

**Proposed New Definitions to Attachment K-Appendix of the Tariff and
Schedule 1 of the Operating Agreement
Energy and Reserve Pricing
Markets and Reliability Committee
October 30, 2014.**

Proposed New Definitions

1.3.1.01 Additional Day-ahead Scheduling Reserves Requirement

“Additional Day-ahead Scheduling Reserves Requirement” shall mean the portion of the Day-ahead Scheduling Reserves Requirement that is required in addition to the Base Day-ahead Scheduling Reserves Requirement to ensure adequate resources are procured to meet real-time load and operational needs, as specified in the PJM Manuals.

1.3.1B.01 Base Day-ahead Scheduling Reserves Requirement

“Base Day-ahead Scheduling Reserves Requirement” shall mean the thirty-minute reserve requirement for the PJM Region established consistent with the Applicable Standards, plus any additional thirty-minute reserves scheduled in response to an RTO-wide Hot or Cold Weather Alert or other reasons for conservative operations.

1.3.1B.021 Batch Load Demand Resource.

“Batch Load Demand Resource” shall mean a Demand Resource that has a cyclical production process such that at most times during the process it is consuming energy, but at consistent regular intervals, ordinarily for periods of less than ten minutes, it reduces its consumption of energy for its production processes to minimal or zero megawatts.

1.3.1B.032 Congestion Price.

“Congestion Price” shall mean the congestion component of the Locational Marginal Price, which is the effect on transmission congestion costs (whether positive or negative) associated with increasing the output of a generation resource or decreasing the consumption by a Demand Resource, based on the effect of increased generation from or consumption by the resource on transmission line loadings, calculated as specified in Section 2 of Schedule 1 of this Agreement.

1.3.1B.043 Curtailment Service Provider.

“Curtailment Service Provider” or “CSP” shall mean a Member or a Special Member, which action on behalf of itself or one or more other Members or non-Members, participates in the PJM Interchange Energy Market, Ancillary Services markets, and/or Reliability Pricing Model by causing a reduction in demand.

1.3.1B.054 Day-ahead Congestion Price.

“Day-ahead Congestion Price” shall mean the Congestion Price resulting from the Day-ahead Energy Market.

1.3.1D.02 Day-ahead Scheduling Reserves Requirement.

“Day-ahead Scheduling Reserves Requirement” shall mean the sum of Base Day-ahead Scheduling Reserves Requirement and Additional Day-ahead Scheduling Reserves Requirement. ~~thirty-minute reserve requirement for the PJM Region established consistent with the Applicable Standards, plus any additional thirty-minute reserves scheduled in response to an RTO-wide Hot or Cold Weather Alert or other reasons for conservative operations.~~

1.3.2B.01 Extended Primary Reserve Requirement

“Extended Primary Reserve Requirement” shall equal the Primary Reserve Requirement in a Reserve Zone or Reserve Sub-zone, plus additional reserves scheduled under emergency conditions necessary to address operational uncertainty. The Extended Primary Reserve Requirement is calculated in accordance with the PJM Manuals.

1.3.2B.02 Extended Synchronized Reserve Requirement

“Extended Synchronized Reserve Requirement” shall equal the Synchronized Reserve Requirement in a Reserve Zone or Reserve Sub-zone, plus additional reserves scheduled under emergency conditions necessary to address operational uncertainty. The Extended Synchronized Reserve Requirement is calculated in accordance with the PJM Manuals.

1.3.29F.01 Primary Reserve Requirement

“Primary Reserve Requirement” shall mean the megawatts required to be maintained in a Reserve Zone or Reserve Sub-zone as Primary Reserve, absent any increase to account for additional reserves scheduled to address operational uncertainty. The Primary Reserve Requirement is calculated in accordance with the PJM Manuals.

1.3.33B.03 Synchronized Reserve Requirement

“Synchronized Reserve Requirement” shall mean the megawatts required to be maintained in a Reserve Zone or Reserve Sub-zone as Synchronized Reserve, absent any increase to account for additional reserves scheduled to address operational uncertainty. The Synchronized Reserve Requirement is calculated in accordance with the PJM Manuals.

