



# Performance Assessment Interval Bonus Holdback Implementation

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April 17, 2023

- The monthly bonus holdback is calculated at the interval level since bonus credits are a function of non-performance charges collected for each interval.
- The holdback is applied in two forms:
  - **Expected holdback**
    - Used to calculate the initial payment of bonus credits for each month (e.g. March share of bonus credits included in the March bill)
    - Based on expected risk of non-payment of non-performance charges in the upcoming bill month
    - Hedges the risk of paying out bonus credits in excess of what will actually be collected
  - **Actual holdback**
    - Only known after the billing statements for a given month have been issued and financially settled.
    - Based on actual non-payment of non-performance charges
    - Used to calculate adjustments to true up bonus credits paid out for each interval with the non-performance charges actually collected for each interval (e.g. adjustments to bonus credits for March included in the April bill)
    - Applied only to the intervals in which the accounts that underpaid had non-performance charges

The **expected holdback** is based on:

- Actual non-payment of non-performance charges in the prior billing month
  - Assumes any non-payment will continue in future months
  - This portion of the holdback applies only to the intervals in which the accounts that underpaid had non-performance charges
- An assessment of the risk of additional non-payment in the upcoming bill month
  - This is expressed as a % of total non-performance charges after accounting for the actual non-payment that carries over from the prior month
  - This percentage holdback is applied uniformly to all intervals.

From April forward, the expected holdback will also apply to bonus credits due from interest charges assessed to participants electing the 9 month billing option, although the holdback percentage for interest credits may differ from that of the principal.



# Holdback Implementation Summary

Holdback Type	March (Month 1 Activity)	April (Month 2 Activity)	Subsequent Months
<b>Expected</b> <i>(used in initial bill)</i>			
Actual non-payment component based on:	N/A <i>(no realized non-payment yet at time of bill issuance)</i>	Actual non-payment in March <i>(level to be discussed at April 25 RMC meeting)</i>	Actual non-payment from prior month
Expected non-payment component based on:	Risk assessment of non-payment in March  <i>(25%)</i>	Risk assessment of additional non-payment in April  <i>(level to be discussed at April 25 RMC meeting)</i>	Risk assessment of additional non-payment in the bill month
<b>Actual</b> <i>(used to calculation adjustments on subsequent bills)</i>	Actual non-payment in March (adjusted in April)  <i>(level to be discussed at April 25 RMC meeting)</i>	Actual non-payment in April (adjusted in May)	Actual non-payment for the bill month (adjusted in subsequent bill)

See Interval Level Holdback Example tab in the spreadsheet accompanying this presentation

- *Note: The values in this example are fictitious and for illustrative purposes only.*

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