

1.35 PJM Manuals.

“PJM Manuals” shall mean the instructions, rules, procedures and guidelines established by the Office of the Interconnection for the operation, planning, and accounting requirements of the PJM Region and the PJM Interchange Energy Market.

1.35.01 PJM Market Monitor.

“PJM Market Monitor” shall mean the Market Monitoring Unit established under Attachment M to the PJM Tariff.

1.35A PJM Region.

“PJM Region” shall mean the aggregate of the MAAC Control Zone, the PJM West Region, and VACAR Control Zone.

1.35B PJM South Region.

“PJM South Region” shall mean the VACAR Control Zone.

1.36 PJM Tariff.

“PJM Tariff” shall mean the PJM Open Access Transmission Tariff providing transmission service within the PJM Region, including any schedules, appendices, or exhibits attached thereto, as in effect from time to time.

1.36A [Reserved.]

1.36B PJM West Region.

“PJM West Region” shall mean the aggregate of the ECAR Control Zone(s) and MAIN Control Zone(s).

1.37 Planning Period.

“Planning Period” shall initially mean the 12 months beginning June 1 and extending through May 31 of the following year, or such other period established under the procedures of, as applicable, the Reliability Assurance Agreement.

1.38 President.

“President” shall have the meaning specified in Section 9.2.

1.38A Regional RTEP Project

“Regional RTEP Project” shall mean a transmission expansion or enhancement rated at 230 kV or above.

1.38B Regulation Zone.

“Regulation Zone” shall mean any of those one or more geographic areas, each consisting of a combination of one or more Control Zone(s) as designated by the Office of the Interconnection in the PJM Manuals, relevant to provision of, and requirements for, regulation service.

1.39 Related Parties.

“Related Parties” shall mean, solely for purposes of the governance provisions of this Agreement: (i) any generation and transmission cooperative and one of its distribution cooperative members; and (ii) any joint municipal agency and one of its members. For purposes of this Agreement, representatives of state or federal government agencies shall not be deemed Related Parties with respect

to each other, and a public body's regulatory authority, if any, over a Member shall not be deemed to make it a Related Party with respect to that Member.

1.40 Reliability Assurance Agreement.

“Reliability Assurance Agreement” shall mean that certain Reliability Assurance Agreement Among Load-Serving Entities in the PJM Region, on file with FERC as PJM Interconnection, L.L.C. Rate Schedule FERC. No .42, establishing obligations, standards and procedures for maintaining the reliable operation of the PJM Region.

1.40A [Reserved].

1.40B [Reserved].

1.40C SERC.

“SERC” or “Southeastern Electric Reliability Council” shall mean the reliability council under section 202 of the Federal Power Act established pursuant to the SERC Agreement dated January 14, 1970, or any successor thereto.

1.41 Sector Votes.

“Sector Votes” shall mean the affirmative and negative votes of each sector of a Senior Standing Committee, as specified in Section 8.4.

1.41A Senior Standing Committees.

“Senior Standing Committees” shall mean the Members Committee, Electricity Markets Committee, and Reliability Committee, as established in Sections 8.1 and 8.6.

1.41A.01 [Reserved].

1.41A.02 [Reserved].

1.41A.03 [Reserved].

1.41B Standing Committees.

“Standing Committees” shall mean the Members Committee, the committees established and maintained under Section 8.6, and such other committees as the Members Committee may establish and maintain from time to time.

1.42 State.

“State” shall mean the District of Columbia and any State or Commonwealth of the United States.

1.42.01 State Certification.

“State Certification” shall mean the Certification of an Authorized Commission, pursuant to Section 18 of this Agreement, the form of which is appended to this Agreement as Schedule 10A, wherein the Authorized Commission identifies all Authorized Persons employed or retained by such Authorized Commission, a copy of which shall be filed with FERC.

1.42A State Consumer Advocate.

“State Consumer Advocate” shall mean a legislatively created office from any State, all or any part of the territory of which is within the PJM Region, and the District of Columbia established, *inter alia*, for the purpose of representing the interests of energy consumers before the utility regulatory commissions of such states and the District of Columbia and the FERC.

1.42B Subregional RTEP Project

“Subregional RTEP Project” shall mean a transmission expansion or enhancement rated below 230 kV.

1.42C Synchronized Reserve Zone.

“Synchronized Reserve Zone” shall mean any of those geographic areas consisting of a combination of one or more of the Control Zone(s) as designated by the Office of the Interconnection in the PJM Manuals, relevant to provision of, and requirement for, Synchronized Reserve service.

1.43 System.

“System” shall mean the interconnected electric supply system of a Member and its interconnected subsidiaries exclusive of facilities which it may own or control outside of the PJM Region. Each Member may include in its system the electric supply systems of any party or parties other than Members which are within the PJM Region, provided its interconnection agreements with such other party or parties do not conflict with such inclusion.

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1.43A Third Party Request.

“Third Party Request” shall mean any request or demand by any entity upon an Authorized Person or an Authorized Commission for release or disclosure of confidential information provided to the Authorized Person or Authorized Commission by the Office of the Interconnection or PJM Market Monitor. A Third Party Request shall include, but shall not be limited to, any subpoena, discovery request, or other request for confidential information made by any: (i) federal, state, or local governmental subdivision, department, official, agency or court, or (ii) arbitration panel, business, company, entity or individual.

1.44 Transmission Facilities.

“Transmission Facilities” shall mean facilities that: (i) are within the PJM Region; (ii) meet the definition of transmission facilities pursuant to FERC’s Uniform System of Accounts or have been classified as transmission facilities in a ruling by FERC addressing such facilities; and (iii) have been demonstrated to the satisfaction of the Office of the Interconnection to be integrated with the transmission system of the PJM Region and integrated into the planning and operation of such to serve all of the power and transmission customers within such region.

