

October 3, 2017

PJM Board of Managers:

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Subject: Finance Committee Recommendations

The Finance Committee met on August 23, 2017 and again on September 26, 2017 to review the proposed PJM 2018 expense and capital budgets as well as the proposed 2018 OPSI, CAPS, NERC, RFC and Monitoring Analytics budgets and the 2018 Schedule 9-FERC rates.

In addition, the Committee reviewed PJM's projected expenses and revenues for the remainder of 2017 through 2021, including the estimated impact on rates and the respective deferred regulatory accounts. Additionally, a presentation and review of the proposed capital projects for 2018 was made at the September 12, 2017 Operating Committee, the September 14, 2017 Planning Committee, and the September 28, 2017 Markets and Reliability Committee meetings.

1. Proposed Expense Budget for 2018

PJM has proposed an expense budget of \$293 million for its Stated Rate expenses in 2018. This value is within the long-term projections discussed in the updated stated rates 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 2017, PJM proposed, and the PJM Board of Managers ("Board") approved, an expense budget of \$287 million. Current forecasts project PJM's actual expenses will be approximately \$285 million for 2017, which is in line with the original budget.

The Sector-Elected representatives of the PJM Finance Committee recommend that the Board accept the proposed 2018 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 2018 Capital Budget

PJM has proposed a capital budget for 2018 of \$42 million. The \$4 million proposed increase from 2017 is primarily for work planned on the Energy Managements System program and facilities and technology infrastructure. It is anticipated that nominal capital expenditures on a going forward basis will average \$40 million annually. This aligns with the long-term projections discussed in connection with the updated stated rates implemented on January 1, 2017.

The Sector-Elected representatives of the PJM Finance Committee recommend that the Board approve the proposed \$42 million capital budget for 2018.

3. Proposed Schedule 9-FERC Rate for 2018

PJM has proposed a Schedule 9-FERC rate of \$0.0765 per MWh of load for 2018 relative to PJM's projected transmission usage of 850 terawatt-hours for 2018. This represents a \$0.0006 per MWh of load increase in cost from the 2017 Schedule 9 FERC rate. The 2017 Schedule 9-FERC rate is \$0.0759 per MWh.

The Sector-Elected representatives of the PJM Finance Committee recommend that the Board approve the proposed rate.

4. Proposed Schedule 9-OPSI Rate for 2018

OPSI presented its approved budget of \$696,300 for 2018. This amount represents an increase of \$37,400 or 5.7% from the 2017 OPSI budget. Any OPSI budget increase in excess of 15% requires FERC review and approval. Since the increase is below the 15% threshold, the Sector-Elected Representatives of the PJM Finance Committee accept OPSI's budget for 2018.

5. Proposed Schedule 9-CAPS Rate for 2018

CAPS presented its budget of \$446,845 for 2018. The 2018 CAPS budget is below the \$450,000 threshold identified in Schedule 9-CAPS. Since the 2018 budget is below FERC approval requirement, the Sector-Elected Representatives of the PJM Finance Committee accepts the CAPS budget for 2018.

6. Proposed Schedule 9-MMU Rate for 2018

The 2018 Monitoring Analytics' proposed budget is \$13.5 million, a 2.1% increase from the 2017 original budget and a 7.0% increase from the current projected costs for 2017. The increase in the budget is primarily driven by changes in technology, data costs and increased depreciation costs. Monitoring Analytics' budget has increased annually

since 2014. The main driver for the budget exceeding prior year's expenses is the asymmetrical risk related to managing expenses.

There were no extraordinary issues of concern to the committee and the Sector-Elected Representatives regarding Monitoring Analytics' budget for 2018. The Sector-Elected Representatives of the PJM Finance Committee accept the Monitoring Analytics' budget.

6. Proposed Schedule 10 for NERC and RFC Budget

The NERC 2018 assessment to PJM members is proposed at \$9.8 million. The RFC 2018 assessment to PJM members is proposed at \$15.4 million. These amounts represent approximately 4.9% and 2.6% increases, respectively, from the 2017 budget projections 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.

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 2018 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