



Administrative Rate Review

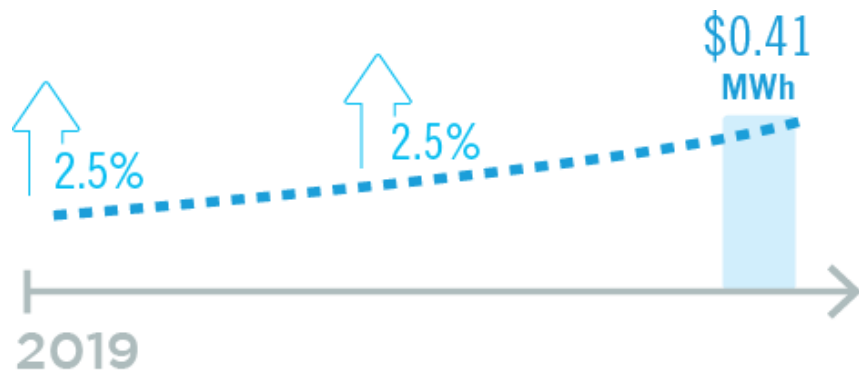
Members Committee Informational Webinar

March 22, 2021

Jim Snow

In 2016

PJM filed a revised stated-rate schedule that increased the Schedule 9 rates and provided an escalation of 2.5 percent each year, beginning in 2019, until the composite rate is \$0.41/MWh.



A few factors are highlighting the need to review PJM's rates:



