

PJM Calculated Annual Capital Recovery Factor (CRF) for Black Start Units

Timeline for CRF

Action	Date Due By
PJM determines annual CRF inputs	March 1
PJM posts annual CRF	March 31
Deadline for contesting annual CRF	April 15
Annual revenue requirement calculation	May 3 through May 27
Annual revenue requirement with CRF in effect	June 1

Any entity contesting the annual CRF value(s) shall do so by sending an email stating the contest and the reason for the contest to BlackStart@pjm.com.

Capital Recovery Factors

Age Of Unit (Years)	1 to 5	6 to 10	11 to 15	16 to 20
Capital Cost Recovery Period (Years)	20	15	10	5
CRF for 2021/22 Delivery Year (Effective For Units Entering Black Start Service 06/06/2021 - 05/31/2022)	0.106	0.120	0.151	0.250
CRF for 2022/23 Delivery Year (Effective For Units Entering Black Start Service 06/01/2022 - 05/31/2023)	0.105	0.119	0.150	0.249

Capital Recovery Factor Equation

Capital Recovery Factors (CRF) are calculated using the equation below:

$$CRF = \frac{r(1+r)^N \left[1 - \frac{sB}{\sqrt{1+r}} - s(1-B)\sqrt{1+r} \sum_j^L = 1 \frac{m_j}{(1+r)^j} \right]}{(1-s)\sqrt{1+r} [(1+r)^N - 1]} \dots$$

Formula Symbol	Description
r	After-Tax Weighted Average Cost of Capital (ATWACC)
s	Effective Tax Rate
B	Bonus Depreciation Percent
N	Cost Recovery Period (Years)
L	Lesser of N or 16 (Years)
m _j	Modified Accelerated Cost Recovery System (MACRS) depreciation factor for year j = 1, 2, ..., 16

The following assumptions are used in the calculation:

- Current federal tax and depreciation rates as established by U.S. Internal Revenue Service
- the state tax rate is an average of the income tax rates for all the states in the PJM Region

- 50 percent equity for the capital investment necessary to make a unit qualify for Black Start Service
- 50 percent debt for the capital investment necessary to make a unit qualify for Black Start Service
- Debt interest rate based on the most recent Net CONE quadrennial review after-tax weighted average cost of capital (ATWACC) and modified on annual basis by a 200 basis points or greater changes in the Moody Utility Index for bonds rated Baa1
 - This interest rate will be updated during the Net CONE quadrennial review
 - If the 2-year change in the Moody Utility Index for bonds rated Baa1 is more than 200 basis points, this change will be added to the interest rate used in the most recent Net CONE quadrennial review and used for the current year's interest rate
- Debt term equal to the recovery period
- Cost of equity equal to an after tax internal rate of return on equity of 12%

Values Utilized in Calculation of CRF for 2022/2023 Delivery Year

Federal Corporate Income Tax Rate	21.00%
State Tax Rate	6.56%
Percent Equity	50.00%
Percent Debt	50.00%
Cost of Equity	12.00%
Loan Term	Remaining Plant Life
Debt Rate	7.50%
Depreciation	100% Bonus
Effective Tax Rate	26.19%

Further Information

Further information on the annual Capital Recovery Factor (CRF) for Black Start Units can be found in:

- PJM Open Access Transmission Tariff (OATT)
- PJM Manual 15