

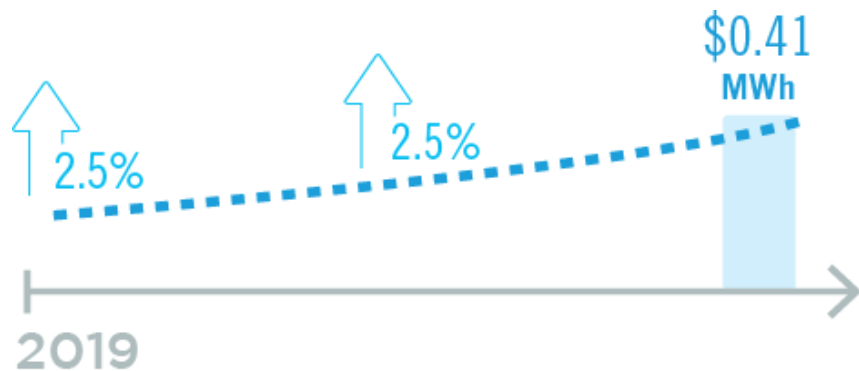


Administrative Rate Review

Members Committee
July 28, 2021

In 2016

PJM filed a revised stated-rate schedule that increased the Schedule 9 rates and provided an escalation of 2.5 percent each year, beginning in 2019, until the composite rate is \$0.41/MWh.



A few factors are highlighting the need to review PJM's rates:



**Energy
Forecast
Change**



**Cost of Service
Review**



**Billing
Determinant
Shifts**

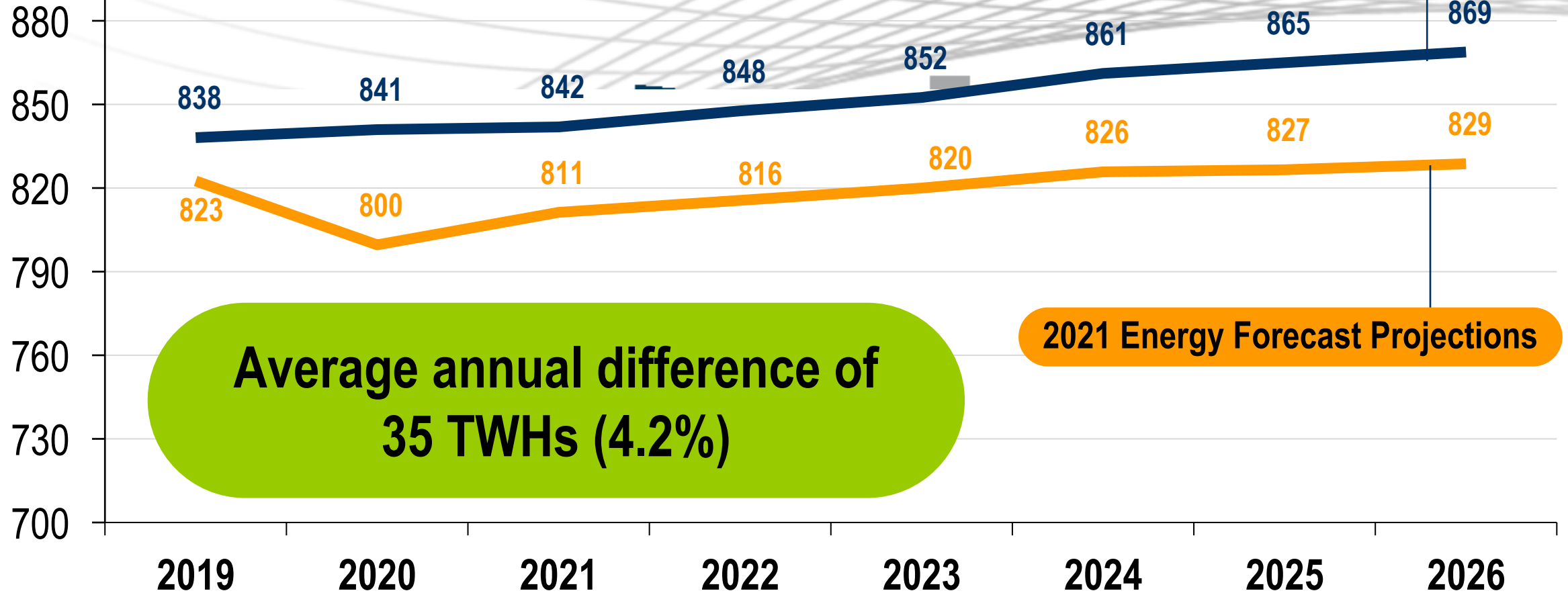


Energy Forecast Change

Energy (TWh)