**Energy
Forecast
Change**

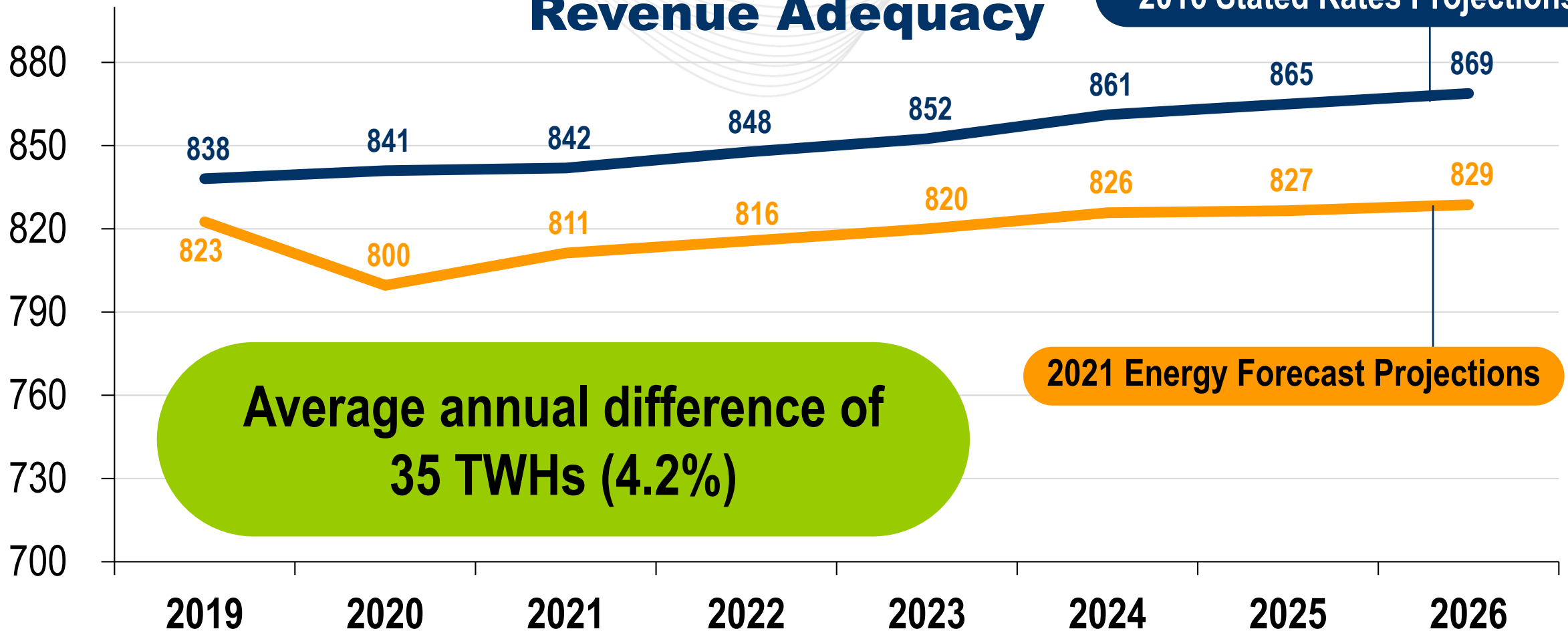


**Cost of Service
Review**

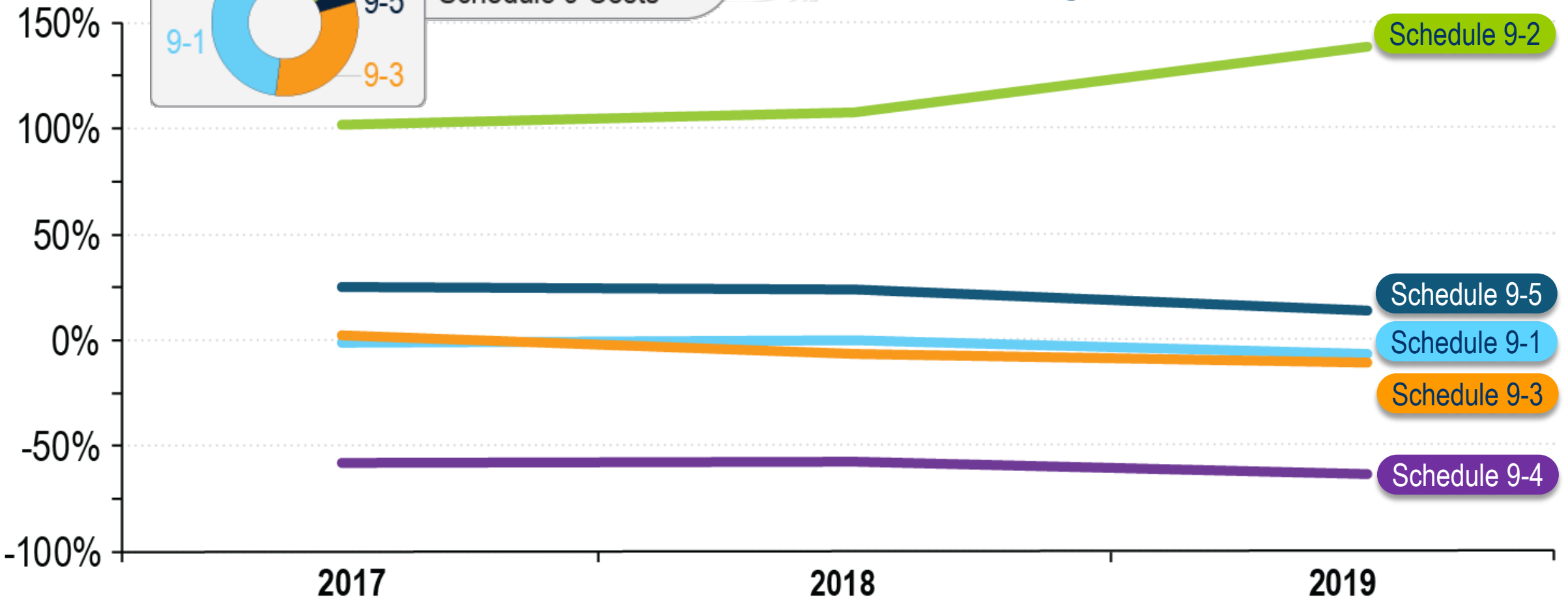
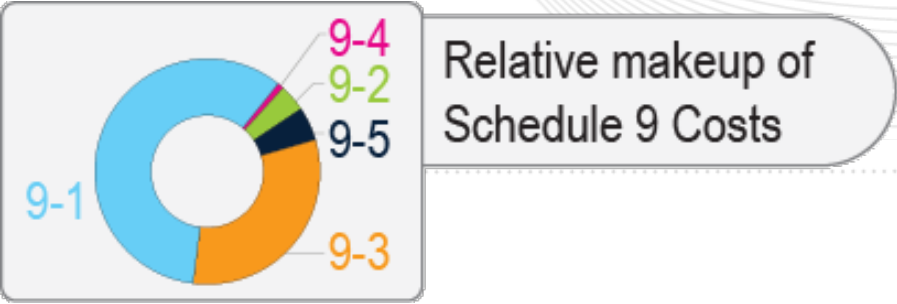


**Billing
Determinant
Shifts**

Energy (TWh)



Rate Equity





PJM / Stakeholder Jointly-Developed Objectives

2016 Stated Rate Filing Objectives

1	Maintain low rate volatility and provide multi-year service fee certainty for 5-10 years
2	Establish cost recovery for post-AC ² Rider ongoing costs of second control center
3	Maintain enhanced rate and cost transparency to members
4	Deploy effective operation and capital cost management
5	Maintain creditworthiness for cost-effective borrowing purposes

2021 PJM Rate Filing Objectives

1	Ensure Revenue Adequacy and Rate Equity
2	Examine cost allocation to PJM member classes
3	Maintain enhanced rate and cost transparency to members
4	Deploy effective operation and capital cost management
5	Maintain creditworthiness for cost-effective borrowing purposes

January 2021

Finance Committee

Cost Assignment

Based on historical data and staff interviews, assign PJM costs to its service schedules and derive cost assignment percentages to be applied in future years



February 2021

Finance Committee

Rates Schedules

Analyze how PJM's membership uses PJM's services

Review and evaluate PJM's service rate schedules and its billing units



Rate Design

Assess most suitable rate structure—stated rate, formula rate, or reconciling rate

