

September 20, 2019

PJM Board of Managers:

Dr. Ake Almgren, Chair
Mr. Terry Blackwell
Mr. John McNeely Foster
Mr. O.H. Dean Oskvig
Ms. Susan J. Riley
Mr. Charles F. Robinson
Ms. Sarah S. Rogers
Mr. Neil H. Smith
Mr. Mark Takahashi

PJM Interconnection, LLC
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Subject: Finance Committee Recommendations

The Finance Committee met on August 20, 2019 and again on September 17, 2019 to review the proposed PJM 2020 expense and capital budgets as well as the proposed 2020 budgets for OPSI, CAPS, NERC, RFC and Monitoring Analytics and the 2020 Schedule 9-FERC rates.

In addition, the Committee reviewed PJM's projected expenses and revenues for the remainder of 2019 through 2023, including the estimated impact on rates and the respective deferred regulatory accounts. A presentation and review of the proposed capital projects for 2020 was made at the September 10, 2019 Operating Committee, the September 11, 2019 Market Implementation Committee and the September 12, 2019 Planning Committee meetings.

1. Proposed Expense Budget for 2020

PJM has proposed an expense budget of \$305 million for its Stated Rate expenses in 2020. This value is within the long-term projections discussed in the updated stated rates mechanism 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 2019, PJM proposed, and the PJM Board of Managers ("Board") approved, an expense budget of \$296 million. Current forecasts project PJM's actual expenses will be approximately \$298 million for 2019, which is \$2 million above the original budget. The Sector-Elected representatives of the PJM Finance Committee recommend that the Board accept the proposed 2020 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 2020 Capital Budget

PJM has proposed a capital budget for 2020 of \$40 million. This budget is \$2 million below the 2019 budget. This aligns with the long-term projections discussed in connection with the updated stated rates mechanism implemented on January 1, 2017.

The Sector-Elected representatives of the PJM Finance Committee recommend that the Board accept the proposed \$40 million capital budget for 2020.

3. Proposed Schedule 9-FERC Rate for 2020

PJM has proposed a Schedule 9-FERC rate of \$0.0783 per MWh of load for 2020 relative to PJM's projected transmission usage of 822 terawatt-hours for 2020. This represents a \$0.0009 per MWh of load increase in cost from the 2019 Schedule 9 FERC rate. The 2019 Schedule 9-FERC rate is \$0.0774 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 2020

OPSI presented its approved budget of \$922,500 for 2020. This represents a \$226,200 or 32.5% increase from the 2019 OPSI budget. Any OPSI budget increase in excess of 15%

requires FERC review and approval. The Sector-Elected Representatives of the PJM Finance Committee requested additional information about OPSI's budget for 2020 which was provided to the Committee in a timely manner. However, since the Members may comment on this unprecedented increase at FERC, the Sector-Elected representatives are not collectively providing a recommendation on the requested budget.

5. Proposed Schedule 9-CAPS Rate for 2020

CAPS presented its budget of \$513,948 for 2020. This is an increase of \$34,862 or 7.3%. Any CAPS budget increase in excess of 7.5% requires FERC review and approval. Since the proposed 2020 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 2020.

6. Proposed Schedule 9-MMU Rate for 2020

The 2020 Monitoring Analytics' proposed budget is \$14.7 million, a \$1.3 million or 9.7% increase from the 2019 original budget and a \$2.5 million or 20.5% increase from the current projected costs for 2019. Monitoring Analytics' budget has increased annually since 2014. The main drivers for the budget exceeding prior year's expenses is the increase in compensation and benefits for additional staff, merit increase, and benefit inflation; increase in depreciation reflecting capital purchases for systems replacements, and asymmetrical risk related to managing expenses.

There were some issues of concern to the Committee and the Sector-Elected Representatives regarding Monitoring Analytics' budget for 2020. The budget increase of 20% over than forecasted 2019 expenses is considerable. The Representatives will be closely monitoring the expenses in 2020 as well as the budget for 2021. Despite the concerns, the Sector-Elected Representatives of the PJM Finance Committee accept the Monitoring Analytics' budget for 2020 while encouraging the Board to also exercise due diligence.

6. Proposed Schedule 10 for NERC and RFC 2020 Budgets

The NERC 2020 assessment to PJM members is proposed at \$11.1 million. The RF 2020 assessment to PJM members is proposed at \$16.8 million. These amounts represent approximately 5.7% and 3.7% increases, respectively, from the 2019 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

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 2020 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