Revenue Adequacy

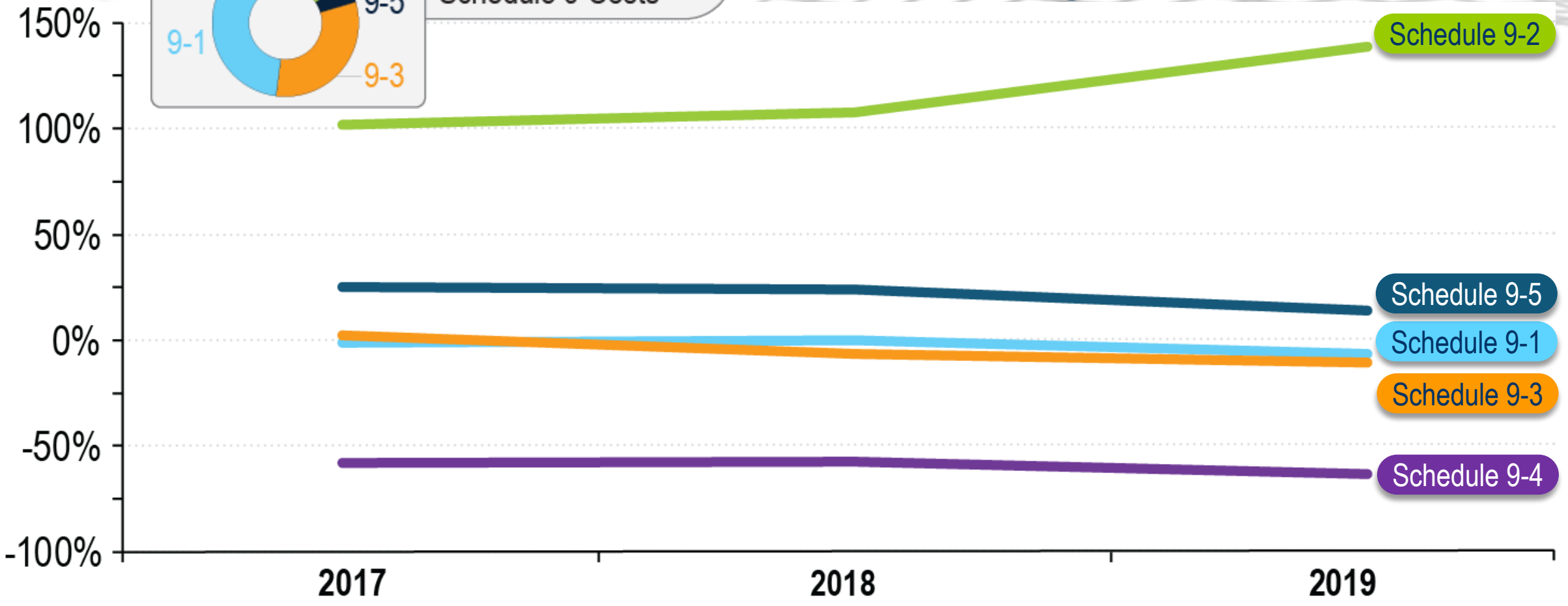
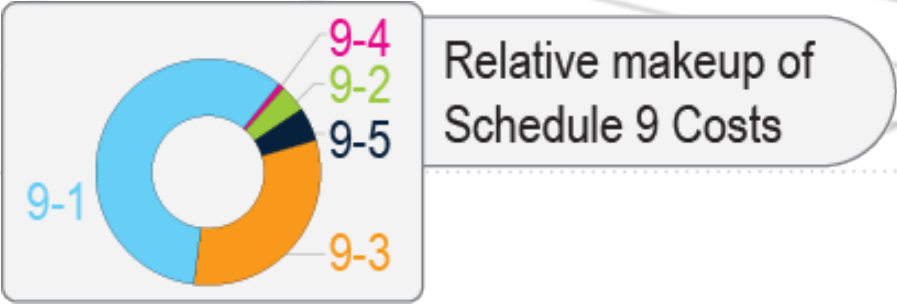
2016 Stated Rates Projections



Average annual difference of
35 TWhs (4.2%)

