

Region, of the Day-ahead Energy Market, and (ii) the least-cost means of satisfying the Operating Reserve and other ancillary service requirements for any portion of the load forecast of the Office of the Interconnection for the Operating Day in excess of that scheduled in the Day-ahead Energy Market. In making these determinations, the Office of the Interconnection shall take into account: (i) the Office of the Interconnection's forecasts of PJM Interchange Energy Market and PJM Control Area, and PJM West Region energy requirements, giving due consideration to the energy requirement forecasts and purchase requests submitted by Market Buyers; (ii) the offers submitted by Market Sellers; (iii) the availability of limited energy resources; (iv) the capacity, location, and other relevant characteristics of self-scheduled resources; (v) the objectives of each Control for Operating Reserves, as specified in the PJM Manuals; (vi) the requirements of each Regulation Zone for Regulation and other ancillary services, as specified in the PJM Manuals; (vii) the benefits of avoiding or minimizing transmission constraint control operations, as specified in the PJM Manuals; and (viii) such other factors as the Office of the Interconnection reasonably concludes are relevant to the foregoing determination, including, without limitation, transmission constraints on external coordinated flowgates to the extent provided by section 1.7.6. The Office of the Interconnection shall develop a Day-ahead Energy Market based on the foregoing determination, and shall determine the Day-ahead Prices resulting from such schedule. The Office of the Interconnection shall report the planned schedule for a hydropower resource to the operator of that resource as necessary for plant safety and security, and legal limitations on pond elevations.

(b) Not later than 4:00 p.m. of the day before each Operating Day, or such earlier deadline as may be specified by the Office of the Interconnection in the PJM Manuals, the Office of the Interconnection shall: (i) post the aggregate Day-ahead Energy Market; (ii) post the Day-ahead Prices; and (iii) inform the Market Sellers, Market Buyers, and Economic Load Response Participants of their scheduled injections, withdrawals, and demand reductions respectively.

(c) Following posting of the information specified in Section 1.10.8(b), the Office of the Interconnection shall revise its schedule of generation resources to reflect updated projections of load, conditions affecting electric system operations in the PJM Region, the availability of and constraints on limited energy and other resources, transmission constraints, and other relevant factors. The Office of the Interconnection shall post on the PJM Open Access Same-time Information System at times specified in the PJM Manuals a revised forecast of the location and duration of any expected transmission congestion, and of the range of differences in Locational Marginal Prices between major subareas of the PJM Region expected to result from such transmission congestion.

(d) Market Buyers shall pay and Market Sellers shall be paid for the quantities of energy scheduled in the Day-ahead Energy Market at the Day-ahead Prices. Economic Load Response Participants shall be paid for scheduled demand reductions pursuant to Section 3.3A of this Schedule.

(e) If the Office of the Interconnection discovers an error in prices and/or cleared quantities in the Day-ahead Market, Real-time Market, Ancillary Services Markets or Day Ahead Scheduling Reserve Market after it has posted the results for these markets on its Web site, the Office of the Interconnection shall notify Market Participants of the error as soon as possible after it is found, but in no event later than 12:00 p.m. of the second business day following the Operating Day for Ancillary Services Markets and Real-time Energy Market, and no later than 5:00 p.m. of the second business day following the initial publication of the results for the Day-ahead Scheduling Reserve Market and Day-ahead Energy Market. After this initial notification, if the Office of the Interconnection determines it is necessary to post modified results, it shall provide notification of its intent to do so, together with all available supporting documentation, by no later than 5:00 p.m. of the fifth business day following the Operating Day for the Real-time Energy Market, no later than 5:00 p.m. of the fifth business day following the Operating Day for the Ancillary Services Markets, and

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no later than 5:00 p.m. of the fifth business day following the initial publication of the results in the Day-ahead Scheduling Reserve Market and the Day-ahead Energy Market. Thereafter, the Office of the Interconnection must post on its Web site the corrected results by no later than 5:00 p.m. of the tenth calendar day following the Operating Day for the Ancillary Services Markets, Day-ahead Energy Market and Real-time Energy Market, and no later than 5:00 p.m. of the tenth calendar day following the initial publication of the results in the Day-ahead Scheduling Reserve Market. **Should any of the above deadlines pass without the associated action on the part of PJM, the originally posted results will be considered final.** Notwithstanding the foregoing, the deadlines set forth above shall not apply if the referenced market results are under publicly noticed review by the FERC.

