

Draft 3/18/10

**Counterparty and Bilateral Transaction Clarification
Draft Tariff Changes**

Attachment DD

(From current effective PJM Tariff 3/2/2010)

- (1) The Tariff and Operating Agreement portions containing proposed changes regarding counterparty clarification are included in 6 separate documents. These documents are:
 - Operating Agreement (other than Schedule 1)
 - Part I, II, III and relevant Schedules of the Tariff
 - Attachment Q
 - Attachment K and Appendix to Attachment K
 - Attachment DD
 - Attachments with Form Agreements
- (2) Designations have not been updated

2.58 Reference Resource

“Reference Resource” shall mean a combustion turbine generating station, configured with two General Electric Frame 7FA turbines with inlet air cooling to 50 degrees, Selective Catalytic Reduction technology, dual fuel capability, and a heat rate of 10,500 Mmbtu/MWh

2.59 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.44.

2.60 Reliability Pricing Model Auction

“Reliability Pricing Model Auction” shall mean the Base Residual Auction or any Incremental Auction.

2.61 Resource Substitution Charge

“Resource Substitution Charge” shall mean a charge assessed on Capacity Market Buyers in an Incremental Auction to recover the cost of replacement Capacity Resources.

2.61A Scheduled Incremental Auctions

“Scheduled Incremental Auctions” shall refer to the First, Second, or Third Incremental Auction.

2.62 Second Incremental Auction

“Second Incremental Auction” shall mean an Incremental Auction conducted ten months before the Delivery Year to which it relates.

2.63 Sell Offer

“Sell Offer” shall mean an offer to sell Capacity Resources in a Base Residual Auction, Incremental Auction, or Reliability Backstop Auction.

2.64 [Reserved for Future Use]

2.65 Self-Supply

“Self-Supply” shall mean Capacity Resources secured by a Load-Serving Entity, by ownership or contract, outside a Reliability Pricing Model Auction, and used to meet obligations under this Attachment or the Reliability Assurance Agreement through submission in a Base Residual Auction of a Sell Offer indicating such Market Seller’s intent that such Capacity Resource be Self-Supply. Self-Supply may be either committed regardless of clearing price or submitted as a Sell Offer with a price bid. An LSE may submit a Load Serving Entity's Sell Offer with a price bid for an owned or contracted Capacity Resource, but such Sell Offer shall not be deemed “Self-Supply,” unless it is designated as Self-Supply and used by the LSE to meet

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FERC Electric Tariff
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obligations under this Attachment or the Reliability Assurance Agreements ~~solely as such term is used in this Attachment.~~

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3. RESPONSIBILITIES OF THE OFFICE OF THE INTERCONNECTION

3.1 Support for Self-Supply and Bilateral Transactions

The Office of the Interconnection shall:

- (a) support electronic tools to facilitate communication by Market Sellers and Market Buyers of information to the Office of the Interconnection concerning Self-Supply arrangements;
- (b) support an electronic bulletin board providing a forum for prospective buyers and sellers to transact Capacity Resources outside the Reliability Pricing Model Auctions, including Locational UCAP transactions, ~~in accordance with procedures set forth in the PJM Manuals~~ (including mechanisms to allow prospective Sellers with partial-year resources to explore voluntary opportunities to combine their resources such that they can be offered together for a full Delivery Year) and support electronic tools to report bilateral capacity transactions between Market Participants to the Office of the Interconnection, in accordance with procedures set forth in the PJM Manuals; and
- (c) define one or more capacity trading hubs and determine and publicize values for such hubs based on the capacity prices determined for one or more Locational Deliverability Areas, in accordance with the PJM Manuals; ~~and~~

~~Subsection (d) replaced with new section 4.6]~~ ~~(d) establish procedures by which obligations to pay Locational Reliability Charges may be transferred between and among Load Serving Entities and other Market Participants for purposes of settlement and billing, including procedures by which, before or after any Base Residual Auction, a Load Serving Entity or other Market Participant seeking to effectuate any such transfer shall identify to the Office of the Interconnection the transferee, transferor, quantity of obligations to be transferred, start and end date of the transfer, and the location, including pricing for such location, for which an obligation to pay Locational Reliability Charges is calculated; provided, however, that any such transfer shall not alter the physical supply and demand balance in the Base Residual Auction, and that such transfers shall not establish any obligations that are incompatible with any such auction. The Market Participants engaging in any such transfer shall not be required, prior to entering into any such transfer, to demonstrate creditworthiness pursuant to Attachment Q to this Tariff solely as a result of any such transfer; provided, however, the Office of the Interconnection retains all rights under this Tariff and the Operating Agreement in the event of a failure by a party to any such transfer to meet any obligation under the Operating Agreement or Tariff, and further reserves the right to terminate any such transfer in the event of any failure to meet any such obligation.~~

3.2 Administration of the Base Residual Auction and Incremental Auctions

The Office of the Interconnection shall conduct and administer the Base Residual Auction and Incremental Auctions in accordance with this Attachment, the Operating

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Agreement, and the Reliability Assurance Agreement. Administration of the Base Residual Auction and Incremental Auctions shall include, but not be limited to, the following:

- a) Determining the qualification of entities to become Capacity Market Sellers and Capacity Market Buyers;
- b) Determining PJM Region Peak Load Forecasts and Locational Deliverability Area Reliability Requirements;
- c) Determining ILR Forecasts for Delivery Years through May 31, 2012;
- d) Determining the need, if any, for a Conditional Incremental Auction and providing appropriate prior notice of any such auction