1.10.1A Day-ahead Energy Market Scheduling.

ix) Shall not exceed an energy offer price of \$1,000/megawatt-hour, plus the applicable ~~Primary~~ Reserve Penalty Factor for the Primary Reserve Requirement, minus \$1.00, for all Economic Load Response Resources;

x) Shall not exceed an offer price as follows for Emergency Load Response and Pre-Emergency Load Response participants with:

a) a 30 minute lead time, pursuant to Section A.2 of Attachment DD-1 of the Tariff and the parallel provision of Schedule 6 of the RAA, \$1,000/megawatt-hour, plus the applicable ~~Primary~~ Reserve Penalty Factor for the Primary Reserve Requirement, minus \$1.00;

b) an approved 60 minute lead time, pursuant to Section A.2 of Attachment DD-1 of the Tariff and the parallel provision of Schedule 6 of the RAA, \$1,000/megawatt-hour, plus [the applicable ~~Primary~~ Reserve Penalty Factor for the Primary Reserve Requirement divided by 2];

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2.2 General

(d) The Office of the Interconnection shall use its security-constrained economic dispatch software program to monitor system conditions to avoid transient conditions that incorrectly imply that a Reserve Zone or Reserve Sub-zone is experiencing a Primary Reserve shortage and/or a Synchronized Reserve shortage (“false positives”) by: (i) forecasting system conditions for up to several hours into the future and producing an interim security-constrained economic dispatch solution, and (ii) forecasting system conditions on a shorter term basis and producing a real-time security-constrained economic dispatch solution. If the security-constrained economic dispatch software program forecasts a Primary Reserve ~~S~~shortage and/or a Synchronized Reserve shortage in both the interim and real-time security-constrained economic dispatch solutions, as may be further described in the PJM Manuals, the Office of the Interconnection shall deem this to be a Primary Reserve shortage and/or a Synchronized Reserve shortage and shall implement shortage pricing through the inclusion of the applicable Reserve Penalty Factor(s)~~Primary Reserve and/or Synchronized Reserve Penalty Factors~~ in the Real-Time Locational Marginal Price program. Shortage pricing shall exist until both the interim and real-time security-constrained economic dispatch solutions are able to meet the specified reserve requirements and no Voltage Reduction Action or Manual Load Dump Action is still in effect. If a Primary Reserve shortage and/or Synchronized Reserve shortage exists and cannot be accurately forecasted by the Office of the Interconnection due to a technical problem with or malfunction of the security-constrained economic dispatch software program, including but not limited to program failures or data input failures, the Office of the Interconnection will utilize the best available alternate data sources to determine if a Reserve Zone or Reserve Sub-zone is experiencing a Primary Reserve shortage and/or a Synchronized Reserve shortage.

2.5 Calculation of Real-time Prices.

(b) If all reserve requirements in every modeled Reserve Zone and Reserve Sub-zone can be met at prices less than or equal to the applicable Reserve Penalty Factors for those reserve requirements~~both the Synchronized Reserves and Primary Reserves requirements~~, real-time Locational Marginal Prices shall be calculated as described in Section 2.5(a) above and no Reserve Penalty Factor(s) shall apply beyond the normal lost opportunity costs incurred by the reserve requirements. When a reserve requirement cannot be met at a price less than or equal to the applicable Reserve Penalty Factor(s) associated with a Reserve Zone or Reserve Sub-zone, the real-time Locational Marginal Prices shall be calculated by incorporating the applicable Reserve Penalty Factor(s) for the deficient reserve requirement as the lost opportunity cost impact of the deficient reserve requirement, and the components of Locational Marginal Prices referenced in Section 2.5(a) above shall be calculated as described below.

(d) The Office of the Interconnection shall issue a warning of impending operating reserve shortage and other emergency conditions in real-time to inform members of actual capacity shortages or contingencies that may jeopardize the reliable operation of the PJM bulk power system. Such warnings will generally precede any associated action taken to address the shortage conditions. The Office of the Interconnection shall notify PJM Members of the issuance and cancellation of emergency procedures via the methods described in the PJM Manuals. The warnings that the Office of the Interconnection may issue include, but are not limited to, the Primary Reserve Warning, Voltage Reduction Warning, and Manual Load Dump Warning.

The purpose of the Primary Reserve Warning is to warn members that the available Primary Reserve may be less than the Primary Reserve Requirement. If the Primary Reserve shortage condition was forecasted in both security-constrained economic dispatch solutions as described in Section 2.2(d) above, the applicable Primary-Reserve Penalty Factor is incorporated into the Synchronized Reserve Market Clearing Price, Non-Synchronized Reserve Market Clearing Price and Locational Marginal Price as applicable.