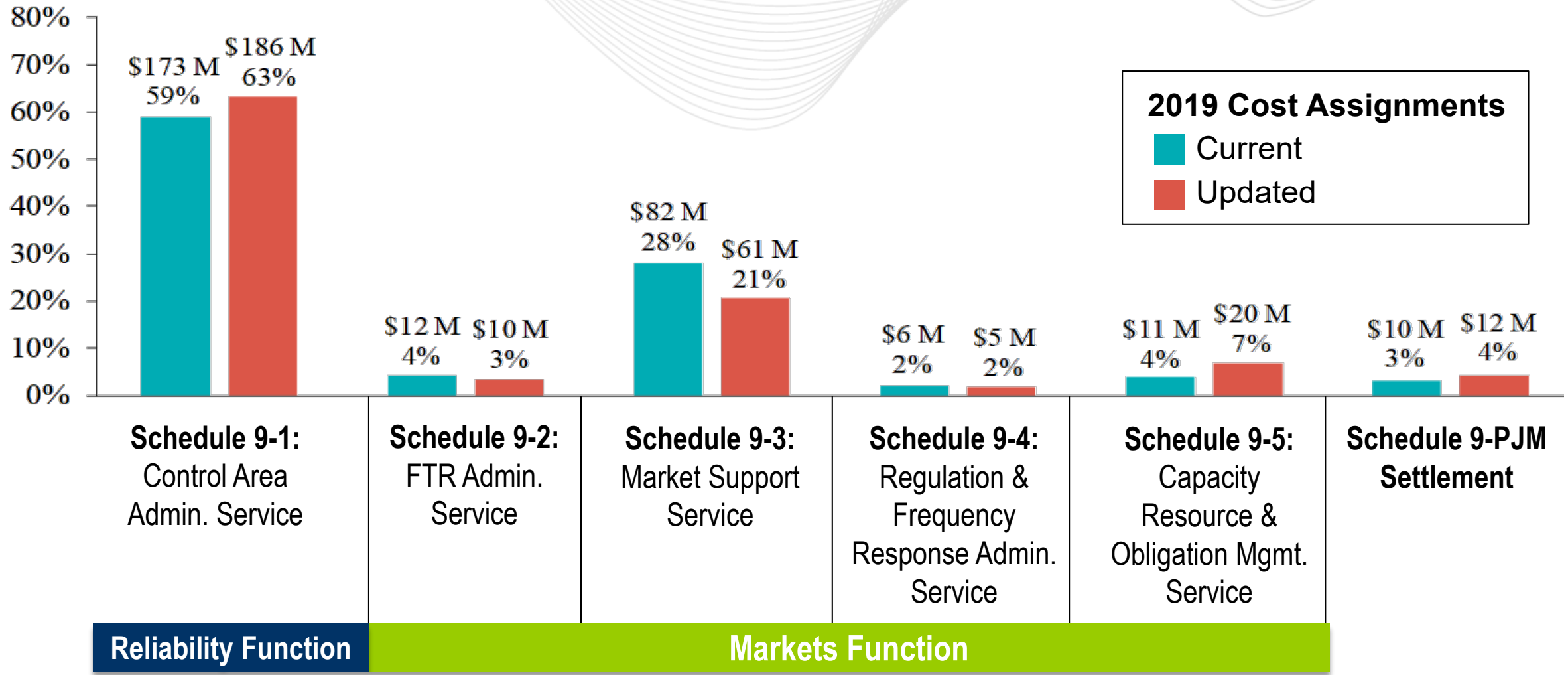


April 2021

Finance Committee

Revenue Requirement

Define a Test Year (2021) and assign PJM's budgeted cost of service to its service rate schedules



Stated

- Fixed rates set for several years
- Financial reserve
- True-up mechanism

Reconciling

- Rate set annually
- Annual reconciliation to revenue requirement or actual costs
- Over/under collections

Formula

- Utilizes cost assignment formula specified in the tariff
- Collects actual costs
- No reserve nor true-up

Continue work with the PJM Finance Committee on proposal

Develop updated tariff language (as necessary)

Seek recommendation from PJM Members

File updated rates and tariff language

Rate Structure and Rate Level Governance

2020

2021



2020 Q3	2020 Q4	2021 Q1		2021 Q2			2021 Q3
Discuss drivers necessitating review	Development of options			Finance Committee recommendation	Members Committee endorsement	Board of Managers approval	FERC filing & approval request
<ul style="list-style-type: none"> • Stated-rate history • Rate analysis review • Rate structure and level governance review plan 	<ul style="list-style-type: none"> • Members' rate objectives • 2017–2030 cost drivers 	<ul style="list-style-type: none"> • Cost of Service Study • Rate Schedules Review • Cost projections 	<ul style="list-style-type: none"> • Identify Perspective Rate Options • Develop Recommendation 	<ul style="list-style-type: none"> • First read on prospective rate options • Recommendation letter • Endorsement vote request 			<ul style="list-style-type: none"> • Target effective date
PJM Staff	PJM Staff & Finance Committee			Finance Committee & Member Representatives			PJM Staff