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- e) Calculating the EFORd for each Generation Capacity Resource in the PJM Region to be used in the Third Incremental Auction;
- f) Receiving Buy Bids and Sell Offers, determining Locational Deliverability Requirements and Variable Resource Requirement Curves, and determining the clearing price that reflects all such inputs;
- g) Conducting settlements for auction transactions, including but not limited to rendering bills to, receiving payments from, and disbursing payments to, participants in Base Residual Auctions and Incremental Auctions.
- h) Maintaining such records of Sell Offers and Buy Bids, clearing price determinations, and other aspects of auction transactions, as may be appropriate to the administration of Base Residual Auctions and Incremental Auctions; and
- i) Posting of selected non-confidential data used in Reliability Pricing Model Auctions to calculate clearing prices and other auction results, as appropriate to inform market participants of auction conditions.

3.3 Records and Reports

The Office of the Interconnection shall prepare and maintain such records as are required for the administration of the Base Residual Auction and Incremental Auctions. For each auction conducted, the Office of the Interconnection shall, consistent with section 18.17 of the Operating Agreement, publish the following: (i) Zonal Capacity Prices for each LDA; (ii) Capacity Resource Clearing Prices for each LDA; (iii) Locational Price Adders; (iv) the total megawatts of Unforced Capacity that cleared; and (v) such other auction data as may be appropriate to the efficient and competitive conduct of the Base Residual Auction and Incremental Auctions. Such information shall be available on the PJM internet site through the end of the Delivery Year to which such auctions apply.

3.4 Counterparty

- (a) PJMSettlement shall be the Counterparty to the transactions arising from the cleared Base Residual Auctions and Incremental Auctions; provided, however, PJMSettlement shall not be a contracting party to (i) any bilateral transactions between Market Participants, or (ii) with respect to Self-Supply for which designation of Self-Supply has been reported to the Office of the Interconnection.
- (b) Charges. PJMSettlement shall be the Counterparty with respect to the obligations to pay, and the payment of, charges pursuant to this Attachment DD.

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4. GENERAL PROVISIONS

4.1 Capacity Market Sellers

Only Capacity Market Sellers shall be eligible to submit Sell Offers into the Base Residual Auction and Incremental Auctions. Capacity Market Sellers shall comply with the terms and conditions of all Sell Offers, as established by the Office of the Interconnection in accordance with this Attachment, Attachment M, Attachment M - Appendix and the Operating Agreement.

4.2 Capacity Market Buyers

Only Capacity Market Buyers shall be eligible to submit Buy Bids into an Incremental Auction. Capacity Market Buyers shall comply with the terms and conditions of all Buy Bids, as established by the Office of the Interconnection in accordance with this Attachment, Attachment M, Attachment M - Appendix and the Operating Agreement.

4.3 Agents

A Capacity Market Seller may participate in a Base Residual Auction or Incremental Auction through an Agent, provided that the Capacity Market Seller informs the Office of the Interconnection in advance in writing of the appointment and authority of such Agent. A Capacity Market Buyer may participate in an Incremental Auction through an Agent, provided that the Capacity Market Buyer informs the Office of the Interconnection in advance in writing of the appointment and authority of such Agent. A Capacity Market Buyer or Capacity Market Seller participating in such an auction through an Agent shall be bound by all of the acts or representations of such Agent with respect to transactions in such auction. Any written instrument establishing the authority of such Agent shall provide that any such Agent shall comply with the requirements of this Attachment and the Operating Agreement.

4.4 General Obligations of Capacity Market Buyers and Capacity Market Sellers

Each Capacity Market Buyer and Capacity Market Seller shall comply with all laws and regulations applicable to the operation of the Base Residual and Incremental Auctions and the use of these auctions shall comply with all applicable provisions of this Attachment, Attachment M, Attachment M - Appendix, the Operating Agreement, and the Reliability Assurance Agreement, and all procedures and requirements for the conduct of the Base Residual and Incremental Auctions and the PJM Region established by the Office of the Interconnection in accordance with the foregoing.

4.5 Confidentiality

The following information submitted to the Office of the Interconnection in connection with any Base Residual Auction, Incremental Auction, or Reliability Backstop Auction shall be deemed confidential information for purposes of Section 18.17 of the Operating Agreement, Attachment M and Attachment M - Appendix: (i) the terms and conditions of the Sell Offers and Buy Bids; and (ii) the terms and conditions of any bilateral transactions for Capacity Resources.