2021 Energy Forecast Projections

Rate Equity



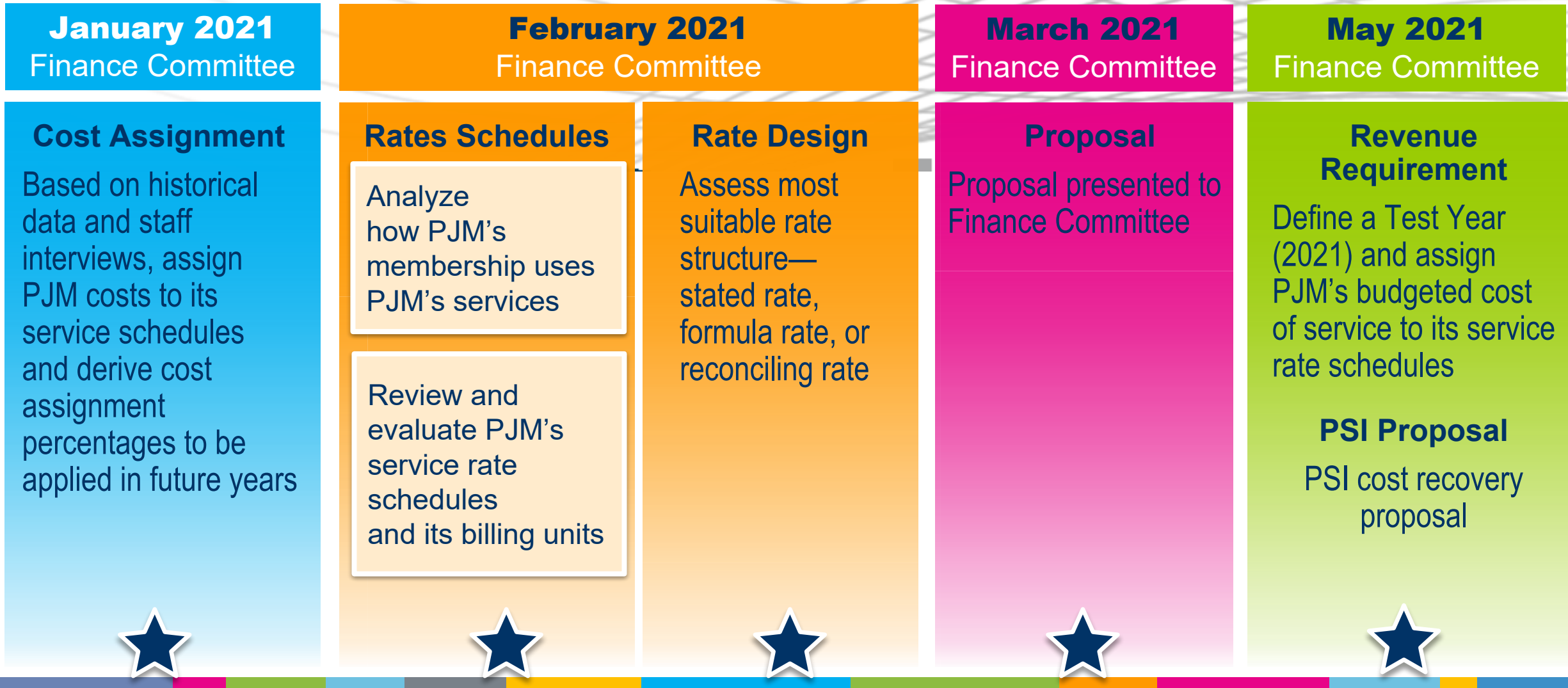
PJM/Stakeholder Jointly Developed Objectives