1.45 Transmission Owner.

“Transmission Owner” shall mean a Member that owns or leases with rights equivalent to ownership Transmission Facilities. Taking transmission service shall not be sufficient to qualify a Member as a Transmission Owner.

1.46 [Reserved.]

1.47 User Group.

“User Group” shall mean a group formed pursuant to Section 8.7 of this Agreement.

1.47A VACAR.

“VACAR” shall mean the group of five companies, consisting of Duke Energy, Carolina Power and Light, South Carolina Public Service Authority, South Carolina Electric and Gas, and Virginia Electric and Power Company.

1.47B VACAR Control Zone.

“VACAR Control Zone” shall mean the Transmission Facilities of Virginia Electric and Power Company.

1.48 Voting Member.

“Voting Member” shall mean (i) a Member as to which no other Member is an Affiliate or Related Party, or (ii) a Member together with any other Members as to which it is an Affiliate or Related Party.

1.49 Weighted Interest.

“Weighted Interest” shall be equal to $(0.1(1/N) + 0.5(B/C) + 0.2(D/E) + 0.2(F/G))$, where:

N = the total number of Members excluding *ex officio* Members and State Consumer Advocates (which, for purposes of Section 15.2 of this agreement, shall be calculated as of five o'clock p.m. Eastern Time on the date PJM declares a Member in default)

B = the Member's internal peak demand for the previous calendar year (which, for Load Serving Entities under the Reliability Assurance Agreement, shall be that used to calculate Accounted For Obligation as determined by the Office of the Interconnection pursuant to Schedule 7 of the Reliability Assurance Agreement averaged over the previous calendar year)

C = the sum of factor B for all Members

D = the Member's generating capability from Generation Capacity Resources located in the PJM Region as of January 1 of the current calendar year, determined by the Office of the Interconnection pursuant to Schedule 9 of the Reliability Assurance Agreement

E = the sum of factor D for all Members

F = the sum of the Member's circuit miles of transmission facilities multiplied by the respective operating voltage for facilities 100 kV and above as of January 1 of the current calendar year

G = the sum of factor F for all Members

1.50 [Reserved].

1.51 [Reserved].

1.52 Zone.

“Zone” shall mean an area within the PJM Region, as set forth in Attachment J to the PJM Tariff.

SCHEDULE 6

REGIONAL TRANSMISSION EXPANSION PLANNING PROTOCOL

1. REGIONAL TRANSMISSION EXPANSION PLANNING PROTOCOL

1.1 Purpose and Objectives.

This Regional Transmission Expansion Planning Protocol shall govern the process by which the Members shall rely upon the Office of the Interconnection to prepare a plan for the enhancement and expansion of the Transmission Facilities in order to meet the demands for firm transmission service, and to support competition, in the PJM Region. The Regional Transmission Expansion Plan (also referred to as "RTEP") to be developed shall enable the transmission needs in the PJM Region to be met on a reliable, economic and environmentally acceptable basis.

1.2 Conformity with NERC and Other Applicable Criteria.

(a) NERC establishes Planning Principles and Guides to promote the reliability and adequacy of the North American bulk power supply as related to the operation and planning of electric systems.

(b) Reliability First Corporation is responsible for ensuring the adequacy, reliability and security of the bulk electric supply systems in the region encompassing the former MAAC, ECAR and MAIN regions, through coordinated operations and planning of generation and transmission facilities. Toward that end, it has adopted the NERC Planning Principles and Guides and has established detailed Reliability Principles and Standards for Planning the Bulk Electric Supply System of the Reliability First Corporation.

(c) **[Reserved]**

(c.01) **[Reserved]**

(c.02) SERC is responsible for ensuring the adequacy, reliability and security of the bulk electric supply systems in the VACAR subregion through coordinated operations and planning of generation and transmission facilities. Toward that end, it has adopted the NERC Planning Principles and Guides and has established detailed Reliability Principles and Standards for Planning the Bulk Electric Supply System for SERC.

(d) The Regional Transmission Expansion Plan shall conform with the applicable reliability principles, guidelines and standards of NERC, Reliability First Corporation, SERC, and other Applicable Regional Reliability Councils in accordance with the operating criteria and other procedures detailed in the PJM Manuals.

(e) The Regional Transmission Expansion Plan reliability criteria shall include, but may not be limited to, PJM planning procedures, NERC planning standards, NERC Regional Council planning criteria, and the individual Transmission Owner FERC filed planning criteria.

1.3 Establishment of Committees.

(a) The Planning Committee shall be open to participation by all stakeholders, electric utility regulatory agencies and consumer advocates with regulatory jurisdiction in the States within the PJM Region and shall provide technical advice and assistance to the Office of the Interconnection in all aspects of its regional planning functions. The Transmission Owners shall supply representatives to the Planning Committee, and other Members may provide representatives as they deem appropriate, to provide the data, information, and support necessary for the Office of the Interconnection to perform studies as required and to develop the Regional Transmission Expansion Plan.

(b) The Transmission Expansion Advisory Committee established by the Office of the Interconnection will meet periodically with representatives of the Office of the Interconnection to provide advice and recommendations to the Office of the Interconnection to aid in the development of the Regional Transmission Expansion Plan. . The Transmission Expansion Advisory Committee shall review and provide advice and recommendations on the Regional RTEP Projects, and the Subregional RTEP Projects when these projects are determined to substantially impact the Regional Transmission Facilities, in the judgment of the Office of the Interconnection. The Transmission Expansion Advisory Committee will invite participation by: (i) all Transmission Customers, as that term is defined in the PJM Tariff, and applicants for transmission service; (ii) any other entity proposing to provide Transmission Facilities to be integrated into the PJM Region; (iii) all Members; (iv) electric utility regulatory agencies and consumer advocates with regulatory jurisdiction within the States in the PJM Region and (v) any other interested entities or persons. The Transmission Expansion Advisory Committee shall be governed by the Transmission Expansion Advisory Committee rules and procedures set forth in the PJM Regional Planning Process Manual, PJM Manual M-14, and by the rules and procedures applicable to PJM committees.

