

September 29, 2022

PJM Board of Managers:

Mr. Mark Takahashi, Chair
Mr. Manu Asthana
Mr. Terry Blackwell
Ms. Paula Conboy
Ms. Jeanine Johnson
Ms. Margaret Loebel
Mr. David E. Mills
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Mr. Charles F. Robinson
Ms. Vickie A. VanZandt

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

Subject: Finance Committee Recommendations

The Finance Committee met on August 24, 2022 and again on September 22, 2022 to review the proposed PJM 2023 expense and capital budgets as well as the proposed 2023 budgets for OPSI, CAPS, NERC, RFC and Monitoring Analytics and the 2023 Schedule 9-FERC rates.

In addition, the Committee reviewed PJM's projected expenses and revenues for the remainder of 2022 through 2026, including the estimated rates. A presentation and review of the proposed capital projects for 2023 was made at the September 6, 2022 Planning Committee, the September 7, 2022 Market Implementation Committee, and the September 8, 2022 Operating Committee meetings.

1. Proposed Expense Budget for 2023

PJM has proposed an expense budget of \$341 million for 2023. This value exceeds the long-term projections discussed in the 2022 budget review and rates review processes discussed during 2021 by \$6 million. The increase over the prior projection reflects increased regional transmission planning requirements identified in the FERC NOPRs in June of 2022 and

increased inflation assumptions. The PJM Sector-Elected Finance Committee members appreciate PJM Management's efforts to control the company's expenses and provide timely, accurate and detailed financial analysis for the committee.

For 2022, PJM proposed, and the PJM Board of Managers ("Board") approved, an expense budget of \$322 million. Current forecasts project PJM's actual expenses will be approximately \$322 million for 2022, which matches the original budget. The Sector-Elected representatives of the PJM Finance Committee recommend that the Board adopt the proposed 2023 expense budget while encouraging PJM Management to continue to seek and sustain cost-saving initiatives that enhance the efficiency, reliability, and effectiveness of PJM markets.

2. Proposed 2023 Capital Budget

PJM has proposed a capital budget for 2023 of \$45 million. This budget is \$2 million higher than the 2022 budget with the increase primarily targeted to enhance credit and risk tools and data analytics capabilities. This aligns with the long-term projections discussed during the 2022 budget cycle and the projections reviewed in the rates discussions during 2021. The Sector-Elected representatives of the PJM Finance Committee recommend that the Board adopt the proposed \$45 million capital budget for 2023.

3. Proposed Schedule 9-FERC Rate for 2023

PJM has proposed a Schedule 9-FERC rate of \$0.0938 per MWh of load for 2023 relative to PJM's projected transmission usage of 818 terawatt-hours for 2023. This represents a \$0.0085 per MWh of load increase in cost from the 2022 Schedule 9 FERC rate. The 2022 Schedule 9-FERC rate is \$0.0853 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 2023

OPSI presented its approved budget of \$1,048,900 for 2023. This represents a \$61,400 or 6.2% increase from the 2022 OPSI budget. Any OPSI budget increase in excess of 15% requires FERC review and approval. Since the proposed 2023 OPSI budget increase is below the FERC

approval requirement identified in Schedule 9-OPSI, the Sector-Elected Representatives of the PJM Finance Committee accept the proposed budget.

5. Proposed Schedule 9-CAPS Rate for 2023

CAPS presented its budget of \$609,462 for 2023. This is an increase of \$22,800 or 3.9%. Any CAPS budget increase in excess of 7.5% requires FERC review and approval. Since the proposed 2023 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 2023.

6. Proposed Schedule 9-MMU Rate for 2023

The 2023 Monitoring Analytics' proposed budget is \$15.1 million, a \$0.5 million or 3.7% increase from the 2022 original budget and a \$1.6 million or 11.0% increase from the current projected costs for 2022. The budget increase is driven principally by employee compensation increases, technology spending and depreciation, offset by a decrease in non-employee labor. There were some issues of concern to certain Sector-Elected Representatives regarding Monitoring Analytics' budget for 2023.¹

6. Proposed Schedule 10 for NERC and RFC 2023 Budgets

The NERC 2023 assessment to PJM members is proposed at \$12.9 million. The RFC 2023 assessment to PJM members is proposed at \$18.5 million. These amounts represent an increase of approximately 11.5% and 4.9%, respectively, from the 2022 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

¹ Although those concerns are more fully documented in publicly available Finance Committee meeting materials, in the view of certain Sector-Elected Representatives, the budget increase of 11% over the forecasted 2022 expenses is considerable. Other Sector-Elected Representatives do not share those concerns for various reasons. Additionally, Monitoring Analytics' actual annual spend has consistently come in 15-20% below budget for many years. Some Sector-Elected Representatives would prefer to see a more precise budget that deviates on average from actual spend within a tighter range (e.g. +/-5%) in future years. Other Sector-Elected Representatives do not have the same view given the nature of Monitoring Analytics' work.

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.

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 2023 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