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1.10.9 Hourly Scheduling.

(a) Following the initial posting by the Office of the Interconnection of the Locational Marginal Prices resulting from the Day-ahead Energy Market, and subject to the right of the Office of the Interconnection to schedule and dispatch pool-scheduled resources and to direct that schedules be changed in an Emergency, a generation rebidding period shall exist from 4:00 p.m. to 6:00 p.m. on the day before each Operating Day. During the rebidding period, Market Participants may submit revisions to generation offer data for any generation resource that was not selected as a pool-scheduled resource in the Day-ahead Energy Market. Adjustments to Day-ahead Energy Markets shall be settled at the applicable Real-time Prices, and shall not affect the

Each Financial Transmission Right acquired in a Financial Transmission Rights auction shall entitle the holder to credits of Transmission Congestion Charges for the period that was specified in the corresponding auction.

7.1A Long-Term Financial Transmission Rights Auctions.

7.1A.1 Auctions.

(i) Subsequent to each annual Financial Transmission Rights auction conducted pursuant to Section 7.1 of Schedule 1 of this Agreement, the Office of the Interconnection shall conduct a long-term Financial Transmission Rights auction for the three consecutive Planning Periods immediately subsequent to the Planning Period during which the long-term Financial Transmission Rights auction is conducted.

(ii) The capacity offered for sale in long-term Financial Transmission Rights auctions shall be the residual system capability after the Annual Auction Revenue Rights allocations and the annual Financial Transmission Rights auction. In determining the residual capability the Office of the Interconnection shall assume that all Auction Revenue Rights allocated in the immediately prior annual Auction Revenue Rights allocation process are self-scheduled into Financial Transmission Rights, which shall be modeled as fixed injections and withdrawals in the long-term Financial Transmission Rights auction.

7.1A.2 Frequency and Timing.

The long-term Financial Transmission Rights auction process shall consist of three rounds. The first round shall be conducted by the Office of the Interconnection approximately 11 months prior to the start of the three Planning Period term covered by the relevant long-term Financial Transmission Rights auction. The second round shall be conducted approximately 3 months after the first round, and the third round shall be conducted approximately 3 months after the second round. In each round 1/3 of total capacity available in the long-term Financial Transmission Rights auction shall be offered for sale. Eligible entities may submit bids to purchase and offers to sell Financial Transmission Rights at the start of the bidding period in each round. The bidding period shall be three business days ending at 1700 on the last day. PJM performs the Financial Transmission Rights auction clearing analysis for each round and posts the auction results on the market user interface within five business days after the close of the bidding period for each round. If the Office of the Interconnection discovers an error in the results posted for a long-term Financial Transmission Rights auction, the Office of the Interconnection shall notify Market Participants of the error as soon as possible after it is found, but in no event later than 5:00 p.m. of the business day immediately following the initial publication of the results for that auction. After this initial notification, if the Office of the Interconnection determines it is necessary to post modified auction results, it shall provide notification of its intent to do so, together with all available supporting documentation, by no later than 5:00 p.m. of the second business day following the initial publication of prices for that auction. Thereafter, the Office of the Interconnection must post the corrected prices by no later than 5:00 p.m. of the fourth calendar day following the initial publication of prices in the auction. Should any of the above deadlines pass without the associated action on the part of PJM, the originally posted results will be considered final. Notwithstanding the foregoing, the deadlines set forth above shall not apply if the referenced auction results are under publicly noticed review by the FERC.