2016 Stated Rate Filing Objectives

2021 PJM Rate Filing Objectives

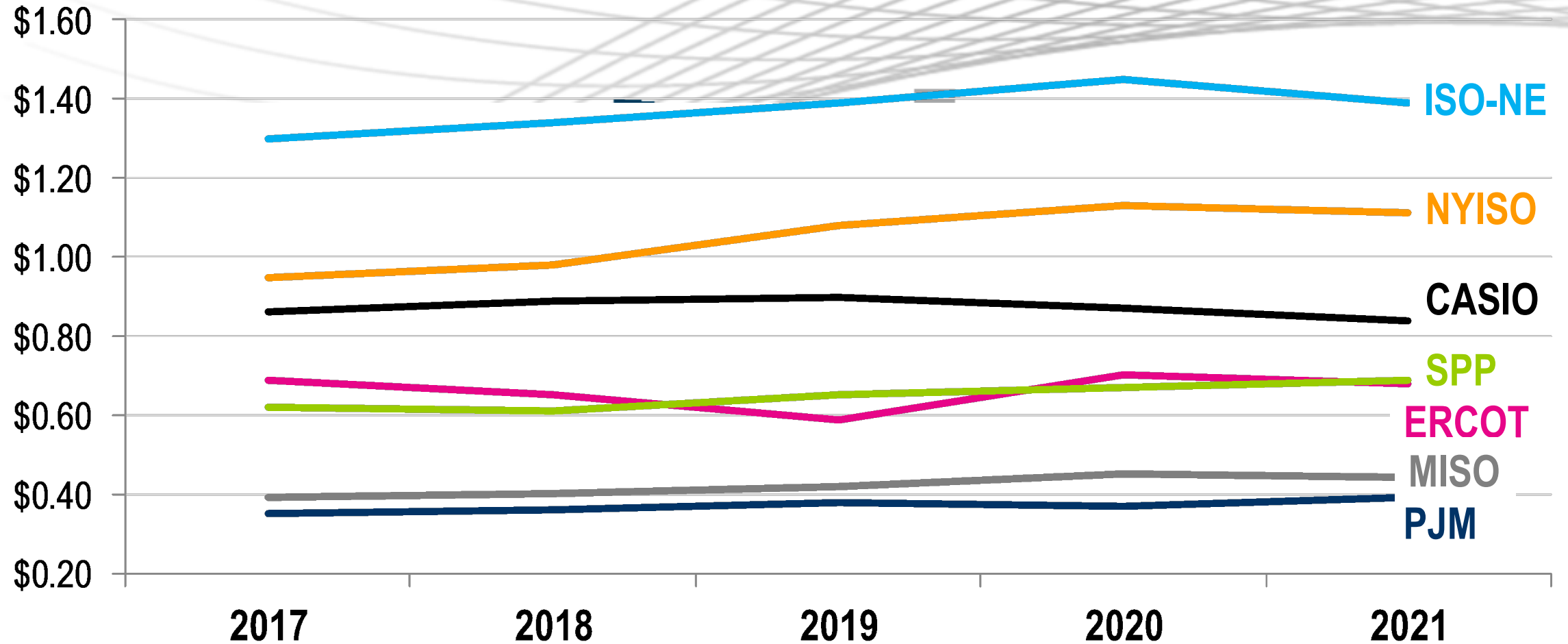
| | | | |
|----------|---|----------|---|
| 1 | Maintain low rate volatility and provide multi-year service fee certainty for 5–10 years | 1 | Ensure revenue adequacy and rate equity |
| 2 | Establish cost recovery for post-AC ² Rider ongoing costs of second control center | 2 | Examine cost allocation to PJM member classes |
| 3 | Maintain enhanced rate and cost transparency to members | 3 | Maintain enhanced rate and cost transparency to members |
| 4 | Deploy effective operation and capital cost management | 4 | Deploy effective operation and capital cost management |
| 5 | Maintain creditworthiness for cost-effective borrowing purposes | 5 | Maintain creditworthiness for cost-effective borrowing purposes |

