

**PJM Finance Committee
Financial Review,
Reporting and Communications Protocol**

The purpose of the PJM Finance Committee is: (a) to review PJM LLC and its subsidiaries' financial statements, budgeted and actual capital costs, operating budgets and expenses, and cost management initiatives; and (b) to make recommendations to the PJM Board on matters pertaining to the appropriate level of PJM's rates, proposed major new investments and allocation and disposition of funds consistent with PJM's duties and responsibilities as specified in, Section 7.7 of the Operating Agreement. Those duties and responsibilities are to provide for: (i) the safe and reliable operation of the Interconnection; (ii) the creation and operation of a robust, competitive, and non-discriminatory electric power market in the PJM Control Area, and (iii) the principle that a Member or group of Members shall not have undue influence over the operation of the Interconnection.

This protocol outlines and describes the procedures and processes under which the Finance Committee and PJM implement section 7.5 of the PJM Operating Agreement.

1. This Committee shall serve in an advisory capacity to the PJM Board and shall not be responsible for the financial decisions of PJM.
2. The PJM Finance Committee is comprised of 13 persons, as follows:
 - a. Two Board Members, other than the President, selected by the PJM Board ("Board Representatives");
 - b. One representative of the Office of the Interconnection selected by the President ("PJM Representative");
 - c. Two representatives shall be elected from each sector of the Members Committee as defined in section 8.1 ("Member Representatives").
 - i. Member Representatives are expected to serve 3 year terms, attend meetings regularly and effectively represent their sectors' interest.
 - ii. In order to provide effective and continuous member representation and to leverage Finance Committee experience, each sector's Member Representatives are expected to serve staggered terms on the Finance Committee.
3. The PJM Representative shall be the Chair of the PJM Finance Committee. Neither the PJM Representative nor the Board representatives shall vote on the Member Representatives' recommendations to the PJM Board and Members Committee. Recommendations shall be based upon a vote of a majority of the

Member Representatives. Member Representatives that do not support the majority vote may provide a written minority report to the PJM Board in conjunction with the majority recommendation.

4. The Member Representatives represent the interests of their respective sectors and shall provide through a Member Representative selected by the Member Representatives periodic status reports to the Members Committee (at least once every six months) on Finance Committee activities.
5. The Member Representatives shall in accordance with sections 7.7 and 11.1 of the Operating Agreement avoid (1) undue influence by any Member or group of Members on the operation of PJM and (2) Member management of the business of PJM.
6. The Finance Committee shall meet at least quarterly. An agenda and conference call information for Finance Committee meetings shall be posted on the PJM web site and the Finance Committee meetings shall be open to participation by all members. Such postings shall occur at least one week prior to such Finance Committee meetings, unless a meeting is scheduled with less than one week notice, in which case such notice shall be provided as is reasonably practicable. Additional meetings may be called by either the PJM Representative or any four Member Representatives. A quorum will consist of one PJM Board member and representation from four of five sectors. Committee members are expected to participate in meetings in person. Committee minutes will be prepared and posted to the PJM web site.
7. Amendments to this Financial Review, Reporting and Communications Protocol shall be determined by vote of a majority of the total Committee representatives, which majority shall include at least one PJM Board Representative.
8. The Chief Operating Officer of PJM or her or his designee shall participate as an *ex officio* non-voting participant.
9. Quarterly meetings will have as an agenda at a minimum, to review and discuss the following:
 - a. PJM's unaudited quarterly financial statements and management's discussion and analysis thereof, including a comparison of allocated costs and actual revenues collected from stated rates for each service included in Schedules 9-1 through 9-5 of the PJM Tariff; and
 - b. Any intercompany charges or credits between PJM's non-FERC regulated subsidiaries and the FERC-regulated RTO shall be identified in these reviews and discussions.

For the following items c. through h., PJM will review the indicated information for the FERC-regulated company:

- c. Material variances in revenues, net operating expense and capital budget vs. actual results;
- d. Material variances in revenues, net operating expense and capital forecast vs. actual results;
- e. Summary of trends from the previous quarterly statements;
- f. Status update on open major projects;
- g. Analysis of any deferred regulatory liability balances; and
- h. Forecast of net operating expenses and capital for the full fiscal year.

Material variances in net operating expenses shall be reviewed on a total FERC-regulated company basis (and on a service category basis once stated rates are implemented) in PJM's major cost element categories, such as compensation, non-employee labor, technology, depreciation and interest, other operating expenses, and income taxes. Material variances in capital shall be reviewed on a total FERC-regulated company basis and shall include discussion of any material variances of the projects included in the annual capital budget. Material variances shall be reviewed in sufficient detail so that the Finance Committee members understand the nature and the cause of the material variance.

- 10. On an annual basis the Finance Committee will review and discuss the following items relative to PJM's FERC-regulated activities:
 - a. PJM's total annual and 5-year projected revenues and significant expenses (by Tariff schedules and service categories, including integration and all subsidiaries' expenses included therein)
 - b. PJM's Annual and 5-year projected operating budget and significant expenses (by Tariff schedules and service categories, including integration and all subsidiaries' expenses included therein), such as
 - 1. Total labor expenses (compensation and benefits)
 - a. Current FTEs (headcount and associated expenses) and contractor expenses
 - b. Projected FTEs and contractor expenses for the periods in the projections under review
 - 2. Depreciation expenses and interest expense
 - 3. Technology expense
 - c. Any intercompany charges or credits between PJM's non-FERC regulated subsidiaries and the FERC-regulated RTO shall be identified in these annual and 5-year projections.
 - d. Budget variance reports showing major areas of differences in total revenues and operating budget/expenses vs. actual results. Such

differences shall be reviewed on a total FERC-regulated company basis (and on a service category basis once stated rates are implemented) in PJM's major cost element categories, such as compensation, non-employee labor, technology, depreciation and interest, other operating expenses, and income taxes. Material variances shall be reviewed in sufficient detail so that the Finance Committee members understand the nature and the cause of the material variance.