4.6 Bilateral Capacity Transactions

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- (a) Unit-Specific Internal Capacity Bilateral Transaction Transferring All Rights and Obligations (“Section 4.6(a) Bilateral”).
- (i) Market Participants may enter into unit-specific internal bilateral capacity contracts for the purchase and sale of title and rights to a specified amount of installed capacity from a specific generating unit or units. Such bilateral capacity contracts shall be for the transfer of rights to capacity to and from a Market Participant and shall be reported to the Office of the Interconnection in accordance with this Attachment DD and the Office of the Interconnection’s rules related to its eRPM tools.
- (ii) For purposes of clarity, with respect to all Section 4.6(a) Bilateral transactions, the rights to, and obligations regarding, the capacity that is the subject of the transaction shall pass to the buyer under the contract at the location of the unit and further transactions and rights and obligations associated with such capacity shall be the responsibility of the buyer under the contract. Such obligations include any charges, including penalty charges, relating to the capacity under this Attachment DD. In no event shall the purchase and sale of the rights to capacity pursuant to a Section 4.6(a) Bilateral constitute a transaction with the Office of the Interconnection or PJMSettlement or a transaction in any auction under this Attachment DD.
- (iii) All payments and related charges associated with a Section 4.6(a) Bilateral shall be arranged between the parties to the transaction and shall not be billed or settled by the Office of the Interconnection or PJMSettlement. The Office of the Interconnection, PJMSettlement, and the Members will not assume financial responsibility for the failure of a party to perform obligations owed to the other party under a Section 4.6(a) Bilateral reported to the Office of the Interconnection under this Attachment DD.
- (iv) With respect to capacity that is the subject of a Section 4.6(a) Bilateral that has cleared an auction under this Attachment DD prior to a transfer, the buyer of the cleared capacity shall be considered in the Delivery Year the party to a transaction with PJMSettlement as Counterparty for the cleared capacity at the Capacity Resource Clearing Price published for the applicable auction.
- (v) A buyer under a Section 4.6(a) Bilateral contract shall pay any penalties or charges associated with the capacity transferred under the contract. To the extent the capacity that is the subject of a Section 4.6(a) Bilateral contract has cleared an auction under this Attachment DD prior to a transfer, then the seller under the contract also shall guarantee and indemnify the Office of the Interconnection, PJMSettlement, and the Members for the buyer’s obligation to pay any penalties or charges associated with the capacity and for which payment is not made to PJMSettlement by the buyer as

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determined by the Office of the Interconnection. All claims regarding a default of a buyer to a seller under a Section 4.6(a) Bilateral contract shall be resolved solely between the buyer and the seller.

(vi) To the extent the capacity that is the subject of the Section 4.6(a) Bilateral transaction already has cleared an auction under this Attachment DD, such bilateral capacity transactions shall be subject to the prior consent of the Office of the Interconnection and its determination that sufficient credit is in place for the buyer with respect to the credit exposure associated with such obligations.

(b) Bilateral Capacity Transaction Transferring Title to Capacity But Not Transferring Performance Obligations ("Section 4.6(b) Bilateral").

(i) Market Participants may enter into bilateral capacity transactions for the purchase and sale of a specified megawatt quantity of capacity that has cleared an auction pursuant to this Attachment DD. The parties to a Section 4.6(b) Bilateral transaction shall identify (1) each unit from which the transferred megawatts are being sold, and (2) the auction in which the transferred megawatts cleared. Such bilateral capacity transactions shall transfer title and all rights with respect to capacity and shall be reported to the Office of the Interconnection on an annual basis prior to each Delivery Year in accordance with this Attachment DD and pursuant to the Office of the Interconnection's rules related to its eRPM tools. Reported transactions with respect to a unit will be accepted by the Office of the Interconnection only to the extent that the total of all bilateral sales from the reported unit (including Section 4.6(a) bilaterals, Section 4.6(b) bilaterals, and Locational UCAP bilaterals) do not exceed the unit's cleared unforced capacity.

(ii) For purposes of clarity, with respect to all Section 4.6(b) Bilateral transactions, the rights to the capacity shall pass to the buyer at the location of the unit(s) specified in the reported transaction. In no event shall the purchase and sale of the rights to capacity pursuant to a Section 4.6(b) Bilateral constitute a transaction with PJMSettlement or the Office of the Interconnection or a transaction in any auction under this Attachment DD.

(iii) With respect to a Section 4.6(b) Bilateral, the buyer of the cleared capacity shall be considered in the Delivery Year the party to a transaction with PJMSettlement as Counterparty for the cleared capacity at the Capacity Resource Clearing Price published for the applicable auction; provided, however, with respect to all Section 4.6(b) Bilateral transactions, such transactions do not effect a novation of the seller's obligations to make RPM capacity available to PJM pursuant to the terms and conditions originally agreed to by the seller; provided further, however, the buyer

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shall indemnify PJMSettlement, the LLC, and the Members for any failure by a seller under a Section 4.6(b) Bilateral to meet any resulting obligations, including the obligation to pay deficiency penalties and charges owed to PJMSettlement, associated with the capacity.

(iv) All payments and related charges associated with a Section 4.6(b) Bilateral shall be arranged between the parties to the contract and shall not be billed or settled by the Office of the Interconnection or PJMSettlement. The Office of the Interconnection, PJMSettlement, and the Members will not assume financial responsibility for the failure of a party to perform obligations owed to the other party under a Section 4.6(b) Bilateral capacity contract reported to the Office of the Interconnection under this Attachment DD.

(v) All claims regarding a default of a buyer to a seller under a Section 4.6(b) Bilateral shall be resolved solely between the buyer and the seller.

(c) Locational UCAP Bilateral Transactions Between Capacity Sellers.

(i) Market Participants may enter into Locational UCAP bilateral transactions as defined in, and pursuant to the rules set forth in, section 5.3A of this Attachment DD, which shall be reported to the Office of the Interconnection in accordance with this Attachment DD and the LLC's rules related to its eRPM tools.

(ii) For purposes of clarity, with respect to all Locational UCAP bilateral transactions, the rights to the Locational UCAP that are the subject of the Locational UCAP bilateral transaction shall pass to the buyer under the Locational UCAP bilateral contract subject to the provisions of section 5.3A. In no event, shall the purchase and sale of Locational UCAP pursuant to a Locational UCAP bilateral transaction constitute a transaction with the Office of the Interconnection or PJMSettlement, or a transaction in any auction under this Attachment DD.