Rate Review Process



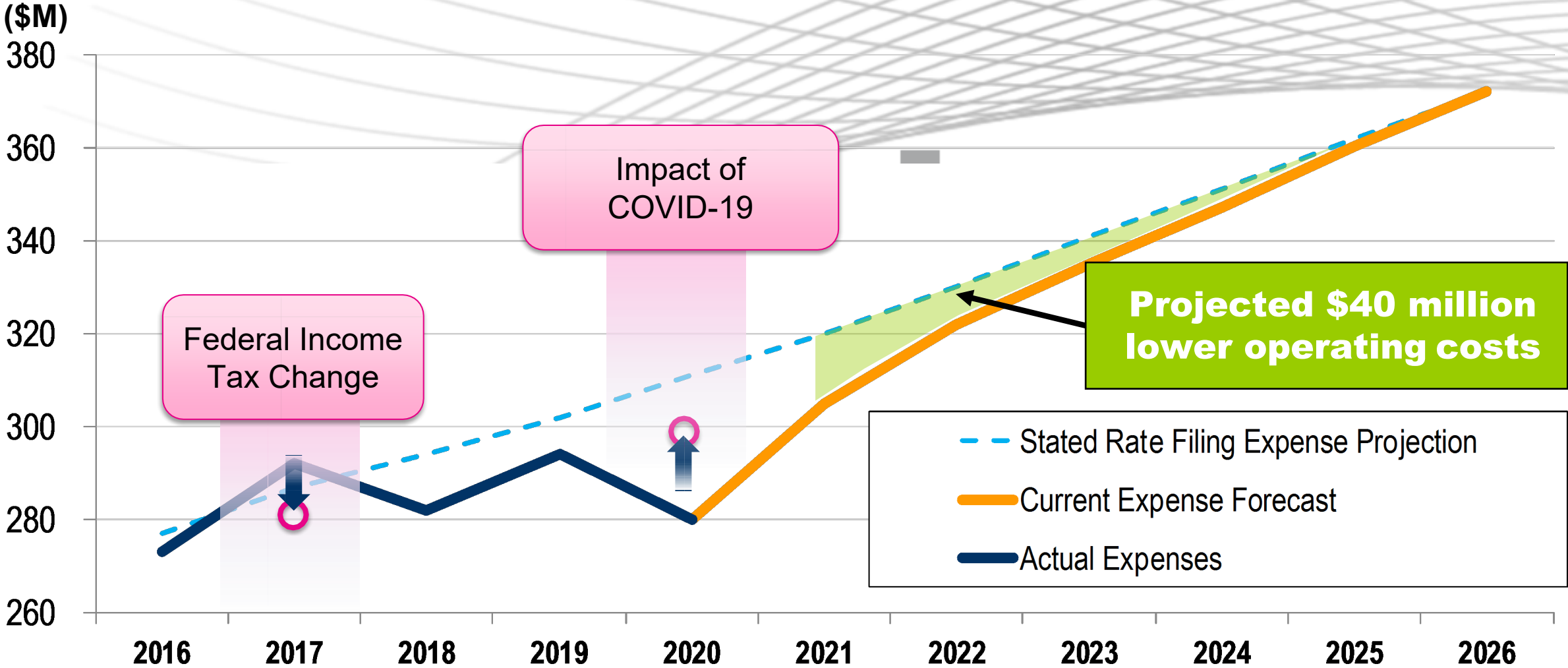
ISO/RTO Composite Expense Rate Trends

\$/MWh of Load Served



Operating Expense Comparison

2016 Stated Rate Filing Projections vs. Current Forecast



PJM Finance Committee Protocol – Composition and Role

Finance Committee composition

2 elected representatives from each PJM member sector

- 3 year terms
- Sector terms staggered
- Represent interests of respective sectors

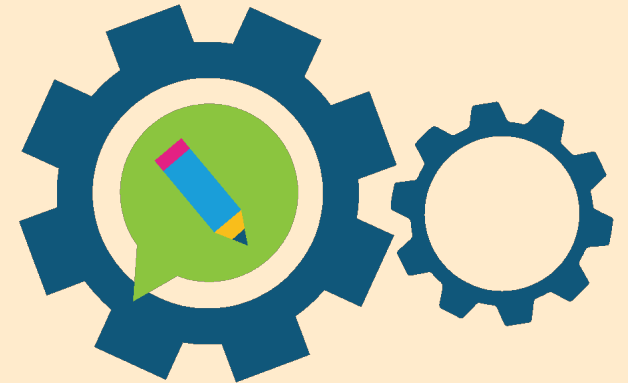
2 PJM Board Members (non voting)