(c) The Subregional RTEP Committee established by the Office of the Interconnection shall facilitate the development and review of the Subregional RTEP Projects. The Subregional RTEP Committee shall refer Subregional RTEP Projects to the Transmission Expansion Advisory Committee for review, advice and recommendations. The Subregional RTEP Committee shall schedule and facilitate a minimum of one Subregional RTEP Project meeting for each of the three PJM subregions, the Mid-Atlantic, West and South, per planning period, and as required, the Subregional RTEP Committee may facilitate additional meetings to incorporate smaller areas within the three subregions into the subregional planning process. At the discretion of the Office of the Interconnection, a designated PJM Transmission Owner may facilitate the Subregional RTEP Committee meeting(s), or the additional meetings incorporating smaller areas. The Subregional RTEP Committee meetings will incorporate interregional coordination as required. The Subregional RTEP Committee meetings will invite participation by: (i) all Transmission Customers, as that term is defined in the PJM Tariff, and applicants for transmission service; (ii) any other entity proposing to provide Transmission Facilities to be integrated into the PJM Region; (iii) all Members; (iv) the electric utility agencies and consumer advocates with regulatory jurisdiction within the States in the PJM Region and (v) any other interested entities or persons. The Subregional RTEP Committee will be responsible for the initial review of the Subregional RTEP Projects, and to provide final recommendations to the Transmission Expansion Advisory Committee concerning the Subregional RTEP Projects for review and approval. The Subregional RTEP Committee shall be governed by the TEAC rules and procedures set forth in the PJM Regional Planning Process Manual, Manual M-14 and by the rules and procedures applicable to PJM committees.

1.4 Contents of the Regional Transmission Expansion Plan.

(a) The Regional Transmission Expansion Plan shall consolidate the transmission needs of the region into a single plan which is assessed on the bases of maintaining the reliability of the PJM Region in an economic and environmentally acceptable and manner and in a manner that supports competition in the PJM Region.

(b) The Regional Transmission Expansion Plan shall reflect, consistent with the requirements of this Schedule 6, transmission enhancements and expansions; load forecasts; expected demand response; and capacity forecasts, including generation additions and retirements, for at least the ensuing ten years.

(c) The Regional Transmission Expansion Plan shall, as a minimum, include a designation of the Transmission Owner or Owners or other entity that will construct, own and/or finance each

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transmission enhancement and expansion and how all reasonably incurred costs are to be recovered.

(d) The Regional Transmission Expansion Plan shall (i) avoid unnecessary duplication of facilities; (ii) avoid the imposition of unreasonable costs on any Transmission Owner or any user of Transmission Facilities; (iii) take into account the legal and contractual rights and obligations of the Transmission Owners; (iv) provide, if appropriate, alternative means for meeting transmission needs in the PJM Region; (v) strive to maintain and, when appropriate, to enhance the economic and operational efficiency of wholesale electric service markets in the PJM region; (vi) provide for coordination with existing transmission systems and with appropriate interregional and local expansion plans; and (vii) strive for consistency in planning data and assumptions that may relieve transmission congestion across multiple regions.

(e) The Regional Transmission Expansion Plan shall incorporate the results of the Coordinated System Plan developed under the Joint Operating Agreement Between the Midwest Independent System Operator, Inc. and PJM Interconnection, L.L.C.

1.5 Procedure for Development of the Regional Transmission Expansion Plan.

1.5.1 Commencement of the Process.

(a) The Office of the Interconnection shall initiate the enhancement and expansion study process if (i) required as a result of a need for transfer capability identified by the Office of the Interconnection in its evaluation of requests for interconnection with the transmission system or for firm transmission service with a term of one year or more; (ii) required to address a need identified by the Office of the Interconnection's in its on-going evaluation of the transmission system's economic and operational adequacy and performance; (iii) required as a result of the Office of the Interconnection's assessment of the transmission system's compliance with Reliability First Corporation or SERC reliability criteria, more

stringent reliability criteria, if any; or PJM operating criteria; (iv) constraints or available transfer capability shortage, including, but not limited to, available transfer capability shortages that prevent the simultaneous feasibility of stage 1A Auction Revenue Rights allocated pursuant to Section 7.4.2(b) of Schedule 1 of this Agreement, that are identified by the Office of the Interconnection as a result of generation additions or retirements, evaluation of load forecasts, congestion events on or operational performance of the transmission system, or proposals for the addition of Transmission Facilities in the PJM region; or (v) expansion of the transmission system is proposed by one or more Transmission Owners, Interconnection Customer, Network Service User or Transmission Customer, or any party that funds Network Upgrades pursuant to Section 7.8 of Schedule 1 of this Agreement..

(b) The Office of the Interconnection shall notify the Transmission Expansion Advisory Committee of the commencement of an enhancement and expansion study. The Transmission Expansion Advisory Committee shall notify the Office of the Interconnection in writing of any additional transmission considerations to be included.

1.5.2 Development of Scope, Assumptions and Procedures.

Once the need for an enhancement and expansion study has been established, the Office of the Interconnection shall consult with the Transmission Expansion Advisory Committee and the Subregional RTEP Committee, as appropriate, to prepare the study's scope, assumptions and procedures.

1.5.3 Scope of Studies.

In general, enhancement and expansion studies shall include:

(a) An identification of existing and projected limitations on the transmission system's physical, economic and/or operational capability or performance, with accompanying simulations to identify the costs of controlling those limitations. Potential enhancements and expansions will be proposed to mitigate limitations controlled by non-economic means.

(b) Evaluation and analysis of potential enhancements and expansions, including alternatives thereto, needed to mitigate such limitations.

(c) Identification, evaluation and analysis of potential enhancements and expansions for the purposes of supporting competition in the PJM region.

(d) Identification, evaluation and analysis of upgrades to support Incremental Auction Revenue Rights requested pursuant to Section 7.8 of Schedule 1 of this Agreement.

