

September 21, 2018

PJM Board of Managers:

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Mr. Mark Takahashi

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

Subject: Finance Committee Recommendations

The Finance Committee met on August 22, 2018 and again on September 18, 2018 to review the proposed PJM 2019 expense and capital budgets as well as the proposed 2019 budgets for OPSI, CAPS, NERC, RFC and Monitoring Analytics and the 2019 Schedule 9-FERC rates.

In addition, the Committee reviewed PJM's projected expenses and revenues for the remainder of 2018 through 2022, including the estimated impact on rates and the respective deferred regulatory accounts. A presentation and review of the proposed capital projects for 2019 was made at the August 23, 2018 Markets and Reliability Committee, the September 11, 2018 Operating Committee and the September 13, 2018 Planning Committee meetings.

1. Proposed Expense Budget for 2019

PJM has proposed an expense budget of \$296 million for its Stated Rate expenses in 2019. 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 2018, PJM proposed, and the PJM Board of Managers ("Board") approved, an expense budget of \$293 million. Current forecasts project PJM's actual expenses will be approximately \$290 million for 2018, which is in line with the original budget. The Sector-Elected representatives of the PJM Finance Committee recommend that the Board accept the proposed 2019 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 2019 Capital Budget

PJM has proposed a capital budget for 2019 of \$42 million. This budget is equal to the 2018 budget and is primarily for work planned on the Energy Management Systems and for 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 mechanism 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 2019.

3. Proposed Schedule 9-FERC Rate for 2019

PJM has proposed a Schedule 9-FERC rate of \$0.0774 per MWh of load for 2019 relative to PJM's projected transmission usage of 843 terawatt-hours for 2019. This represents a \$0.0009 per MWh of load increase in cost from the 2018 Schedule 9 FERC rate. The 2018 Schedule 9-FERC rate is \$0.0765 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 2019

OPSI presented its approved budget of \$696,300 for 2019. This amount is equal to the approved 2018 OPSI budget. Any OPSI budget increase in excess of 15% requires FERC review and approval. Since the proposed budget doesn't eclipse the 15% threshold, the Sector-Elected Representatives of the PJM Finance Committee accept OPSI's budget for 2019.

5. Proposed Schedule 9-CAPS Rate for 2019

CAPS presented its budget of \$479,086 for 2019. This is an increase of \$32,241 or 7.1%. Any CAPS budget increase in excess of 7.5% requires FERC review and approval. Since the proposed 2019 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 2019.

6. Proposed Schedule 9-MMU Rate for 2019

The 2019 Monitoring Analytics' proposed budget is \$13.4 million, a 0.7% decrease from the 2018 original budget and an 8.9% increase from the current projected costs for 2018. 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 2019. The Sector-Elected Representatives of the PJM Finance Committee accept the Monitoring Analytics' budget.

6. Proposed Schedule 10 for NERC and RFC 2019 Budgets

The NERC 2019 assessment to PJM members is proposed at \$10.5 million. The RFC 2019 assessment to PJM members is proposed at \$16.2 million. These amounts represent approximately 8.0% and 5.5% increases, respectively, from the 2018 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 2019 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