7.1A.3 Products.

(i) The periods covered by long-term Financial Transmission Rights auctions shall be: (1) any single Planning Period within the three Planning Period term covered by the relevant auction; and (2) the three Planning Period term covered by the relevant auction.

(ii) On-Peak, off-peak and 24-hour Financial Transmission Rights obligations, as

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defined in Section 7.3.4 of Schedule 1 of this Agreement, shall be offered in long-term Financial Transmission Rights auctions; Financial Transmission Rights options shall not be offered.

7.1A.4 Participation Eligibility.

(i) To participate in long-term Financial Transmission Rights auctions an entity shall be a PJM Member or a PJM Transmission Customer. Eligible entities may submit bids or offers in long-term Financial Transmission Rights auctions, provided they own Financial Transmission Rights offered for sale.

7.1A.5 Specified Receipt and Delivery Points.

Eligible sources and sinks in long-term Financial Transmission Rights auctions shall be limited to hubs, zones, aggregates, generators, and Interface Pricing Points.

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(c) Financial Transmission Rights shall be sold at the market-clearing price for Financial Transmission Rights between specified pairs of receipt and delivery points, as determined by the bid value of the marginal Financial Transmission Right that could not be awarded because it would not be simultaneously feasible. The linear programming model shall determine the clearing prices of all Financial Transmission Rights paths based on the bid value of the marginal Financial Transmission Rights, which are those Financial Transmission Rights with the highest bid values that could not be awarded fully because they were not simultaneously feasible, and based on the flow sensitivities of each Financial Transmission Rights path relative to the marginal Financial Transmission Rights paths flow sensitivities on the binding transmission constraints.

7.3.7 Announcement of Winners and Prices.

Within two (2) business days after the close of the bid and offer period for an annual Financial Transmission Rights auction round, and within five (5) business days after the close of the bid and offer period for a monthly Financial Transmission Rights auction, the Office of the Interconnection shall post the winning bidders, the megawatt quantity, the term and the receipt and delivery points for each Financial Transmission Right awarded in the auction and the price at which each Financial Transmission Right was awarded. The Office of the Interconnection shall not disclose the price specified in any bid to purchase or the reservation price specified in any offer to sell. If the Office of the Interconnection discovers an error in the results posted for a Financial Transmission Rights auction (or a given round of the annual Financial Transmission Rights auction), the Office of the Interconnection shall notify Market Participants of the error as soon as possible after it is found, but in no event later than 5:00 p.m. of the business day following the initial publication of the results of the auction or round of the annual auction. After this initial notification, if the Office of the Interconnection determines that it is necessary to post modified results, it shall provide notification of its intent to do so, together with all available supporting documentation, by no later than 5:00 p.m. of the second business day following the initial publication of the results of that auction or round of the annual auction. Thereafter, the Office of the Interconnection must post any corrected results by no later than 5:00 p.m. of the fourth business day following the initial publication of the results of the auction or round of the annual auction. Should any of the above deadlines pass without the associated action on the part of PJM, the originally posted results will be considered final. Notwithstanding the foregoing, the deadlines set forth above shall not apply if the referenced auction results are under publicly noticed review by the FERC.

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7.3.8 Auction Settlements.

All buyers and sellers of Financial Transmission Rights between the same points of receipt and delivery shall pay or be paid the market-clearing price, as determined in the auction, for such Financial Transmission Rights.