(e) Engineering studies needed to determine the effectiveness and compliance (with system reliability, operational performance, and economic efficiency criteria) of recommended enhancements and expansions.

(f) Identification, evaluation and analysis of potential enhancements and expansions designed to ensure the Transmission System's capability can support the simultaneous feasibility of all stage 1A Auction Revenue Rights allocated pursuant to Section 7.4.2(b) of Schedule 1 of this Agreement. Enhancements and expansions related to stage 1A Auction Revenue Rights identified pursuant to this section shall be recommended for inclusion in the RTEP together with a recommended in-service date based on the results of the ten (10) year stage 1A simultaneous feasibility analysis. Any such recommended enhancement or expansion under this Section 1.5.3(f) shall include, but shall not be limited to, the reason for the upgrade, the cost of the upgrade, the cost allocation identified pursuant to Section 1.5.6(g) of Schedule 6 of this Agreement and an analysis of the benefits of the enhancement or expansion, provided that any such upgrades will not be subject to a market efficiency cost/benefit analysis.

1.5.4 Supply of Data.

(a) The Transmission Owners shall provide to the Office of the Interconnection on an annual or periodic basis as specified by the Office of the Interconnection, any information and data reasonably required by the Office of the Interconnection to perform the Regional Transmission Expansion Plan, including but not limited to the following: (i) a description of the total load to be served from each substation; (ii) the amount of any interruptible loads included in the total load (including conditions under which an interruption can be implemented and any limitations on the duration and frequency of interruptions); and (iii) a description of all generation resources to be located in the geographic region encompassed by the Transmission Owner's transmission facilities, including unit sizes, VAR capability, operating restrictions, and any must-run unit designations required for system reliability or contract reasons. The data required under this Section shall be provided in the form and manner specified by the Office of the Interconnection.

(b) In addition to the foregoing, the Transmission Owners, those entities requesting transmission service and any other entities proposing to provide Transmission Facilities to be integrated into the PJM Region shall supply any other information and data reasonably required by the Office of the Interconnection to perform the enhancement and expansion study.

(c) The Office of the Interconnection also shall solicit from the Members, Transmission Customers and other interested parties, including but not limited to electric utility regulatory agencies and consumer advocates with regulatory jurisdiction within the States in the PJM Region, information required by, or anticipated to be useful to, the Office of the Interconnection in its preparation of the enhancement and expansion study.

(d) The Transmission Expansion Advisory Committee shall facilitate a minimum of one initial assumptions meeting to be scheduled at the commencement of the RTEP process. The assumptions meeting will invite participation by: (i) all Transmission Customers, as that term is defined in the PJM Tariff, and applicants for transmission service; (ii) any other entity proposing to provide Transmission Facilities to be integrated into the PJM Region; (iii) all Members; (iv) electric utility regulatory agencies and consumer advocates within the States in the PJM Region and (v) any other interested entities or persons. The purpose of the assumptions meeting shall be the following: (a) establish the assumptions to be used in performing the evaluation and analysis of the potential enhancements and expansions to the Transmission Facilities, (b) incorporate regulatory initiatives as appropriate, including state regulatory agency initiated programs, and (c) provide an open forum to review the impacts of regulatory actions, projected changes in load growth, demand response resources, generating capacity, market efficiency and other trends in the industry. The final assumptions shall be determined by the Transmission Expansion Advisory Committee for both the Regional and Subregional RTEP Projects.

(e) The Office of the Interconnection shall supply any information and data reasonably required by the Members, Transmission Customers and other impacted parties, including but not limited to electric utility regulatory agencies and consumer advocates with regulatory jurisdiction within the States in the PJM Region, utilized to perform the Regional Transmission Expansion Plan. Such information and data shall be provided pursuant to the appropriate protection of confidentiality provisions.

1.5.5 Coordination of the Regional Transmission Expansion Plan.

(a) The Regional Transmission Expansion Plan shall be developed in accordance with the principles of interregional coordination with the transmission systems of the surrounding regional reliability councils and with the local transmission providers.

(b) The Regional Transmission Expansion Plan shall be developed taking into account the processes for coordinated regional transmission expansion planning established under the following agreements: Joint Operating Agreement Between the Midwest Independent System Operator, Inc. and PJM Interconnection, L.L.C.; Northeastern ISO/RTO Planning Coordination Protocol; Joint Reliability Coordination Agreement Between the Midwest Independent System Operator, Inc., PJM Interconnection, L.L.C., and the Tennessee Valley Authority; Joint Operating Agreement between PJM Interconnection, L.L.C. and Progress Energy Carolinas. Coordinated regional transmission expansion planning shall also incorporate input from the Members, Transmission Customers and other impacted parties, including but not limited to electric utility regulatory agencies and consumer advocates with regulatory jurisdiction within the States in the PJM Region that may be impacted by the coordination efforts.

(c) The Regional Transmission Expansion Plan shall be developed by the Office of the Interconnection in consultation with the Transmission Expansion Advisory Committee during the enhancement and expansion study process.

(d) The Regional Transmission Expansion Plan shall be developed taking into account the processes for coordination of the Regional and Subregional systems.

1.5.6 Development of the Recommended Regional Transmission Expansion Plan.

(a) The Office of the Interconnection shall be responsible for the development of the Regional Transmission Expansion Plan and for conducting the studies on which the plan is based.

(b) Upon completion of its studies and analysis, the Office of the Interconnection shall prepare a recommended enhancement and expansion plan for review by the Transmission Expansion Advisory Committee. The Office of the Interconnection also shall invite interested parties to submit comments on the plan to the Transmission Expansion Advisory Committee and to the Office of the Interconnection.

(c) The recommended plan shall separately identify enhancements and expansions for the three PJM subregions, the PJM Mid-Atlantic Region, the PJM West Region, and the PJM South Region, and shall incorporate recommendations from the Subregional RTEP Committee.