(iii) A Locational UCAP Seller shall have the obligation to make the capacity available to PJM in the same manner as capacity that has cleared an auction under this Attachment DD and the Locational UCAP Seller shall have all obligations for charges and penalties associated with the capacity that is the subject of the Locational UCAP bilateral contract; provided, however, the buyer shall indemnify PJMSettlement, the LLC, and the Members for any failure by a seller to meet any resulting obligations, including the obligation to pay deficiency penalties and charges owed to PJMSettlement, associated with the capacity. All claims regarding a default of a buyer to a seller under a Locational UCAP bilateral contract shall be resolved solely between the buyer and the seller.

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(iv) All payments and related charges for the Locational UCAP associated with a Locational UCAP bilateral contract shall be arranged between the parties to such bilateral contract and shall not be billed or settled by the Office of the Interconnection or PJMSettlement. The LLC, PJMSettlement, and the Members will not assume financial responsibility for the failure of a party to perform obligations owed to the other party under a Locational UCAP bilateral contract reported to the Office of the Interconnection under this Attachment DD.

(d) The bilateral transactions provided for in this section 4.6 shall be for the physical transfer of capacity to or from a Market Participant and shall be reported to and coordinated with the Office of the Interconnection in accordance with this Attachment DD and pursuant to the Office of the Interconnection's rules relating to its eRPM tools. Bilateral transactions that do not contemplate the physical transfer of capacity to and from a Market Participant are not subject to this Attachment DD and shall not be reported to and coordinated with the Office of the Interconnection.

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5. CAPACITY RESOURCE COMMITMENT

5.1 Introduction

In accordance with the Reliability Assurance Agreement, each Load Serving Entity is obligated to pay a Locational Reliability Charge for each Zone in which it serves load based on the Daily Unforced Capacity Obligation of its loads in such Zone. An LSE may offset the Locational Reliability charge for a Delivery Year, in whole or in part, by: (a) Self-Supply of Capacity Resources in the Base Residual Auction; (b) offering and clearing Capacity Resources in the Base Residual Auction or an Incremental Auction (but only to the extent of the additional resources committed to meet Unforced Capacity Obligations through such Incremental Auction); (c) obtaining certification of load reduction capability as ILR three months prior to the start of the Delivery Year (to the extent permitted hereunder); (d) receiving payments from Capacity Transfer Rights; or (e) offering and clearing Qualifying Transmission Upgrades in the Base Residual Auction.

5.2 Nomination of Self Supplied Capacity Resources

A Capacity Market Seller, including a Load Serving Entity, may designate a Capacity Resource as Self-Supply for a Delivery year by submitting a Sell Offer for such resource in the Base Residual Auction in accordance with the procedure and time schedule set forth in the PJM Manuals, ~~except that~~ The LSE shall indicate its intent in the Sell Offer [that the Capacity Resource be deemed Self-Supply and shall indicate whether it is ~~to~~ committing](#) the resource regardless of clearing price [or with a price bid](#). Upon receipt of a Self-Supply Sell Offer, the Office of the Interconnection will verify that the designated Capacity Resource is available, in accordance with Section 5.6, and if the LSE indicated that it is committing the resource regardless of clearing price, will treat such Capacity Resource as committed in the clearing process of the Base Residual Auction for such Delivery Year. To address capacity obligation quantity uncertainty associated with the Variable Resource Requirement Curve, a Load Serving Entity may submit a Sell Offer with a contingent designation of a portion of its Capacity Resources as either Self-Supply (to the extent required to meet a portion (as specified by the LSE) of the LSE's peak load forecast in each transmission zone) or as not Self-Supply subject to an offer price (to the extent not so required) and subject to an offer price, in accordance with the PJM Manuals. PJM Settlement shall not be the Counterparty with respect to a Capacity Resource designated as Self-Supply.

5.3 Commitment of Contractually Purchased Capacity Resources

A Load Serving Entity that has purchased the right to the capacity output of a generation resource and desires to commit such right as a Capacity Resource for a Delivery Year shall be considered a Capacity Market Seller. Such an LSE must submit a Sell Offer in the Base Residual Auction for such Delivery Year, in accordance with the procedure and time schedule set forth in the PJM Manuals. In such Sell Offer, the Capacity Resource offered by the LSE may be submitted as Self-Supply or with an offer price. PJM Settlement shall not be the Counterparty with respect to a Capacity Resource designated as Self-Supply.

5.3A Locational UCAP Bilateral Transactions

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FERC Electric Tariff
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A Member that has committed capacity through an RPM Auction for a Delivery Year may purchase Locational UCAP as replacement capacity from a Member with available uncommitted capacity for such Delivery Year in accordance with the terms of this section and the PJM Manuals. Locational UCAP may not be sold or purchased prior to the date that the final

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EFOR_D is established for such Delivery Year, and if designated to PJM by the Locational UCAP Seller as sold prior to the Third Incremental Auction for a Delivery Year must be confirmed by the buyer prior to such Third Incremental Auction as purchased for replacement capacity, or such transaction shall be rejected. In accordance with procedures specified in the PJM Manuals, the parties to a Locational UCAP transaction must notify PJM of such transaction, which notification must specify: i) the buyer, ii) the Locational UCAP Seller, iii) the start and end dates of the transaction (which may not be retroactive), iv) the Locational UCAP amount (no less than 0.1 megawatts), v) the demand or generation resource with available uncommitted capacity that is the basis for the sale, and vi) the Locational Delivery Area in which the resource is located. The Locational UCAP Seller shall be responsible for any charges imposed under sections 7, 8, 9, 10, 11, or 13, as applicable, for such Delivery Year, with respect to the increment of capacity sold as Locational UCAP; any other settlement of charges under the Locational UCAP transaction shall be between the parties. A purchaser of Locational UCAP may not offer such capacity into an RPM Auction.