The purpose of the Voltage Reduction Warning is to warn PJM Members that the available Synchronized Reserve may be less than the Synchronized Reserve Requirement and that a voltage reduction may be required. Following the Voltage Reduction Warning, the Office of the Interconnection may issue a Voltage Reduction Action during which it directs PJM Members to initiate a voltage reduction. If the Office of the Interconnection issues a Voltage Reduction Action for the Reserve Zone or Reserve Sub-Zone the ~~Primary~~-Reserve Penalty Factor for the Primary Reserve Requirement and the ~~Synchronized~~-Reserve Penalty Factor for the Synchronized Reserve Requirement are incorporated in the calculation of the Synchronized Reserve Market Clearing Price, Non-Synchronized Reserve Market Clearing Price and Locational Marginal Price as applicable. The ~~Primary~~-Reserve Penalty Factor for the Primary Reserve Requirement and the ~~Synchronized~~-Reserve Penalty Factor for the Synchronized Reserve Requirement will continue to be used in the Synchronized Reserve Market Clearing Price, Non-Synchronized Reserve Market Clearing Price and Locational Marginal Price calculation, as applicable, until the Voltage Reduction Action has been terminated.

The purpose of the Manual Load Dump Warning is to warn members that dumping load may be necessary to maintain reliability. Following the Manual Load Dump Warning, the Office of the Interconnection may commence a Manual Load Dump Action during which it directs PJM Members to initiate a manual load dump pursuant to the procedures described in the PJM Manuals. If the Office of the Interconnection issues a Manual Load Dump Action for the Reserve Zone or Reserve Sub-Zone the ~~Primary~~ Reserve Penalty Factor for the Primary Reserve Requirement, and the ~~Synchronized~~ Reserve Penalty Factor for the Synchronized Reserve Requirement are incorporated in the calculation of the Synchronized Reserve Market Clearing Price, Non-Synchronized Reserve Market Clearing Price and Locational Marginal Price as applicable. The ~~Primary~~ Reserve Penalty Factor for the Primary Reserve Requirement and the ~~Synchronized~~ Reserve Penalty Factor for the Synchronized Reserve Requirement will continue to be used in the Synchronized Reserve Market Clearing Price, Non-Synchronized Reserve Market Clearing Price and Locational Marginal Price calculation, as applicable, until the Manual Load Dump Action has been terminated.

Shortage pricing will be terminated in a Reserve Zone or Reserve Sub-Zone when demand and reserve requirements can be fully satisfied with generation and demand response resources and any Voltage Reduction Action and/or Manual Load Dump Action taken for that Reserve Zone or Reserve Sub-Zone has also been terminated.

3.2.3A Synchronized Reserve.

(d) The Synchronized Reserve Market Clearing Price shall be determined for each Reserve Zone and Reserve Sub-zone by the Office of the Interconnection for each hour of the operating day. The hourly Synchronized Reserve Market Clearing Price shall be calculated as the average of all 5-minute clearing prices calculated during the operating hour. Each 5-minute clearing price shall be calculated as the marginal cost of serving the next increment of demand for Synchronized Reserve in each Reserve Zone or Reserve Sub-zone, inclusive of Synchronized Reserve offer prices and opportunity costs. When the Synchronized Reserve ~~Requirement~~ or Extended Synchronized Reserve Requirement in a Reserve Zone or Reserve Sub-zone cannot be met, the 5-minute clearing price shall be at least greater than or equal to the ~~Synchronized applicable~~ Reserve Penalty Factor for the Synchronized Reserve Requirement or Extended Synchronized Reserve Requirement for the Reserve Zone or Reserve Sub-zone, but less than or equal to the sum of the ~~Synchronized~~ Reserve Penalty Factors for the Synchronized Reserve Requirement and Primary Reserve Requirement for the Reserve Zone or Reserve Sub-zone. If the Office of the Interconnection has initiated in a Reserve Zone or Reserve Sub-zone either a voltage reduction action as described in the PJM Manuals or a manual load dump action as described in the PJM Manuals, the 5-minute clearing price shall be the sum of the ~~Primary~~ Reserve Penalty Factors for the Primary Reserve Requirement and the ~~Synchronized Reserve~~ Penalty Factor for the Synchronized Reserve Requirement for that Reserve Zone or Reserve Sub-zone.