7.3.9 Liquidation of Financial Transmission Rights in the Event of Member Default.

In the event a Member fails to meet creditworthiness requirements or make timely payments when due pursuant to the PJM Operating Agreement or PJM Tariff, the Office of the Interconnection shall, as soon as practicable after such default is declared, initiate the following procedures to close out and liquidate the Financial Transmission Rights of a Member:

a) The Office of the Interconnection shall close out the defaulting Member's positions as of the date of its default, by unilaterally accelerating and terminating all forward

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Financial Transmission Rights positions.

b) The Office of the Interconnection shall post on its website all salient information relating to the closed out portfolio of Financial Transmission Rights.

c) All current planning period Financial Transmission Right positions within the defaulting Members' Financial Transmission Right portfolio will be offered for sale in the next available monthly balance of planning period Financial Transmission Rights auction at an offer price designed to maximize the likelihood of liquidation of those positions.

d) Financial Transmission Rights positions that do not settle until the next or subsequent planning period will be offered into the next available Financial Transmission Rights auction (taking into account timing constraints and the need for an orderly liquidation) where, based on the Office of Interconnection's commercially reasonable expectation, such positions would be expected to clear. In the event that the next scheduled Financial Transmission Rights

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- (ii) To the Residual Auction Revenue Rights holders in proportion to, but not more than their target allocation as determined pursuant to section 7.4.3(b) of Schedule 1 of this Agreement. If there are excess revenues remaining after a distribution made pursuant to this subsection, such revenues shall be distributed in accordance with subsection (c)(iii) of this section;
- (iii) To FTR Holders in accordance with section 5.2.6 of Schedule 1 of this Agreement.

(d) Long-term FTR auction revenues associated with FTRs that cover individual Planning Periods shall be distributed in the Planning Period for which the FTR is effective. Long-term FTR auction revenues associated with FTRs that cover multiple Planning Years shall be distributed equally across each Planning Period in the effective term of the FTR. Long-term FTR auction revenue distributions within a Planning Period shall be in accordance with the following provisions:

(i) Long-term FTR Auction revenues shall be distributed to Auction Revenue Rights holders in the effective Planning Period for the FTR. The distribution shall be in proportion to the economic value of the ARR when compared to the annual FTR auction clearing prices from each round proportionately. The distribution shall not exceed, when added to the distribution of revenues from the prompt-year annual FTR auction itself, the economic value of the ARRs when compared to the annual FTR auction clearing prices from each round proportionately.

(ii) Long-term FTR auction revenues remaining after distributions made pursuant to Section 7.4.1(d)(ii) of Schedule 1 of this Agreement shall be distributed pursuant to Section 5.2.6 of Schedule 1 of this Agreement.

7.4.2 Auction Revenue Rights.

(a) Prior to the end of each PJM Planning Period an annual allocation of Auction Revenue Rights for the next PJM Planning Period shall be performed using a two stage allocation process. Stage 1 shall consist of stages 1A and 1B, which shall allocate ten year and annual Auction Revenue Rights, respectively, and stage 2 shall allocate annual Auction Revenue Rights. The Auction Revenue Rights allocation process shall be performed in accordance with Sections 7.4 and 7.5 hereof and the PJM Manuals.

With respect to the allocation of Auction Revenue Rights, if the Office of the Interconnection discovers an error in the allocation, the Office of the Interconnection shall notify Market Participants of the error as soon as possible after it is found, but in no event later than 5:00 p.m. of the business day following the initial publication of allocation results. After this initial notification, if the Office of the Interconnection determines that it is necessary to post modified allocation results, it shall provide notification of its intent to do so, together with all available supporting documentation, by no later than 5:00 p.m. of the second business day following the publication of the initial allocation. Thereafter, the Office of the Interconnection must post any corrected allocation results by no later than 5:00 p.m. of the tenth business day following the initial publication. Should any of the above deadlines pass without the associated action on the part of PJM, the originally posted results will be considered final. Notwithstanding the foregoing, the deadlines set forth above shall not apply if the referenced allocation is under

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publicly noticed review by the FERC.

(b) In stage 1A of the allocation process, each Network Service User may request Auction Revenue Rights for a term covering ten consecutive PJM Planning Periods beginning with the immediately ensuing PJM Planning Period from a subset of the historical generation resources that were designated to be delivered to load based on the historical reference year for the Zone, and each Qualifying Transmission Customer (as defined in paragraph (f) of this section) may request Auction Revenue Rights based on the megawatts of firm service provided

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