5.4 Reliability Pricing Model Auctions

The Office of the Interconnection shall conduct the following Reliability Pricing Model Auctions:

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a) Base Residual Auction.

PJM shall conduct for each Delivery Year a Base Residual Auction to secure commitments of Capacity Resources as needed to satisfy the portion of the RTO Unforced Capacity Obligation not satisfied through Self-Supply of Capacity Resources for such Delivery Year. All Self-Supply Capacity Resources must be offered in the Base Residual Auction. As set forth in section 6.6, all other Capacity Resources, and certain other existing generation resources, must be offered in the Base Residual Auction. The Base Residual Auction shall be conducted in the month of May that is three years prior to the start of such Delivery Year. The cost of payments to Capacity Market Sellers for Capacity Resources that clear such auction shall be paid by PJMSettlement from amounts collected by PJMSettlement from Load Serving Entities through the Locational Reliability Charge during such Delivery Year. PJMSettlement shall be the Counterparty to the sales that clear in such auction and to the obligations to pay, and the payments, by Load Serving Entities; provided, however, that PJMSettlement shall not be a Counterparty to committed Self-Supply Capacity Resources.

b) Scheduled Incremental Auctions.

PJM shall conduct for each Delivery Year a First, a Second, and a Third Incremental Auction for the purposes set forth in section 2.34. The First Incremental Auction shall be conducted in the month of September that is twenty months prior to the start of the Delivery Year; the Second Incremental Auction shall be conducted in the month of July that is ten months prior to the start of the Delivery Year; and the Third Incremental Auction shall be conducted in the month of February that is three months prior to the start of the Delivery Year.

c) Adjustment through Scheduled Incremental Auctions of Capacity Previously Committed.

The Office of the Interconnection shall recalculate the PJM Region Reliability Requirement and each LDA Reliability Requirement prior to each Scheduled Incremental Auction, based on an updated peak load forecast, updated Installed Reserve Margin and an updated Capacity Emergency Transfer Objective; shall update such reliability requirements for the Third Incremental Auction to reflect any change from such recalculation; and shall update such reliability requirements for the First Incremental Auction or Second Incremental Auction only if the change is greater than or equal to the lesser of: (i) 500 MW or (ii) one percent of the applicable prior reliability requirement. Based on such update, the Office of the Interconnection shall, under certain conditions, seek through the Scheduled Incremental Auction to secure additional commitments of capacity or release sellers from prior capacity commitments. Specifically, the Office of the Interconnection shall:

1) seek additional capacity commitments to serve the PJM Region or an LDA if the PJM Region Reliability Requirement or LDA Reliability Requirement utilized in the most recent prior auction conducted for the Delivery Year is less than, respectively, the updated PJM Region Reliability Requirement or updated LDA Reliability Requirement; provided, however, that in the First Incremental Auction or Second Incremental Auction the Office of the Interconnection shall seek such additional capacity commitments only if such shortfall is in an amount greater than or equal to the lesser of: (i) 500 MW or (ii) one percent of the applicable prior reliability requirement;

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2) seek additional capacity commitments to serve the PJM Region or an LDA if:

i) the updated PJM Region Reliability Requirement less the PJM Region Short-Term Resource Procurement Target utilized in the most recent auction conducted for the Delivery Year, or if the LDA Reliability Requirement less the LDA Short Term Resource Procurement Target applicable to such auction, exceeds the total capacity committed in all prior auctions in such region or area, respectively, for such Delivery Year by an amount greater than or equal to the lesser of: (A) 500 MW or (B) one percent of the applicable prior reliability requirement; or

ii) PJM conducts a Conditional Incremental Auction for such Delivery Year and does not obtain all additional commitments of Capacity Resources sought in such Conditional Incremental Auction, in which case, PJM shall seek in the Incremental Auction the commitments that were sought in the Conditional Incremental Auction but not obtained.

3) seek agreements to release prior capacity commitments to the PJM Region or to an LDA if:

i) the PJM Region Reliability Requirement or LDA Reliability Requirement utilized in the most recent prior auction conducted for the Delivery Year exceeds, respectively, the updated PJM Region Reliability Requirement or updated LDA Reliability Requirement; provided, however, that in the First Incremental Auction or Second Incremental Auction the Office of the Interconnection shall seek such agreements only if such excess is in an amount greater than or equal to the lesser of: (A) 500 MW or (B) one percent of the applicable prior reliability requirement; or

ii) PJM obtains additional commitments of Capacity Resources in a Conditional Incremental Auction, in which case PJM shall seek release of an equal number of megawatts (comparing the total purchase amount for all LDAs and the PJM Region related to the delay in Backbone Transmission with the total sell amount for all LDAs and the PJM Region related to the delay in Backbone Transmission) of prior committed capacity that would not have been committed had the delayed Backbone Transmission upgrade that prompted the Conditional Incremental Auction not been assumed, at the time of the Base Residual Auction, to be in service for the relevant Delivery Year; and if PJM obtains additional commitments of capacity in an incremental auction pursuant to subsection c.2.ii above, PJM shall seek in such Incremental Auction to release an equal amount of capacity (in total for all LDAs and the PJM Region related to the delay in Backbone Transmission) previously committed that would not have been committed absent the Backbone Transmission upgrade.