(c.01) The recommended plan shall separately identify enhancements and expansions that are classified as supplemental projects.

(d) The recommended plan shall identify enhancements and expansions that relieve transmission constraints and which, in the judgment of the Office of the Interconnection, are economically justified. Such economic expansions and enhancements shall be developed in accordance with the procedures, criteria and analyses described in Section 1.5.7 below.

(e) The recommended plan shall include proposed Merchant Transmission Facilities within the PJM Region and any other enhancement or expansion of the Transmission System requested by any participant which the Office of the Interconnection finds to be compatible with the Transmission System, though not required pursuant to Section 1.1, provided that (1) the requestor has complied, to the extent applicable, with the procedures and other requirements of Part IV of the PJM Tariff; (2) the proposed enhancement or expansion is consistent with applicable reliability standards, operating criteria and the purposes and objectives of the regional planning protocol; (3) the requestor

shall be responsible for all costs of such enhancement or expansion (including, but not necessarily limited to, costs of siting, designing, financing, constructing, operating and maintaining the pertinent facilities), and (4) except as otherwise provided by Part IV of the PJM Tariff with respect to Merchant Network Upgrades, the requestor shall accept responsibility for ownership, construction, operation and maintenance of the enhancement or expansion through an undertaking satisfactory to the Office of the Interconnection.

(f) For each enhancement or expansion that is included in the recommended plan, the plan shall consider, based on the planning analysis: other input from participants, including any indications of a willingness to bear cost responsibility for such enhancement or expansion; and, when applicable, relevant projects being undertaken to ensure the simultaneous feasibility of Stage 1A ARRs, to facilitate Incremental ARRs pursuant to the provisions of Section 7.8 of Schedule 1 of this Agreement or to facilitate upgrades pursuant to Parts II, III or IV of the PJM Tariff, and designate one or more Transmission Owners or other entities to construct, own and, unless otherwise provided, finance the recommended transmission enhancement or expansion. To the extent that one or more Transmission Owners are designated to construct, own and/or finance a recommended transmission enhancement or expansion, the recommended plan shall designate the Transmission Owner that owns transmission facilities located in the Zone where the particular enhancement or expansion is to be located. Otherwise, any designation under this paragraph of more than one entity to construct, own and/or finance a recommended transmission enhancement or expansion shall also include a designation of proportional responsibility among them. Nothing herein shall prevent any Transmission Owner or other entity designated to construct, own and/or finance a recommended transmission enhancement or expansion from agreeing to undertake its responsibilities under such designation jointly with other Transmission Owners or other entities.

(g) Based on the planning analysis and other input from participants, including any indications of a willingness to bear cost responsibility for an enhancement or expansion, the recommended plan shall, for any enhancement or expansion that is included in the plan, designate (1) the Market Participant(s) in one or more Zones, or any other party that has agreed to fully fund upgrades pursuant to this Agreement or the PJM Tariff, that will bear cost responsibility for such enhancement or expansion, as and to the extent provided by any provision of the PJM Tariff or this Agreement, (2) in the event and to the extent that no provision of the PJM Tariff or this Agreement assigns cost responsibility, the Market Participant(s) in one or more Zones from which the cost of such enhancement or expansion shall be recovered through charges established pursuant to Schedule 12 of the Tariff, and (3) in the event and to the extent that the Coordinated System Plan developed under the Joint Operating Agreement Between the Midwest Independent System Operator, Inc. and PJM Interconnection, L.L.C. assigns cost responsibility, the Market Participant(s) in one or more Zones from which the cost of such enhancement or expansion shall be recovered. Any designation under clause (2) of the preceding sentence (A) shall further be based on the Office of the Interconnection's assessment of the contributions to the need for, and benefits expected to be derived from, the pertinent enhancement or expansion by affected Market Participants and, (B), subject to FERC review and approval, shall be incorporated in any amendment to Schedule 12 of the PJM Tariff that establishes a Transmission Enhancement Charge Rate in connection with an economic expansion or enhancement developed under Sections 1.5.6(d) and 1.5.7 of this Schedule 6 and (C), the costs associated with expansions and enhancements required to ensure the simultaneous feasibility of stage 1A Auction Revenue Rights allocated pursuant to Section 7 of Schedule 1 of this Agreement shall (1) be allocated across transmission zones based on each zone's stage 1A eligible Auction Revenue Rights flow contribution to the total stage 1A eligible Auction Revenue Rights flow on the facility that limits stage 1A ARR feasibility and (2) within each transmission zone the Network Service Users and Transmission Customers that are eligible to receive stage 1A Auction Revenue Rights shall be the Responsible Customers under Section (b) of Schedule 12 of the PJM Tariff for all expansions and enhancements included in the Regional Transmission Expansion Plan to ensure the simultaneous feasibility of stage 1A Auction Revenue Rights.

Any designation under clause (3), above, (A) shall further be based on the Office of the Interconnection's assessment of the contributions to the need for, and benefits expected to be derived from, the pertinent enhancement or expansion by affected Market Participants, and (B), subject to FERC review and approval, shall be incorporated in an amendment to a Schedule of the PJM Tariff which establishes a charge in connection with the pertinent enhancement or expansion. Before designating fewer than all customers using Point-to-Point Transmission Service or Network Integration Transmission Service within a Zone as customers from which the costs of a particular enhancement or expansion may be recovered, Transmission Provider shall consult, in a manner and to the extent that it reasonably determines to be appropriate in each such instance, with affected state

utility regulatory authorities and stakeholders. When the plan designates more than one responsible Market Participant, it shall also designate the proportional responsibility among them. Notwithstanding the foregoing, with respect to any facilities that the Regional Transmission Expansion Plan designates to be owned by an entity other than a Transmission Owner, the plan shall designate that entity as responsible for the costs of such facilities

Certain Regional and Subregional RTEP Project(s) that are included in the RTEP, may not be required to maintain or improve system reliability, regional economic efficiency or operational performance, pursuant to a determination by the Office of the Interconnection. These projects shall be categorized in the RTEP as supplemental projects. These supplemental projects shall be included in the RTEP, and the Transmission Owner(s) or other entity proposing the project shall be designated to construct, own and/or finance the project(s). Supplemental projects shall be excluded from the requirements of Section 1.7(c) of this Schedule 6. Nothing herein shall prevent any Transmission Owner or other entity designated to construct, own and/or finance a supplemental project from agreeing to undertake its responsibilities under such designation jointly with other Transmission Owners or other entities. Supplemental projects shall not include Regional RTEP Projects 500 kV and above that are centrally planned, and transmit power flows across zones.