1 PJM representative (non voting) – Chairperson of Committee

Serves in an advisory capacity to the PJM Board

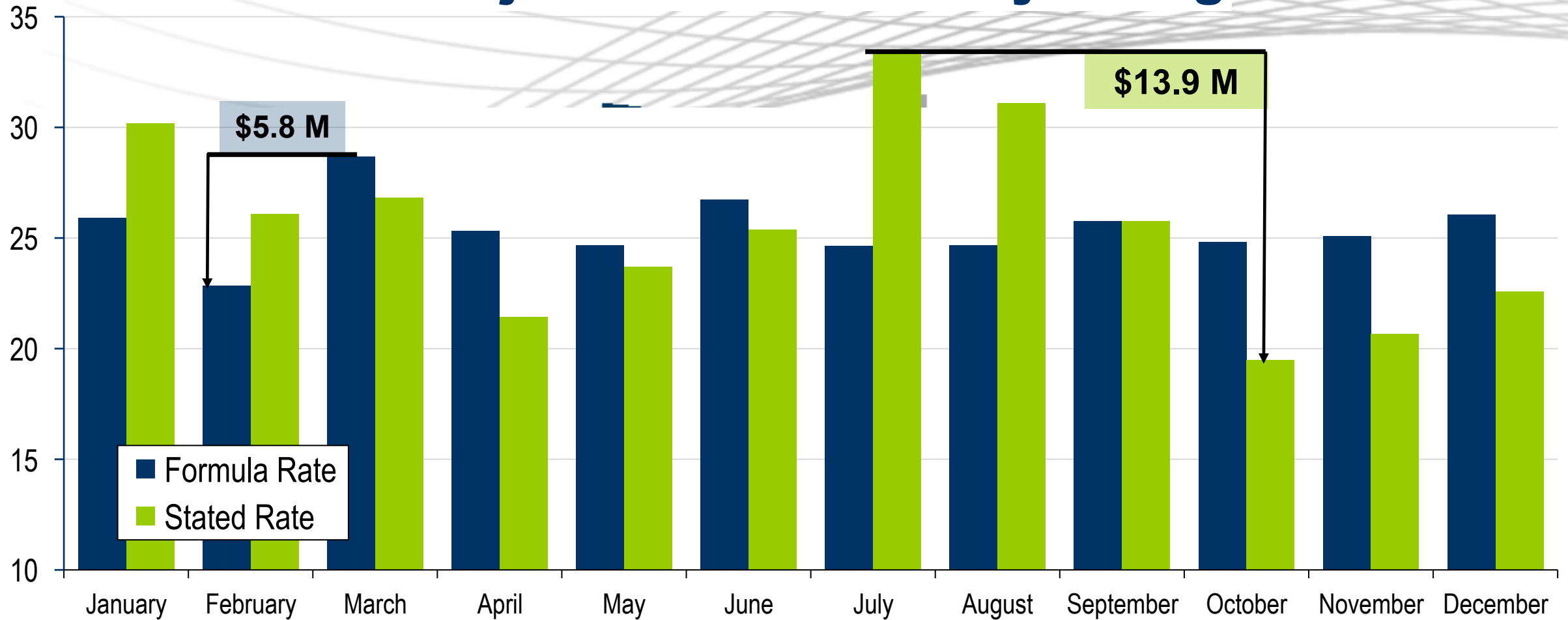
PJM Finance Committee Protocol – Planning Process

- **Annual Budget Process**
 - Revenue, Operating Expenses, Capital Projects, Deferred Regulatory Liability, etc.
 - Preliminary Budget (August)
 - Proposed Budget (September)
- **Long-range projections**
 - Revenue, Operating Expenses, Capital expenditures, etc.
- **PJM Finance Committee Member Representative Budget Recommendation (September)**
- **PJM Board of Managers (September/October)**