4) The cost of payments to Market Sellers for additional Capacity Resources cleared in such auctions, and the credits from payments from Market Sellers for the release of previously committed Capacity Resources, shall be apportioned to Load Serving Entities in the PJM Region or LDA, as applicable, through adjustments to the Locational Reliability Charge for such Delivery Year.

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PJM Interconnection, L.L.C.
FERC Electric Tariff
Sixth Revised Volume No. 1

Second Revised Sheet No. 577A
Superseding First Revised Sheet No. 577A

5) PJM Settlement shall be the Counterparty to the sales (including releases) of Capacity Resources that clear in such auctions and to the obligations to pay, and the payments, by Load Serving Entities.

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d) Commitment of Replacement Capacity through Scheduled Incremental Auctions.

Each Scheduled Incremental Auction for each Delivery Year shall allow Capacity Market Sellers that committed Capacity Resources in any prior Reliability Pricing Model Auction for such Delivery Year to submit Buy Bids for replacement Capacity Resources. The need to purchase replacement Capacity Resources may arise for any reason, including but not limited to resource retirement, resource cancellation or construction delay, resource derating, EFORD increase, a decrease in the Nominated Demand Resource Value of a Planned Demand Resource, delay or cancellation of a Qualifying Transmission Upgrade, or similar occurrences. The cost of payments to Capacity Market Sellers for Capacity Resources that clear such auction shall be [paid by PJMSettlement from amounts collected by PJMSettlement from Capacity Market Buyers that purchase replacement Capacity Resources in such auction. PJMSettlement shall be the Counterparty to the sales and purchases that clear in such auction.](#)

e) Conditional Incremental Auction.

PJM shall conduct for any Delivery Year a Conditional Incremental Auction if the in service date of a Backbone Transmission Upgrade that was modeled in the Base Residual Auction is announced as delayed by the Office of the Interconnection beyond July 1 of the Delivery Year for which it was modeled and if such delay causes a reliability criteria violation. If conducted, the Conditional Incremental Auction shall be for the purpose of securing commitments of additional capacity for the PJM Region or for any LDA to address the identified reliability criteria violation. If PJM determines to conduct a Conditional Incremental Auction, PJM shall post on its website the date and parameters for such auction (including whether such auction is for the PJM Region or for an LDA) at least one month prior to the start of such auction. The cost of payments to Market Sellers for Capacity Resources cleared in such auction shall be collected [by PJMSettlement from Load Serving Entities in the PJM Region or LDA, as applicable, through an adjustment to the Locational Reliability Charge for such Delivery Year. PJMSettlement shall be the Counterparty to the sales that clear in such auction and to the obligations to pay, and payments, by Load Serving Entities.](#)

5.5 Eligibility for Participation in RPM Auctions

A Capacity Market Seller may submit a Sell Offer for a Capacity Resource in a Base Residual or Incremental Auction only if such seller owns or has the contractual authority to control the output or load reduction capability of such resource and has not transferred such authority to another entity. Capacity Resources must satisfy the capability and deliverability requirements of Schedules 9 and 10 of the PJM Reliability Assurance Agreement, and, as applicable, the requirements for Demand Resources or Energy Efficiency Resources in Attachment DD-1 and Schedule 6 of the Reliability Assurance Agreement.

5.6 Sell Offers

Sell Offers shall be submitted or withdrawn via the internet site designated by the Office of the Interconnection, in accordance with the procedures and time schedule set forth in the PJM Manuals.

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5.6.1 Specifications

A Sell Offer shall state quantities in increments of 0.1 megawatts and shall specify, as appropriate:

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iii. The failure to submit a Sell Offer consistent with Section 5.14(c)(i)-(iii) in the BRA for Delivery Year 3 shall not retroactively revoke the New Entry Price Adjustment for Delivery Year 2.

For each Delivery Year that the foregoing conditions are satisfied, the Office of the Interconnection shall maintain and employ in the auction clearing for such LDA a separate VRR Curve, notwithstanding the outcome of the test referenced in Section 5.10(a)(ii) of this Attachment.

d) Qualifying Transmission Upgrade Payments

A Capacity Market Seller that submitted a Sell Offer based on a Qualifying Transmission Upgrade that clears in the Base Residual Auction shall receive a payment equal to the Capacity Resource Clearing Price, including any Locational Price Adder, of the LDA into which the Qualifying Transmission Upgrade is to increase Capacity Emergency Transfer Limit, less the Capacity Resource Clearing Price, including any Locational Price Adder, of the LDA from which the upgrade was to provide such increased CETL, multiplied by the megawatt quantity of increased CETL cleared from such Sell Offer. Such payments shall be reflected in the Locational Price Adder determined as part of the Final Zonal Capacity Price for the Zone associated with such LDAs, and shall be funded through a reduction in the Capacity Transfer Rights allocated to Load-Serving Entities under section 5.15, as set forth in that section. [PJMSettlement shall be the Counterparty to any cleared capacity transaction resulting from a Sell Offer based on a Qualifying Transmission Upgrade.](#)

e) Locational Reliability Charge

In accordance with the Reliability Assurance Agreement, each LSE shall incur a Locational Reliability Charge (subject to certain offsets as described in sections 5.13 and 5.15) equal to such LSE's Daily Unforced Capacity Obligation in a Zone during such Delivery Year multiplied by the applicable Final Zonal Capacity Price in such Zone. [PJMSettlement shall be the Counterparty to the LSEs' obligations to pay, and payments of, Locational Reliability Charges.](#)

f) The Office of the Interconnection shall determine Zonal Capacity Prices in accordance with the following, based on the optimization algorithm:

i) The Office of the Interconnection shall calculate and post the Preliminary Zonal Capacity Prices for each Delivery Year following the Base Residual Auction for such Delivery Year. The Preliminary Zonal Capacity Price for each Zone shall be the sum of: 1) the marginal value of system capacity for the PJM Region, without considering locational constraints; 2) the Locational Price Adder, if any, for the LDA in which such Zone is located; provided however, that if the Zone contains multiple LDAs with different Capacity Resource Clearing Prices, the Zonal Capacity Price shall be a weighted average of the Capacity Resource Clearing Prices for such LDAs, weighted by the Unforced Capacity of Capacity Resources cleared in each such