(h) Any Transmission Owner and other participants on the Transmission Expansion Advisory Committee may offer an alternative.

(h.01) The Office of the Interconnection may offer an alternative for review by the Transmission Expansion Advisory Committee or the Subregional RTEP Committee when the Office of the Interconnection determines, in its sole discretion that an appropriate alternative exists.

(i) If the Office of the Interconnection adopts the alternative, based upon its review of the relative costs and benefits, the ability of the alternative to supply the required level of transmission service, and its impact on the reliability of the Transmission Facilities, the Office of the Interconnection shall make any necessary changes to the recommended plan.

(j) If, based upon its review of the relative costs and benefits, the ability of the alternative to supply the required level of transmission service, and the alternative's impact on the reliability of the Transmission Facilities, the Office of the Interconnection does not adopt an alternative proposed by a Transmission Owner or Owners, the Transmission Owner or Owners whose alternative or alternatives have not been accepted or to whom cost responsibility has been assigned and other participants on the Transmission Expansion Advisory Committee may require that its or their alternative(s) be submitted to the Dispute Resolution Procedures in Schedule 5 of the PJM Operating Agreement.

(k) Schedule 5 of the Operating Agreement, the Dispute Resolution Procedures may be requested by the parties to a dispute arising from the Regional Transmission Expansion Plan or its development.

1.5.7 Development of Economic Transmission Enhancements and Expansions.

(a) In June of each year, concurrent with the PJM Board's consideration and approval of the reliability-based transmission enhancement and expansions to be included in the Regional Transmission Expansion Plan, the Office of the Interconnection shall obtain PJM Board approval of the assumptions to be used in performing the market efficiency analysis described in this section to identify enhancements or expansions that could relieve transmission constraints that have an economic impact ("economic constraints"). Prior to PJM Board consideration of such assumptions, the assumptions shall be presented to the Transmission Expansion Advisory Committee for review and

comment.

(b) Following PJM Board approval of the assumptions, the Office of the Interconnection shall perform a market efficiency analysis to compare the costs and benefits of (i) accelerating reliability-based enhancements or expansions already included in the Regional Transmission Plan that if accelerated also could relieve one or more economic constraints; (ii) modifying reliability-based enhancements or expansions already included in the Regional Transmission Plan that as modified would relieve one or more economic constraints; and (iii) new enhancements or expansions that could relieve one or more economic constraints, but for which no reliability-based need has been identified. Economic constraints include, but are not limited to, constraints that cause (1) significant historical gross congestion; (2) significant historical unhedgeable congestion; (3) pro-ration of Stage 1B ARR requests as described in section 7.4.2(c) of Schedule 1 of this Agreement; or (4) significant simulated congestion as forecast in the market efficiency analysis.

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(c) The process for conducting the market efficiency analysis described in subsection (b) above shall include the following:

(i) The Office of the Interconnection shall identify and provide to the Transmission Expansion Advisory Committee a list of economic constraints to be evaluated in the market efficiency analysis.

(ii) The Office of the Interconnection shall identify any planned reliability-based enhancements or expansions already included in the Regional Transmission Expansion Plan, which if accelerated would relieve such constraints, and present any such proposed reliability-based enhancements and expansions to be accelerated to the Transmission Expansion Advisory Committee for review and comment. The PJM Board, upon consideration of the advice of the Transmission Expansion Advisory Committee, thereafter shall consider and vote to approve any accelerations.

(iii) The Office of the Interconnection shall evaluate whether including any additional economic-based enhancements or expansions in the Regional Transmission Expansion Plan or modifications of existing Regional Transmission Expansion Plan reliability-based enhancements or expansions would relieve an economic constraint. In addition, any market participant at any time may submit to the Office of the Interconnection a proposal to construct an additional economic-based enhancement or expansion to relieve an economic constraint. To be considered in the market efficiency analysis commencing after approval of the Regional Transmission Expansion Plan by the PJM Board in June, market participant proposals to construct an additional economic-based enhancement or expansion must be received by the Office of the Interconnection by December 31 of the same year. Upon completion of its evaluation, including consideration of any eligible market participant proposed economic-based enhancements or expansions, the Office of the Interconnection shall present to the Transmission Expansion Advisory Committee a description of recommended new economic-based enhancements and expansions for review and comment. Upon consideration of the advice of the Transmission Expansion Advisory Committee, the PJM Board shall consider any new economic-based enhancements and expansions for inclusion in the Regional Transmission Plan and for those enhancements and expansions it approves, the PJM Board shall designate (a) the entity or entities that will be responsible for constructing and owning or financing the additional economic-based enhancements and expansions, (b) the estimated costs of such enhancements and expansions, and (c) the market participants that will bear responsibility for the costs of the additional economic-based enhancements and expansions pursuant to section 1.5.6(g) of this Schedule 6. In the event the entity or entities designated as responsible for construction, owning or financing a designated new economic-based enhancement or expansion declines to construct, own or finance the new economic-based enhancement or expansion, the enhancement or expansion will not be included in the Regional Transmission Expansion Plan but will be included in the report filed with the FERC in accordance with sections 1.6 and 1.7 of this Schedule. This report also shall include information regarding PJM Board approved accelerations of reliability-based enhancements or expansions that an entity declines to accelerate.