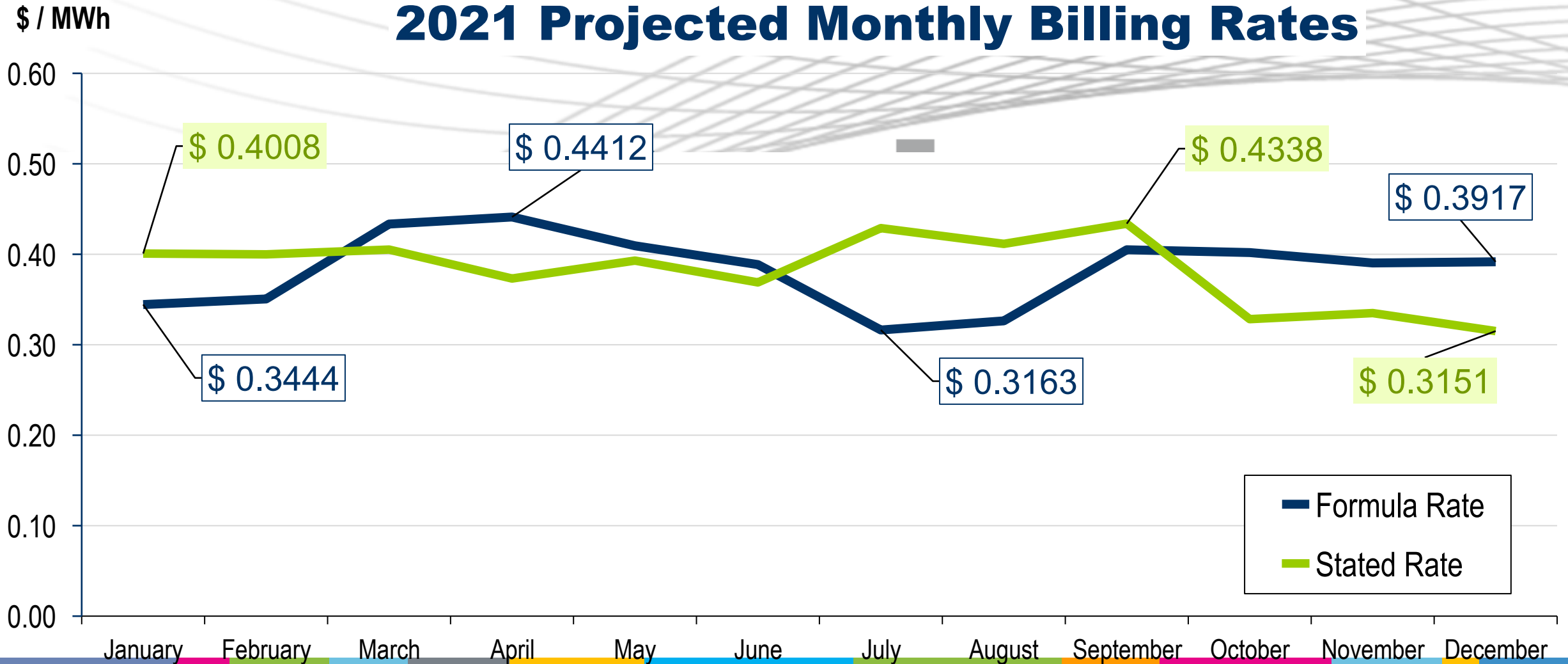
Formula vs Stated Rate Monthly Billing

Projected 2021 Monthly Billing




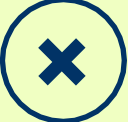

Formula vs Stated Rate Monthly Billing

2021 Projected Monthly Billing Rates



Evaluating Rate Options Against Objectives

Objectives for PJM Rate Filing

| | RATE | |
|--|---|---|
| | Formula | Stated |
| 1 Ensure Revenue Adequacy and Rate Equity |  |  |
| 2 Examine cost allocation to PJM member classes | | |
| 3 Maintain enhanced rate and cost transparency to members | |  |
| 4 Deploy effective operation and capital cost management | | |
| 5 Maintain creditworthiness for cost-effective borrowing purposes | | |

PJM's Schedule 9 Administrative Rates

Utilize Formula Rate cost recovery mechanism

Factor in 2021 cost of service study assignment results

Consolidate Schedules 9-3 and 9-4

Recover PJM Settlement, Inc. costs via a per invoice issued basis

- **Utilize current determinants for rate schedules**
- **Maintain PJM Finance Committee Protocol**
- **Keep annual membership costs at current levels**
- **Schedules 9 and 10 pass through rates remain unchanged**

PJM Administrative Rate Review Timeline

Rate Structure and Rate Level Governance

2020

2021

| Q3 | Q4 | Q1 | | Q2 | | | Q3 |
|--|--|--|---|--|--------------------------------------|-----------------------------------|---|
| Discuss drivers necessitating review | Development of options | | | Finance Committee recommendation | Members Committee endorsement | Board of Managers approval | FERC filing & approval request |
| <ul style="list-style-type: none"> • Stated-rate history • Rate analysis review • Rate structure and level governance review plan | <ul style="list-style-type: none"> • Members' rate objectives • 2017–2030 cost drivers | <ul style="list-style-type: none"> • Cost of Service Study • Rate Schedules Review • Cost projections | <ul style="list-style-type: none"> • Identify Perspective Rate Options • Develop Recommendation | <ul style="list-style-type: none"> • Finalize Recommendation • First read on prospective rate options • Recommendation letter • Endorsement vote request | | | <ul style="list-style-type: none"> • Target effective date |
| PJM Staff | PJM Staff & Finance Committee | | | Finance Committee & Member Representatives | | | PJM Staff |



- Members Committee – first read
- Members Committee – Endorsement request, September
- Rate Filing – 9/30/2021
- Target Effective Date – 1/1/2022

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PJM Administrative Rate Review