The ~~Synchronized~~ Reserve Penalty Factors for the Synchronized Reserve Requirement shall each be phased in as described below:

- i. \$250/MWh for the 2012/2013 Delivery Year;
- ii. \$400/MWh for the 2013/2014 Delivery Year;
- iii. \$550/MWh for the 2014/2015 Delivery Year; and

iv. \$850/MWh as of the 2015/2016 Delivery Year.

The Reserve Penalty Factor for the Extended Synchronized Reserve Requirement shall be \$300/MWh.

By no later than April 30 of each year, the Office of the Interconnection will analyze Market Participants' response to prices exceeding \$1,000/MWh on an annual basis and will provide its analysis to PJM stakeholders. The Office of the Interconnection will also review this analysis to determine whether any changes to the Synchronized Reserve Penalty Factors are warranted for subsequent Delivery Year(s).

3.2.3A.01 Day-ahead Scheduling Reserves.

(a) The Office of the Interconnection shall satisfy the Day-ahead Scheduling Reserves Requirement by procuring Day-ahead Scheduling Reserves in the Day-ahead Scheduling Reserves Market from Day-ahead Scheduling Reserves Resources, provided that Demand Resources shall be limited to providing the lesser of any limit established by the Reliability First Corporation or SERC, as applicable, or twenty-five percent of the ~~total~~ Day-ahead Scheduling Reserves Requirement. Day-ahead Scheduling Reserves Resources that clear in the Day-ahead Scheduling Reserves Market shall receive a Day-ahead Scheduling Reserves schedule from the Office of the Interconnection for the relevant Operating Day. PJMSettlement shall be the Counterparty to the purchases and sales of Day-ahead Scheduling Reserves in the PJM Interchange Energy Market; provided that PJMSettlement shall not be a contracting party to bilateral transactions between Market Participants or with respect to a self-schedule or self-supply of generation resources by a Market Buyer to satisfy its Day-ahead Scheduling Reserves Requirement.

~~(d) The cost of credits allocated to Day-ahead Scheduling Reserves Resources pursuant to this section shall be charged to Load-Serving Entities in the PJM Region based on load ratio share (net of operating Behind The Meter Generation, but not to be less than zero), provided that a Load-Serving Entity may satisfy its Day-ahead Scheduling Reserves obligation, which is equal to the Day-ahead Scheduling Reserves Requirement multiplied by the Load-Serving Entity's load ratio share for the PJM Region, through one or any combination of the following: 1) the Day-ahead Scheduling Reserves Market; 2) and bilateral arrangements. The Day-ahead Scheduling Reserve charges allocated pursuant to this section shall reflect any portion of a Load-Serving Entity's Day-ahead Scheduling Reserves obligation that is met by bilateral arrangement(s).~~

(d) The hourly credits paid to Day-ahead Scheduling Reserves Resources satisfying the Base Day-ahead Scheduling Reserves Requirement ("Base Day-ahead Scheduling Reserves credits") shall equal the ratio of the Base Day-ahead Scheduling Reserves Requirement to the Day-ahead Scheduling Reserves Requirement, multiplied by the total credits paid to Day-ahead Scheduling Reserves Resources, and are allocated as Base Day-ahead Scheduling Reserves charges per paragraph (i) below. The hourly credits paid to Day-ahead Scheduling Reserve Resources satisfying the Additional Day-ahead Scheduling Reserve Requirement ("Additional

Day-ahead Scheduling Reserves credits”) shall equal the ratio of the Additional Day-ahead Scheduling Reserves Requirement to the Day-ahead Scheduling Reserves Requirement, multiplied by the total credits paid to Day-ahead Scheduling Reserves Resources and are allocated as Additional Day-ahead Scheduling Reserves charges per paragraph (ii) below.

