

September 16, 2020

PJM Board of Managers:

Dr. Ake Almgren, Chair
Mr. Manu Asthana
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Ms. Margaret Loebel
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Ms. Sarah S. Rogers
Mr. Neil H. Smith
Mr. Mark Takahashi

PJM Interconnection, LLC
2750 Monroe Boulevard
Valley Forge Corporate Center
Audubon, PA 19403

Subject: Finance Committee Recommendations

The Finance Committee met on August 19, 2020 and again on September 9, 2020 to review the proposed PJM 2021 expense and capital budgets as well as the proposed 2021 budgets for OPSI, CAPS, NERC, RFC and Monitoring Analytics and the 2021 Schedule 9-FERC rates.

In addition, the Committee reviewed PJM's projected expenses and revenues for the remainder of 2020 through 2024, including the estimated impact on rates and the respective deferred regulatory accounts. A presentation and review of the proposed capital projects for 2021 was made at the September 1, 2020 Planning Committee, the September 2, 2020 Market Implementation Committee, and the September 3, 2020 Operating Committee meetings.

1. Proposed Expense Budget for 2021

PJM has proposed an expense budget of \$305 million for its Stated Rate expenses in 2021. This value is within the long-term projections discussed in the updated stated rates mechanism implemented on January 1, 2017. The PJM Sector-Elected Finance Committee members appreciate PJM Management's efforts to control the company's expenses and provide timely, accurate and highly usable financial analysis for the committee.

For 2020, PJM proposed, and the PJM Board of Managers ("Board") approved, an expense budget of \$305 million. Current forecasts project PJM's actual expenses will be approximately \$287 million for 2020, which is \$18 million below the original budget. The Sector-Elected representatives of the PJM Finance Committee recommend that the Board accept the proposed 2021 expense budget while encouraging PJM Management to continue to seek and sustain cost-saving initiatives that enhance efficiency, reliability, and effectiveness of PJM markets.

2. Proposed 2021 Capital Budget

PJM has proposed a capital budget for 2021 of \$40 million. This budget is equal to the 2020 budget. This aligns with the long-term projections discussed in connection with the updated stated rates mechanism implemented on January 1, 2017. The Sector-Elected representatives of the PJM Finance Committee recommend that the Board accept the proposed \$40 million capital budget for 2021.

3. Proposed Schedule 9-FERC Rate for 2021

PJM has proposed a Schedule 9-FERC rate of \$0.0948 per MWh of load for 2021 relative to PJM's projected transmission usage of 802 terawatt-hours for 2021. This represents a \$0.0201 per MWh of load increase in cost from the 2020 Schedule 9 FERC rate. The 2020 Schedule 9-FERC rate is \$0.0783 per MWh. The Sector-Elected representatives of the PJM Finance Committee recommend that the Board accept the proposed rate.

4. Proposed Schedule 9-OPSI Rate for 2021

OPSI presented its approved budget of \$986,500 for 2021. This represents a \$64,000 or 6.9% increase from the 2020 OPSI budget. Any OPSI budget increase in excess of 15% requires FERC review and approval. Since the proposed 2021 OPSI budget increase is below the FERC approval requirement identified in Schedule 9-OPSI, the Sector-Elected Representatives of the PJM Finance Committee recommend that the Board accept the proposed budget.

5. Proposed Schedule 9-CAPS Rate for 2021

CAPS presented its budget of \$551,787 for 2021. This is an increase of \$37,839 or 7.4%. Any CAPS budget increase in excess of 7.5% requires FERC review and approval. Since the proposed 2021 CAPS budget increase is below the FERC approval requirement identified in Schedule 9-CAPS, the Sector-Elected Representatives of the PJM Finance Committee accept the CAPS budget for 2021.

6. Proposed Schedule 9-MMU Rate for 2021

The 2021 Monitoring Analytics' proposed budget is \$14.4 million, a \$0.3 million or 2.0% decrease from the 2020 original budget and a \$1.7 million or 13.4% increase from the current projected costs for 2020. The Sector-Elected Representatives of the PJM Finance Committee recommend that the Board accept the Monitoring Analytics' budget for 2021.

6. Proposed Schedule 10 for NERC and RFC 2021 Budgets

The NERC 2021 assessment to PJM members is proposed at \$10.8 million. The RF 2021 assessment to PJM members is proposed at \$17.1 million. These amounts represent approximately 2.7% reduction and 1.8% increase, respectively, from the 2020 budget for both the NERC and RFC assessments. The Sector-Elected Representatives of the PJM Finance Committee accept the NERC and RFC budgets.

7. Comments

The Finance Committee protocols continue to work well and foster collaborative efforts with PJM Management, the Board members, and the Sector-Elected Finance Committee representatives. This includes both the organization of the annual Finance Committee plan, the materials and presentation of information, additional responses to supplemental requests, independent financial analysis, and PJM's annual SOC 1 audits. The Finance Committee recommends continued focus on PJM Management's optimization of expenses and costs, consistent with the objective of PJM providing sound, reliable, efficient, and effective operations, while recognizing and adopting the potentially significant synergistic impacts of new technology deployment on the overall costs and effectiveness of PJM.

The Sector-Elected Finance Committee representatives greatly appreciate the additional effort that PJM Management and staff has made to reduce spending in 2020 given the difficult economic circumstances presented by the Covid-19 pandemic and the associated reduced consumption of electricity. We encourage those efforts to continue into 2021 and would welcome a reduction in the actual spend by PJM where possible. Additionally, the Sector-Elected Finance Committee representatives would like to better understand the revenues and costs associated with the wholly owned subsidiaries of PJM and request additional reporting to the Finance Committee in 2021.

We would welcome the opportunity to meet with the Board, if requested, to explain these recommendations in more detail and would appreciate feedback from the Board regarding the effectiveness of these recommendations after the approval of the proposed 2021 budget by the Board. We stand ready to continue working with PJM management to make oversight by the Finance Committee as effective and constructive as required.

Sincerely,

Sector-Elected Representatives to the Finance Committee