

September 17, 2021

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
Mr. O.H. Dean Oskvig
Mr. Charles F. Robinson
Ms. Sarah S. Rogers

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

Subject: Finance Committee Recommendations

The Finance Committee met on August 16, 2021 and again on September 13, 2021 to review the proposed PJM 2022 expense and capital budgets as well as the proposed 2022 budgets for OPSI, CAPS, NERC, RFC and Monitoring Analytics and the 2022 Schedule 9-FERC rates.

In addition, the Committee reviewed PJM's projected expenses and revenues for the remainder of 2021 through 2025, including the estimated impact on rates and the respective deferred regulatory accounts. A presentation and review of the proposed capital projects for 2022 was made at the August 31, 2021 Planning Committee, the September 9, 2021 Market Implementation Committee, and the September 10, 2021 Operating Committee meetings.

1. Proposed Expense Budget for 2022

PJM has proposed an expense budget of \$322 million for its Stated Rate expenses in 2022. This value is within the long-term projections discussed in the updated stated rates mechanism (which is subject to be revised to a formula rate mechanism pending the upcoming Members Committee vote later this month) 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 2021, PJM proposed, and the PJM Board of Managers ("Board") approved, an expense budget of \$305 million. Current forecasts project PJM's actual expenses will be approximately \$303 million for 2021, which is \$2 million below the original budget. The Sector-Elected representatives of the PJM Finance Committee recommend that the Board accept the proposed 2022 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 2022 Capital Budget

PJM has proposed a capital budget for 2022 of \$43 million. This budget is \$3 million higher than the 2021 budget with the increase primarily targeted at cyber security investments. 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 \$43 million capital budget for 2022.

3. Proposed Schedule 9-FERC Rate for 2022

PJM has proposed a Schedule 9-FERC rate of \$0.0853 per MWh of load for 2022 relative to PJM's projected transmission usage of 817 terawatt-hours for 2022. This represents a \$0.0095 per MWh of load decrease in cost from the 2021 Schedule 9 FERC rate. The 2021 Schedule 9-FERC rate is \$0.0948 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 2022

OPSI presented its approved budget of \$987,500 for 2022. This represents a \$1,000 or 0.1% increase from the 2021 OPSI budget. Any OPSI budget increase in excess of 15% requires FERC review and approval. Since the proposed 2022 OPSI budget increase is below the FERC approval requirement identified in Schedule 9-OPSI, the Sector-Elected Representatives of the PJM Finance Committee recommend that the Board accept the proposed budget.

5. Proposed Schedule 9-CAPS Rate for 2022

CAPS presented its budget of \$586,662 for 2022. This is an increase of \$34,875 or 6.3%. Any CAPS budget increase in excess of 7.5% requires FERC review and approval. Since the proposed 2022 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 2022.

6. Proposed Schedule 9-MMU Rate for 2022

The 2022 Monitoring Analytics' proposed budget is \$14.6 million, a \$0.2 million or 1.5% increase from the 2021 original budget and a \$1.2 million or 8.9% increase from the current projected costs for 2021. The Sector-Elected Representatives of the PJM Finance Committee recommend that the Board accept the Monitoring Analytics' budget for 2022.

6. Proposed Schedule 10 for NERC and RFC 2021 Budgets

The NERC 2022 assessment to PJM members is proposed at \$11.5 million. The RFC 2022 assessment to PJM members is proposed at \$17.6 million. These amounts represent approximately 6.5% and 3.1%, respectively, from the 2021 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 2022 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