- (i) A Market Participant’s Base Day-ahead Scheduling Reserves charge is equal to the ratio of the Market Participant’s hourly obligation to the total hourly obligation of all Market Participants in the PJM Region, multiplied by the Base Day-ahead Scheduling Reserves credits. The hourly obligation for each Market Participant is a megawatt representation of the portion of the Base Day-ahead Scheduling Reserves credits that the Market Participant is responsible for paying to PJM. The hourly obligation is equal to the Market Participant’s load ratio share of the total megawatt volume of Base Day-ahead Scheduling Reserves resources (described below), based on the Market Participant’s total hourly load (net of operating Behind The Meter Generation, but not to be less than zero) to the total hourly load of all Market Participants in the PJM Region. The total megawatt volume of Base Day-ahead Scheduling Reserves resources equals the ratio of the Base Day-ahead Scheduling Reserves Requirement to the Day-ahead Scheduling Reserves Requirement multiplied by the total volume of Day-ahead Scheduling Reserves megawatts paid pursuant to paragraph (c) of this section. A Market Participant’s hourly Day-ahead Scheduling Reserves obligation can be further adjusted by any Day-ahead Scheduling Reserve bilateral transactions.
- (ii) Additional Day-ahead Scheduling Reserves credits shall be charged hourly to Market Participants that are net purchasers in the Day-ahead Energy Market based on its positive demand difference ratio share. The positive demand difference for each Market Participant is the difference between its real-time load (net of operating Behind The Meter Generation, but not to be less than zero) and cleared Demand Bids in the Day-ahead Energy Market, net of cleared Increment Offers and cleared Decrement Bids in the Day-ahead Energy Market, when such value is positive. Net purchasers in the Day-ahead Energy Market are those Market Participants that have cleared Demand Bids plus cleared Decrement Bids in excess of its amount of cleared Increment Offers in the Day-ahead Energy Market. If there are no Market Participants with a positive demand difference, the Additional Day-ahead Scheduling Reserves credits are allocated according to paragraph (i) above.

3.2.3A.001 Non-Synchronized Reserve.

(c) The Non-Synchronized Reserve Market Clearing Price shall be determined for each Reserve Zone and Reserve Sub-zone by the Office of the Interconnection for each hour of the operating day. The hourly Non-Synchronized Reserve Market Clearing Price shall be calculated as the average of all 5-minute clearing prices calculated during the operating hour. Each 5-minute clearing price shall be calculated as the marginal cost of procuring sufficient Non-

Synchronized Reserves and/or Synchronized Reserves in each Reserve Zone or Reserve Subzone inclusive of opportunity costs associated with meeting the Primary Reserve ~~R~~requirement or Extended Primary Reserve Requirement. When the Primary Reserve ~~R~~requirement or Extended Primary Reserve Requirement in a Reserve Zone or Reserve Sub-zone cannot be met at a price less than or equal to the Primary-applicable Reserve Penalty Factor-the 5-minute clearing price for Non-Synchronized Reserve shall be at least greater than or equal to the applicable Reserve Penalty Factor for the Reserve Zone or Reserve Sub-zone, but less than or equal to the Reserve Penalty Factor for the Primary Reserve Requirement for the Reserve Zone or Reserve Sub-zone. ~~will be determined as the Primary Reserve Penalty Factor~~. If the Office of the Interconnection has initiated in a Reserve Zone or Reserve Sub-zone either a voltage reduction action as described in the PJM Manuals or a manual load dump action as described in the PJM Manuals, the 5-minute clearing price shall be the Primary-Reserve Penalty Factor for the Primary Reserve Requirement for that Reserve Zone or Reserve Sub-zone.

The ~~Primary~~-Reserve Penalty Factors for the Primary Reserve Requirement shall each be phased in as described below:

- i. \$250/MWh for the 2012/2013 Delivery Year;
- ii. \$400/MWh for the 2013/2014 Delivery Year;
- iii. \$550/MWh for the 2014/2015 Delivery Year; and
- iv. \$850/MWh as of the 2015/2016 Delivery Year.

The Reserve Penalty Factor for the Extended Primary Reserve Requirement shall be \$300/MWh.

By no later than April 30 of each year, the Office of the Interconnection will analyze Market Participants' response to prices exceeding \$1,000/MWh on an annual basis and will provide its analysis to PJM stakeholders. The Office of the Interconnection will also review this analysis to determine whether any changes to the Primary Reserve Penalty Factors are warranted for subsequent Delivery Year(s).

3.2.6 Emergency Energy.

(a) When the Office of the Interconnection has implemented Emergency procedures, resources offering Emergency energy are eligible to set real-time Locational Marginal Prices, capped at the energy offer cap plus the sum of the applicable Reserve Penalty Factors for the Synchronized Reserve Requirement and Primary Reserve Requirement, provided that the Emergency energy is needed to meet demand in the PJM Region.