(d) To determine the economic benefits of accelerating planned reliability-based enhancements or expansions or of constructing additional economic based enhancements or expansions, the Office of the Interconnection shall perform and compare market simulations with and without the proposed accelerated planned reliability-based enhancements or expansions or the additional economic-based enhancements or expansions as applicable, for selected future years within the planning horizon of the Regional Transmission Expansion Plan and based on its consideration of the totality of the factors

identified in 1.5.7(e) of this Schedule 6 regarding the economic benefits, the Office of the Interconnection shall determine whether to include additional economic-based enhancements or expansions in the Regional Transmission Expansion Plan.

(e) To assist the Office of the Interconnection and the Transmission Expansion Advisory Committee in evaluating the economic benefits of accelerating planned reliability-based enhancements or expansions or of constructing a new economic-based enhancement or expansion, the Office of the Interconnection will calculate the change in the following metrics in the PJM Region with respect to any proposed acceleration of a reliability-based enhancement or expansion or new economic based enhancement or expansion: (i) total production costs (fuel costs and variable O&M); (ii) total load payments (load times load Locational Marginal Price); (iii) total generator revenue (generator MW times generator Locational Marginal Price); (iv) zonal load payments (zonal load MW times zonal Locational Marginal Price); (v) zonal Financial Transmission Right credits (as measured using currently allocated Auction Revenue Rights plus additional Auction Revenue Rights made available by the proposed acceleration of a planned reliability-based enhancement or expansion or new economic based enhancement or expansion); (vi) total Transmission System losses; and (vii) total capacity payments under the Office of the Interconnection's Commission-approved capacity construct. The Office of the Interconnection shall post this information on the PJM Internet site.

(f) To assure that new economic-based enhancements and expansions included in the Regional Transmission Expansion Plan continue to be cost beneficial, the Office of the Interconnection annually shall review the costs and benefits of constructing such enhancements and expansions. In the event that there are changes in these costs and benefits, the Office of the Interconnection shall review the changes in costs and benefits with the Transmission Expansion Advisory Committee and recommend to the PJM Board whether the new economic-based enhancements and expansions continue to provide measurable benefits, as determined in accordance with subsection (d), and should remain in the Regional Transmission Expansion Plan. The annual review of the costs and benefits of constructing new economic-based enhancements and expansions included in the Regional Transmission Expansion Plan shall include review of changes in cost estimates of the economic-based enhancement or expansion, and changes in system conditions, including but not limited to, changes in load forecasts, and anticipated Merchant Transmission Facilities, generation, and demand response, consistent with the requirements of subsection (k).

(g) With respect to each new economic-based enhancement or expansion included in the Regional Transmission Expansion Plan, the Office of the Interconnection shall provide to the Transmission Expansion Advisory Committee the level and type of new generation demand response that could eliminate the need for the enhancement or expansion.

(h) For new economic enhancements or expansions with costs in excess of \$50 million, an independent review of such costs shall be performed to assure both consistency of estimating practices and that the scope of the new economic-based enhancements and expansions is consistent with the new economic-based enhancements and expansions as recommended in the market efficiency analysis.

(i) For informational purposes only, the Office of the Interconnection shall post monthly on the PJM Internet site analyses of gross and unhedgeable congestion associated with transmission constraints in the PJM Region, including the level of available economic generation used to calculate unhedgeable congestion costs.

(j) At any time, market participants may submit to the Office of the Interconnection requests to interconnect Merchant Transmission Facilities or generation facilities pursuant to Part IV of the PJM Tariff that could address an economic constraint. In the event the Office of the Interconnection determines that the interconnection of such facilities would relieve an economic constraint, the Office of the Interconnection may designate the project as a “market solution” and, in the event of such designation, sections 36A or 41A of the PJM Tariff, as applicable, shall apply to the project.

(k) The assumptions used in the market efficiency analysis described in subsection (b) and any review of costs and benefits pursuant to subsection (f) shall include, but not be limited to, the following:

- (i) Timely installation of Qualifying Transmission Upgrades, as defined in section 2.5.7 of Attachment DD of the PJM Tariff, that are committed to the PJM Region as a result of any Reliability Pricing Model Auction pursuant to Attachment DD of the PJM Tariff or any FRR Capacity Plan pursuant to Schedule 8.1 of the Reliability Assurance Agreement Among Load-Serving Entities in the PJM Region, on file with FERC as PJM Interconnection, L.L.C. Rate Schedule FERC No. 44 (“RAA”).
- (ii) Availability of Generation Capacity Resources, as defined by section 1.33 of the RAA, that are committed to the PJM Region as a result of any Reliability Pricing Model Auction pursuant to Attachment DD of the PJM Tariff or any FRR Capacity Plan pursuant to Schedule 8.1 of the RAA.
- (iii) Availability of Demand Resources as defined in section 1.13 of the RAA that are committed to the PJM Region as a result of any Reliability Pricing Model Auction pursuant to Attachment DD of the PJM Tariff or any FRR Capacity Plan pursuant to Schedule 8.1 of the RAA.
- (iv) Availability of ILR Resources certified pursuant to section 5.13 of Attachment DD of the PJM Tariff.
- (v) Addition of Customer Facilities pursuant to an executed Interconnection Service Agreement or Interim Interconnection Service Agreement.
- (vi) Addition of Customer-Funded Upgrades pursuant to an executed Interconnection Construction Service Agreement or an Upgrade Construction Service Agreement.