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LDA; and 3) an adjustment, if required, to account for Resource Make-Whole Payments, all as determined in accordance with the optimization algorithm.

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ii) The Office of the Interconnection shall calculate and post the Adjusted Zonal Capacity Price following each Incremental Auction. The Adjusted Zonal Capacity Price for each Zone shall equal (1) the sum, for all auctions previously conducted for such Delivery Year, of the Resource Clearing Price for each auction times the Unforced Capacity cleared for such auction (excluding any Unforced Capacity cleared as replacement capacity), divided by (2) the sum of the Unforced Capacity cleared in all such auctions (excluding any Unforced Capacity cleared as replacement capacity), plus an adjustment, if required, to account for Resource Make-Whole Payments for all actions previously conducted (excluding any Resource Make-Whole Payments to be charged to the buyers of replacement capacity). The Adjusted Zonal Capacity Price may decrease if Unforced Capacity is decommitted or the Resource Clearing Price decreases in an Incremental Auction.

iii) The Office of the Interconnection shall, through May 31, 2012, calculate and post the Final Zonal Capacity Price after all ILR resources are certified for the Delivery Years and, thereafter, shall calculate and post such price after the final auction is held for such Delivery Year, as set forth above. The Final Zonal Capacity Price for each Zone shall equal the Adjusted Zonal Capacity Price, as further adjusted (for the Delivery Years through May 31, 2012) to reflect the certified ILR compared to the ILR Forecast previously used for such Delivery Year, and any decreases in the Nominated Demand Resource Value of any existing Demand Resource cleared in the Base Residual Auction and Second Incremental Auction. For such purpose, for the three consecutive Delivery Years ending May 31, 2012 only, the Forecast ILR allocated to loads located in the AEP transmission zone that are served under the Reliability Pricing Model shall be in proportion for each such year to the load ratio share of such RPM loads compared to the total peak loads of such zone for such year; and any remaining ILR Forecast that otherwise would be allocated to such loads shall be allocated to all Zones in the PJM Region pro rata based on their Preliminary Zonal Peak Load Forecasts.

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g) Resource Substitution Charge

Each Capacity Market Buyer in an Incremental Auction securing replacement capacity shall pay a Resource Substitution Charge equal to the Capacity Resource Clearing Price resulting from such auction multiplied by the megawatt quantity of Unforced Capacity purchased by such Market Buyer in such auction.

h) Minimum Offer Price Rule for Certain Planned Generation Capacity Resources

(1) For purposes of this section, the Net Asset Class Costs of New Entry shall be asset-class estimates of competitive, cost-based, real levelized (year one) Cost of New Entry, net of energy and ancillary service revenues. Other than the levelization approach, determination of the Cost of New Entry component of the Net Asset Class Cost of New Entry shall be consistent with the methodology used to determine the Cost of New Entry set forth in Section 5.10(a)(iv)(A) of this Attachment. Until changed, the Net Asset Class Cost of New Entry for a combustion turbine generator shall be \$ 96,485/MW-year, and the Net Asset Class Cost of New Entry for a combined cycle generator shall be \$ 117,035/MW-year. Notwithstanding the foregoing, the Net Asset Class Cost of New Entry shall be zero for: (i) base load resources, such as nuclear, coal and Integrated Gasification Combined Cycle, that require a period for development greater than three years; (ii) any facility associated with the production of hydroelectric power; (iii) any upgrade or addition to an existing Generation Capacity Resource; or (iv) any Planned Generation Capacity Resource being developed in response to a state regulatory or legislative mandate to resolve a projected capacity shortfall in the Delivery Year affecting that state, as determined pursuant to a state evidentiary proceeding that includes due notice, PJM participation, and an opportunity to be heard.

(2) Any Sell Offer that is based on a Planned Generation Capacity Resource submitted in a Base Residual Auction for the first Delivery Year in which such resource qualifies as such a resource, in any LDA for which a separate VRR Curve has been established, and that meets each of the following criteria, shall be subject to the provisions of subsection

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(3) hereof, unless the Capacity Market Seller obtains a determination from FERC prior to such Base Residual Auction that such Sell Offer is consistent with the real levelized (year one) competitive, cost-based, fixed, net cost of new entry were the resource to rely solely on revenues from PJM-administered markets (i.e., were all output from the unit sold in PJM-administered spot markets):

i. Sell Offer affects the Clearing Price;

ii. Sell Offer is less than 80 percent of the applicable Net Asset Class Cost of New Entry or, if there is no applicable Net Asset Class Cost of New Entry, less than 70 percent of the Net Asset Class Cost of New Entry for a combustion turbine generator as stated in subsection (h)(1) above; and

iii. The Capacity Market Seller and any Affiliates has or have a “net short position” in such Base Residual Auction for such LDA that equals or exceeds (a) ten percent of the LDA Reliability Requirement, if less than 10,000 megawatts, or (b) five percent of the total LDA Reliability Requirement, if equal to or greater than 10,000 megawatts. A “net short position” shall be calculated as the actual retail load obligation minus the portfolio of supply. An “actual retail load obligation” shall mean the LSE’s combined load served in the LDA at or around the time of the Base Residual Auction adjusted to account for load growth up to the Delivery Year, using the Forecast Pool Requirement. A “portfolio of supply” shall mean the Generation Capacity Resources (on an unforced capacity basis) owned by the Capacity Market Seller and any Affiliates at the time of the Base Residual Auction plus or minus any generation that is, at the time of the BRA, under contract for the Delivery Year.

