

Example PJM Default Allocation Calculation

August 21, 2018

- The Operating Agreement (§ 15.2.2) establishes a Default Allocation Assessment formula to be used on direction of the PJM Board of Managers
 - Membership (10%)
 - \$10,000 annual cap
 - Activity (90%)
 - Prorata based on three months of gross billings
 - Gross = absolute value of all line items on monthly invoice
 - » After intra-month adjustments; excluding inter-month adjustments
 - Each month's absolute values are calculated separately before summing across months
 - A few members are exempt
 - Special members, consumer advocates, etc.

PJM's methodology for the allocation of defaults is outlined in Section 15.2.2 of the Operating Agreement.

§15.2.2 Default Allocation Assessment

(a) "Default Allocation Assessment" shall be equal to $(0.1(1/N) + 0.9(A/Z))$, where:

- *N* = the total number of Members, calculated as of five o'clock p.m. eastern prevailing time on the date PJM declares a Member in default, excluding ex officio Members, State Consumer Advocates, Emergency and Economic Load Response Program Special Members, and municipal electric system Members that have been granted a waiver under section 17.2 of this Agreement.
- *A* = for Members comprising factor "N" above, the Member's gross activity as determined by summing the absolute values of the charges and credits for each of the Activity Line Items identified in section 15.2.2(b) of this Agreement as accounted for and billed pursuant to section 3 of Schedule 1 of this Agreement for the month of default and the two previous months.
- *Z* = the sum of factor *A* for all Members excluding ex officio Members, State Consumer Advocates, Emergency and Economic Load Response Program Special Members, and municipal electric system Members that have been granted a waiver under section 17.2 of this Agreement.*

The assessment value of $(0.1(1/N))$ shall not exceed \$10,000 per Member per calendar year, cumulative of all defaults. If one or more defaults arise that cause the value to exceed \$10,000 per Member, then the excess shall be reallocated through the gross activity factor.

(b) Activity Line Items shall be each of the line items on the PJM monthly bills net of load reconciliation adjustments and adjustments applicable to activity for the current billing month appearing on the same bill.

* Additionally, OA §11.7 (b) (vii) provides that Associate members are also exempt



Example 1 – Default Allocation Calculation – Overview

Example: \$100,000 default to be allocated among **1,000** eligible members

Invoice Line Items	Invoice Values				Default Allocation Calculation			
	1100 Network Ch	1200 DA Spot Mkt Ch	1205 Bal Spot Mkt Ch	Net Invoice	Total Absolute Value	90% Activity Allocation	10% Membership Allocation	Total Allocation
Member A	200	700	100	1,000	1,000	9,000	10	9,010
Member B		(1,000)		(1,000)	1,000	9,000	10	9,010
Member C		500	(500)	0	1,000	9,000	10	9,010
Member D				each an "A"		0	10	10
Other Members	800	6,000	200		7,000	63,000	9,960	72,960
Absolute Total	1,000	8,200	800	"Z"	10,000	90,000	10,000	100,000

- This example shows one monthly invoice and one account per member (members may have multiple accounts)
- The actual activity calculation is performed separately per member account and each of the three months
 - Factor "A" for each account is the sum of the Total Absolute Value over the three invoices
- Each account receives its own assessment based on its activity share ("A" / "Z")
- A single Membership Allocation is assessed to each member and billed to one account (or manually, if the member is not active)

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Example 2 – Default Allocation Calculation Process – Detail

Example: Using a monthly invoice to calculate a member’s “activity” for the activity calculation

Step 1: Discard inter-month adjustments

Step 2: Apply intra-month adjustments

Step 3: Calculate and sum absolute values for each line item

Step 4: Add absolute values; repeat for all three months. The 3-month total is (“A”)

PJM will repeat the process for all accounts for all members (total =“Z”). Each account’s activity share of the default is its prorata share of this total value

CHARGES	ADJ	BILLING LINE ITEM NAME	SOURCE BILLING PERIOD START	AMOUNT (\$)	Intra-Month Adjustments	Adjusted Value	Absolute Value
1100		Network Integration Transmission Service		1,000		1,000	1,000
1108		Transmission Enhancement		2,000	(1,000)	1,000	1,000
1200		Day-ahead Spot Market Energy		(3,000)		(3,000)	3,000
1205		Balancing Spot Market Energy		1,000		1,000	1,000
1215		Balancing Transmission Congestion		100		100	100
1220		Day-ahead Transmission Losses		1,000		1,000	1,000
1225		Balancing Transmission Losses		(100)		(100)	100
1250		Meter Error Correction		50		50	50
1340		Regulation and Frequency Response Service		(200)	(20)	(220)	220
1375		Balancing Operating Reserve		100		100	100
1108	A	Transmission Enhancement	7/1/2018	(1,000)			
1340	A	Regulation and Frequency Response Service	7/1/2018	(20)			
1375	A	Balancing Operating Reserve	3/1/2014	(100)			
		Total Charges		830			
CREDITS	ADJ	BILLING LINE ITEM NAME	SOURCE BILLING PERIOD START	AMOUNT (\$)	Intra-Month Adjustments	Adjusted Value	Absolute Value
2100		Network Integration Transmission Service		100		100	100
2130		Firm Point-to-Point Transmission Service		100		100	100
2211		Day-ahead Transmission Congestion		1,000		1,000	1,000
2215		Balancing Transmission Congestion		(100)		(100)	100
2340		Regulation and Frequency Response Service		200		200	200
2140	A	Non-Firm Point-to-Point Transmission Service	6/1/2018	100			
		Total Credits		1,400			
						Total	9,070

The Per-capita Membership portion accounts for the other 10%

The total 3-month amount calculated for each account (“A”) applies to the “Activity” portion of the default allocation, which is 90% of the total