- (vii) Expected level of demand response over at least the ensuing ten years based on analyses that consider historic levels of demand response, expected demand response growth trends, impact of capacity prices, current and emerging technologies, and sensitivity analyses regarding the foregoing.
- (viii) Expected levels of potential new generation and generation retirements over at least the ensuing ten years.
- (ix) Items (i) through (vi) will be included in the market efficiency assumptions if qualified before January 1 of the year that the assumptions are presented to the PJM Board for approval in June. In the event that any of the items listed in (i) through (vi) above qualify for inclusion in the market efficiency analysis assumptions, however, because of the timing of the qualification the item was not included in the assumptions used in developing the most recent Regional Transmission Expansion Plan, the Office of the Interconnection, to the extent necessary, shall notify any entity constructing an economic-based enhancement or expansion that may be affected by inclusion of such item in the assumptions for the next market efficiency analysis described in subsection (b) and any review of costs and benefits pursuant to subsection (f) that the need for the economic-based enhancement or expansion may be diminished or obviated as a result of the inclusion of the qualified item in the assumptions for the next annual market efficiency analysis or review of costs and benefits.

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1.6 Approval of the Final Regional Transmission Expansion Plan.

(a) The PJM Board shall approve the final Regional Transmission Expansion Plan, including any alternatives therein, and any additions of economic transmission enhancements or expansions pursuant to Sections 1.5.6(d) and 1.5.7 above, in accordance with the requirements of this Section 1.6.

The Office of the Interconnection shall publish the current, approved Regional Transmission Expansion Plan on the PJM Internet site. Within 30 days after each occasion when the PJM Board approves a Regional Transmission Expansion Plan, or an addition to such a plan, that designates one or more Transmission Owners to construct an economic expansion or enhancement developed pursuant to Sections 1.5.6(d) and 1.5.7 above, the Office of the Interconnection shall file with FERC a report identifying the economic expansion or enhancement, its estimated cost, the entity or entities that will be responsible for constructing and owning or financing the project, and the market participants designated under Section 1.5.6(g) above to bear responsibility for the costs of the project.

(b) If a Regional Transmission Expansion Plan is not approved, or if the transmission service requested by any entity is not included in an approved Regional Transmission Expansion Plan, nothing herein shall limit in any way the right of any entity to seek relief pursuant to the provisions of Section 211 of the Federal Power Act.

(c) Following PJM Board approval, the final Regional Transmission Expansion Plan shall be submitted to the Applicable Reliability Council for verification that all enhancements or expansions conform with or exceed all reliability principles and standards of the Applicable Regional Reliability Council.

1.7 Obligation to Build.

(a) Subject to the requirements of applicable law, government regulations and approvals, including, without limitation, requirements to obtain any necessary state or local siting, construction and operating permits, to the availability of required financing, to the ability to acquire necessary right-of-way, and to the right to recover, pursuant to appropriate financial arrangements and tariffs or contracts, all reasonably incurred costs, plus a reasonable return on investment, Transmission Owners designated as the appropriate entities to construct, own and/or finance enhancements or expansions specified in the Regional Transmission Expansion Plan shall construct, own and/or finance such facilities or enter into appropriate contracts to fulfill such obligations. However, nothing herein shall require any Transmission Owner to construct, finance or own any enhancements or expansions specified in the Regional Transmission Expansion Plan for which the plan designates an entity other than a Transmission Owner as the appropriate entity to construct, own and/or finance such enhancements or expansions.

(b) Nothing herein shall prohibit any Transmission Owner from seeking to recover the cost of enhancements or expansions on an incremental cost basis or from seeking approval of such rate treatment from any regulatory agency with jurisdiction over such rates.

(c) The Office of the Interconnection shall be obligated to collect on behalf of the Transmission Owner(s) all charges established under Schedule 12 of the PJM Tariff in connection with facilities, which the Office of the Interconnection designates one or more Transmission Owners to build pursuant to this Regional Transmission Expansion Planning Protocol. Such charges shall compensate the Transmission Owner(s) for all costs related to such RTEP facilities under a FERC-approved rate and will include any FERC-approved incentives.

(d) In the event that a Transmission Owner declines to construct an economic transmission enhancement or expansion developed under Sections 1.5.6(d) and 1.5.7 of this Schedule 6 that such Transmission Owner is designated by the Regional Transmission Expansion Plan to construct (in whole or in part), the Office of the Interconnection shall promptly file with the FERC a report on the results of the pertinent economic planning process in order to permit the FERC to determine what action, if any, it should take.

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1.8 Interregional Expansions

(a) PJM shall collect from Midwest Independent System Operator, Inc., for distribution to the applicable Transmission Owners, in accordance with Schedule 12 of the PJM Tariff, revenues collected by the Midwest Independent System Operator, Inc. under the Open Access Transmission Tariff of the Midwest Independent System Operator, Inc. with respect to transmission enhancements or expansions for which the Coordinated System Plan developed under the Joint Operating Agreement Between the Midwest Independent System Operator, Inc. and PJM Interconnection, L.L.C. assigns cost responsibility for transmission enhancements or expansions in the PJM Region to market participants in the region of the Midwest Independent System Operator, Inc.

(b) PJM shall disburse to the Midwest Independent System Operator, Inc., for distribution to applicable transmission owners of the Midwest Independent System Operator, Inc., revenues collected under Schedule 12 of the PJM Tariff which establishes a charge in connection with enhancements or expansions in the region of the Midwest Independent System Operator, Inc. the cost responsibility for which has been assigned to market participants in the PJM Region under the Coordinated System Plan developed under the Joint Operating Agreement Between the Midwest Independent System Operator, Inc. and PJM Interconnection, L.L.C.

(c) Nothing in this Section 1.8 shall affect or limit any Transmission Owners filing rights under Section 205 of the Federal Power Act as set forth in the PJM Tariff and applicable agreements.

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1.9 Relationship to the PJM Open Access Transmission Tariff.

Nothing herein shall modify the rights and obligations of an Eligible Customer or a Transmission Customer, as those terms are defined in the PJM Tariff, with respect to required studies and completion of necessary enhancements or expansions. An Eligible Customer or Transmission Customer electing to follow the procedures in the PJM Tariff instead of the procedures provided herein, shall also be responsible for the related costs. The enhancement and expansion study process under this Protocol shall be funded as a part of the operating budget of the Office of the Interconnection.

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