- e. PJM annual and 5-year projected capital spending
 - 1. Total Spending
 - 2. Identified Projects: PJM shall review with the Finance Committee the list of active and projected capital projects in the primary project categories, such as reliability services, risk management, new products, technology upgrades.
 - 3. Major Projects: Unless the PJM Board directs otherwise, before making capital expenditures with regard to major projects, and in conjunction with the annual budget process thereafter, PJM shall review with the Finance Committee each major new investment with anticipated total capital expenditures of \$25 million or more. Such review shall include the project description, business purpose, development and post-development cost projections, and risk analysis, including alternatives considered and dismissed, if applicable. The Member Representatives, in an advisory capacity, may provide recommendations to the PJM Board regarding these projects. In the case of an emergency requiring immediate action, PJM shall not be required to consult with the Finance Committee in advance of making capital expenditures for major projects but shall provide notice as promptly as is practicable in the circumstances.
- f. Actual capital spending
- g. Analysis of any deferred regulatory liability balances;
- h. Financial Results - Annual review and discussion of actual financial results. The goal of this annual review is to provide the Finance Committee a broad and comprehensive review and understanding of the financial position of PJM and its subsidiaries.
- i. Annual review of past and present year financial performance relative to PJM's Board-approved goals and objectives.
- j. Review and discussion of actual financial results, including actual capital spending, operating budget and expenses under Stated Rates and the rider recovering the costs of the second control center (AC² rider).

- k. Review and discussion of the five-year projected revenues and expenses under Stated Rates and the AC² rider.
 - l. Review of projected sources and uses of funds consistent with PJM's purposes included in section 7 of the PJM Operating Agreement and Other Activity Protocol.
 - m. Recommendations to the PJM Board of any changes in budgets or sources and uses of funds based on the Finance Committee review of items (a) through (l).
11. For major projects arising at times that do not coincide with PJM's annual budget process, unless the PJM Board directs otherwise, before making capital expenditures with regard to major projects, and in conjunction with the annual budget process thereafter, PJM shall review with the Finance Committee each major new investment with anticipated total capital expenditures of \$25 million or more. Such review shall include the project description, business purpose, development and post-development cost projections, and risk analysis, including alternatives considered and dismissed, if applicable. The Member Representatives, in an advisory capacity, may provide recommendations to the PJM Board regarding these projects. In the case of an emergency requiring immediate action, PJM shall not be required to consult with the Finance Committee in advance of making capital expenditures for major projects but shall provide notice as promptly as is practicable in the circumstances.
12. The Finance Committee may request from PJM, and PJM shall provide, additional data as may be reasonable and consistent with this protocol to assist it in its reviews. The Member Representatives may request the PJM Board to direct PJM to address any concerns of the Member Representatives concerning the quality and detail of information provided by PJM to the Finance Committee.
13. PJM shall give the Finance Committee advance notice of proposed regulatory filings to modify PJM's administrative rate structure so as to permit the Committee to review and provide comment on the proposed modifications. The Finance Committee, in an advisory capacity, shall provide recommendations to the PJM Board regarding such proposed changes to PJM's administrative rates. In emergency situations, PJM shall provide such notice as feasible to the Finance Committee and the Finance Committee shall provide such recommendations as feasible under the circumstances.
14. The Finance Committee may engage consultants to assist in the Finance Committee's review of PJM's proposed annual budget, major projects and any changes proposed by PJM to its administrative rates. Consultants engaged by the Finance Committee shall have access to the same information provided to the Finance Committee under this protocol. The costs of such consultants shall be managed by the

Finance Committee and, if approved by PJM's members, PJM shall recover such consulting costs from PJM's members through a separate Tariff schedule other than Schedules 9-1 through 9-5.

15. On an annual basis PJM shall submit its annual budget to the Finance Committee for review and comment. To the extent feasible, PJM shall also submit to the Finance Committee any proposed changes to Tariff Schedules 9-1 through 9-5. The Member Representatives shall share their comments and any concerns relative to the budget or proposed Tariff changes with the PJM representative on the Finance Committee and the Chief Operating Officer, and PJM shall respond to the Member Representatives' comments and concerns. Subsequent to these communications, the Member Representatives shall make their written recommendations to the Board pursuant to sections 10 (k) or 13 hereof. If the Member Representatives' recommendations to the PJM Board differ from those of PJM management, the PJM Board representatives on the Finance Committee shall meet and review with the Member Representatives the reasons for such differences in order to assure that the Member Representatives' concerns and recommendations are accurately communicated to the PJM Board before it acts on the annual budget or proposed Tariff changes. The PJM Board Representatives shall ensure that the Member Representatives' recommendations are provided and explained to the PJM Board. The PJM Board will consider the Member Representatives' recommendations in their deliberations on PJM's annual budget, major projects, and revisions to Tariff Schedules 9-1 through 9-5, consistent with this protocol. In the event that the PJM Board approves an annual budget or change to Tariff Schedules 9-1 through 9-5 that is not consistent with recommendations provided by the Member Representatives to the PJM Board, the reasons why the PJM Board did not adopt the Member Representatives' recommendations shall be presented in writing and discussed with the Finance Committee by the PJM Board's representatives thereon.
16. Nothing contained in this protocol shall be construed as affecting in any way PJM's rights unilaterally to make application to the FERC for a change in rates under section 205 of the Federal Power Act and pursuant to the Commission's Rules and Regulations promulgated thereunder, and nothing in this protocol shall be construed as affecting in any way any entity's rights that they otherwise may have to make filings under sections 205 or 206 of the Federal Power Act.