions of the operating lease liabilities and the finance lease liability were \$1.1 million and \$2.1 million, respectively.

Lease expense associated with PJM's operating leases for the years ended December 31, 2024, 2023 and 2022, was \$1.5 million, \$1.9 million and \$2.1 million, respectively. Amortization and interest expense associated with PJM's finance lease for the years ended December 31, 2024, 2023 and 2022, was \$2.1 million and \$0.1 million, respectively.

Future minimum rentals under noncancelable lease agreements are as follows:

Year ended December 31,	Operating	Finance
2025	\$ 1,131	\$ 2,186
2026	939	2,269
2027	236	904
Total	\$ 2,306	\$ 5,359

Other Items

Lackawanna Energy Center LLC v. PJM Interconnection, L.L.C.

On January 25, 2024, Lackawanna Energy Center LLC (Lackawanna) filed a complaint against PJM in Docket No. EL24-64-000, alleging that PJM violated its Tariff by failing to pay Lackawanna lost opportunity cost (LOC) when PJM reduced the output of Lackawanna to honor system “stability limits” during the Juniata-Sunbury line outage in May 2023 and June 2023. Lackawanna demanded \$7.5 million in LOC payments. LOC is the revenue that a market participant would have made in the PJM Energy Market, had the market participant not been directed by PJM to perform a necessary operational activity.

On May 23, 2024, FERC issued an order denying this complaint and ordered PJM to submit a compliance filing by June 24, 2024, to clean up the Tariff and Operating Agreement related to prior Commission-accepted Tariff and Operating Agreement revisions. On June 21, 2024, Lackawanna filed a request for rehearing of the May 23, 2024, order. On June 24, 2024, PJM submitted its compliance filing in Docket No. ER24-2354-000. On July 22, 2024, the Commission issued a notice of denial of rehearing by operation of law and providing for further consideration of Lackawanna’s request for rehearing. On September 20, 2024, Lackawanna filed with the DC Circuit Court a petition for review of the Commission’s orders denying the complaint and denying the request for rehearing. On October 17, 2024, the Commission issued an order on rehearing, reaching the same conclusion as the May 23, 2024, order, denying the complaint. On December 19, 2024, Lackawanna filed a motion for voluntary dismissal at the DC Circuit Court. The DC Circuit Court granted this motion on December 26, 2024. This action by the DC Circuit Court effectively concludes this litigation and closes this matter.

Energy Efficiency Complaints

During 2024, five complaints were filed regarding the participation of energy efficiency in PJM’s capacity market, two of which contain allegations that PJM has been improperly administering the participation of energy efficiency for several years by adding back demand offset by energy efficiency to the load forecast. PJM has filed responses to all of these complaints. On September 27, 2024, PJM and one of the complainants, Enerwise Global Technologies, LLC, filed a joint motion to dismiss and stipulated satisfaction agreement, which has been accepted, resolving one of the five complaints (Docket No. EL25-128). On September 30, 2024, the Independent Market Monitor for PJM filed a partial offer of settlement of one of its complaint proceedings that remains pending (Docket No. EL24-113). On November 5, 2024, in Docket No. ER24-2995, FERC accepted PJM’s proposed Tariff and Reliability Assurance Agreement revisions to sunset Energy Efficiency Resources’ participation in capacity market auctions starting with the 2026/2027 Delivery Year as just and reasonable and not unduly discriminatory or preferential, with an effective date of November 6, 2024. FERC’s acceptance may moot certain aspects of the complaints. On February 7, 2025, FERC denied arguments raised on rehearing by Affirmed Energy. Based upon FERC’s acceptance of PJM’s filing on Energy Efficiency, the Independent Market Monitor filed a notice of withdrawal of its complaint in Docket No. EL24-126. The complaint filed by the Joint Consumer Advocates in Docket No. EL24-118 remains pending. One of the pending complaints, filed by Affirmed Energy in Docket No. EL24-124, asserts, among other things, that PJM is improperly holding excess collateral for the Energy Efficiency Provider. PJM filed its answer to the complaint on November 11, 2024. On November 26, 2024, PJM and Affirmed Energy filed a joint motion for extension to stay the proceedings until January 20, 2025. The matter remains pending.

Designated Entity Agreements

On July 25, 2024, FERC issued an order addressing: (1) a complaint filed by American Municipal Power, Inc., the Office of the People’s Counsel for the District of Columbia and the PJM Industrial Customer Coalition against PJM regarding PJM’s issuance of Designated Entity Agreements (DEAs) to entities designated to construct Regional Transmission Expansion Plan (RTEP) projects in PJM (Complaint) (Docket No. EL22-80) and (2) a Federal Power Act Section 206 filing by PJM requesting that FERC revise limited provisions of Operating Agreement, Schedule 6, section 1.5.8 regarding the process and associated requirements for DEAs (PJM Section 206 Filing). FERC granted both the Complaint and the PJM Section 206 Filing, in part, and denied them, in part. FERC also (1) directed PJM to submit a compliance filing within 30 days and (2) instituted a paper hearing procedure to develop a further record to determine PJM’s remedial responsibilities regarding DEA requirements for certain in-progress RTEP projects.

On August 26, 2024, the Indicated PJM Transmission Owners filed a request for rehearing of the July 25, 2024, Commission Order. On September 9, 2024, PJM submitted its initial response to the Commission’s first request in the paper hearing questions. On September 26, 2024, the Commission issued a notice of denial of rehearing by operation of law and providing for further consideration of the Indicated Transmission Owners’ request for rehearing. On October 8, 2024, PJM and the Indicated PJM Transmission Owners filed responses to the Commission’s remaining paper hearing questions involving remedial action. The matter remains pending at FERC. The Indicated PJM Transmission Owners have filed a petition to review the Commission’s orders in the United States Court of Appeals (D.C. Cir).

Capacity Market Complaints and 205 Filings

Toward the end of 2024, three separate complaints were filed against PJM alleging that various rules relating to PJM's capacity market were unjust and unreasonable (Docket Nos. EL24-148, EL25-18, and EL25-46). In particular, the complaints allege that (1) the existing capacity market demand curve cap will result in prices that are too high, (2) the categorical capacity market must-offer exemption for intermittent and demand response allows for the exercise of market power, and (3) resources retained for reliability purposes should be counted as capacity supply. These complaints do not allege any wrongdoing by PJM and are limited to arguing that the existing market rules as previously approved by FERC are now unjust and unreasonable. PJM has answered each complaint. In response to these complaints, PJM filed three separate Section 205 filings, utilizing its authority to act independently, that propose a variety of changes to the capacity market rules, including (1) a temporary set cap and floor for the capacity market demand curve until the 2027/2028 Delivery Year (Docket No. ER25-1357), (2) removal of the categorical must-offer exemption for intermittent resources and revisions to the Market Seller Offer Cap (Docket No. ER25-778), and (3) a proposal to retain a dual fuel combustion turbine as the reference resource and to count certain resources retained for reliability as capacity for the 2026/2027 and 2027/2028 Delivery Years (Docket No. ER25-682), which was accepted by order dated February 14, 2025. While these proceedings are not expected to affect PJM's financial statements given that they involve market design issues, parties have raised concerns regarding PJM's actions and use of its authority to act independently. On February 14, 2025, PJM and complainants Gov. Josh Shapiro and the Commonwealth of Pennsylvania filed a stipulation of satisfaction and motion to dismiss the complaint in Docket No. EL25-46.

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. PJM pays 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.

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