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(3) The Office of the Interconnection shall perform a sensitivity analysis on any Base Residual Auction that included Sell Offers meeting the criteria of Section 5.14(h)(2), for which the Capacity Market Seller has not obtained a prior favorable determination from FERC as described in subsection (2) hereof. Such analysis shall re-calculate the clearing price for the Base Residual Auction employing in place of each actual Sell Offer meeting the criteria a substitute Sell Offer equal to 90 percent of the applicable estimated cost determined in accordance with Section 5.14(h)(1) above, or, if there is no applicable estimated cost, equal to 80 percent of the then-applicable Net CONE. If the resulting difference in price between the new clearing price and the initial clearing price differs by an amount greater than the greater of 20 percent or 25 dollars per megawatt-day for a total LDA Reliability Requirement greater than 15,000 megawatts; or the greater of 25 percent or 25 dollars per megawatt-day for a total LDA Reliability Requirement greater than 5,000 and less than 15,000 megawatts; or the greater of 30 percent or 25 dollars per megawatt-day for a total LDA Reliability Requirement of less than 5,000 megawatts; then the Office of the interconnection shall discard the results of the Base Residual Auction and determine a replacement clearing price and the identity of the accepted Capacity Resources using the procedure set forth in section 5.14(h)(5) below.

(4) Including all of the Sell Offers in a single Base Residual Auction that meet the criteria of 5.14(h)(3) above, PJM shall first calculate the replacement clearing price and the total quantity of Capacity Resources needed for the LDA. PJM shall then accept Sell Offers to provide Capacity Resources in accordance with the following priority and criteria for allocation: (i) first, all Sell Offers in their entirety designated as self-supply [committed regardless of price](#); (ii) then, all Sell Offers of zero, prorating to the extent necessary, and (iii) then all remaining Sell Offers in order of the lowest price, subject to the optimization principles set forth in Section 5.14.

(5) Notwithstanding the foregoing, this provision shall terminate when there exists a positive net demand for new resources, as defined in Section 5.10(a)(iv)(B) of this Attachment, calculated over a period of consecutive Delivery Years beginning with the first Delivery Year for which this Attachment is effective and concluding with the last Delivery Year preceding such calculation, in an area comprised of the Unconstrained LDA Group (as defined in section 6.3) in existence during such first Delivery Year. Notwithstanding the foregoing, the Office of the

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Interconnection shall reinstate the provisions of this section, solely
under conditions in which a

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constrained LDA has a gross Cost of New Entry equal to or greater than 150 percent of the greatest prevailing gross Cost of New Entry in any adjacent LDA.

- (i) Capacity Export Charges and Credits
 - (1) Charge

Each Capacity Export Transmission Customer shall incur for each day of each Delivery Year a Capacity Export Charge equal to the Reserved Capacity of Long-Term Firm Transmission Service used for such export ("Export Reserved Capacity") multiplied by (the Final Zonal Capacity Price for such Delivery Year for the Zone encompassing the interface with the Control Area to which such capacity is exported minus the Final Zonal Capacity Price for such Delivery Year for the Zone in which the resources designated for export are located, but not less than zero). If more than one Zone forms the interface with such Control Area, then the amount of Reserved Capacity described above shall be apportioned among such Zones for purposes of the above calculation in proportion to the flows from such resource through each such Zone directly to such interface under CETO/CETL analysis conditions, as determined by the Office of the Interconnection using procedures set forth in the PJM Manuals. The amount of the Reserved Capacity that is associated with a fully controllable facility that crosses such interface shall be completely apportioned to the Zone within which such facility terminates.

- (2) Credit

To recognize the value of firm Transmission Service held by any such Capacity Export Transmission Customer, such customer assessed a charge under section 5.14(i)(1) also shall receive a credit, comparable to the Capacity Transfer Rights provided to Load-Serving Entities under section 5.15. Such credit shall be equal to the locational capacity price difference specified in section 5.14(i)(1) times the Export Customer's Allocated Share determined as follows:

Export Customer's Allocated Share equals

$(\text{Export Path Import} * \text{Export Reserved Capacity}) /$

$(\text{Export Reserved Capacity} + \text{Daily Unforced Capacity Obligations of all LSEs in such Zone}).$

Where:

"Export Path Import" means the megawatts of Unforced Capacity imported into the export interface Zone from the Zone in which the resource designated for export is located.

If more than one Zone forms the interface with such Control Area, then the amount of Export Reserved Capacity shall be apportioned among such Zones for purposes of the above calculation in the same manner as set forth in subsection (i)(1) above.

- (3) Distribution of Revenues

Any revenues collected from the Capacity Export Charge with respect to any capacity export for a Delivery Year, less the credit provided in subsection (i)(2) for such Delivery Year, shall be distributed to the Load Serving Entities in the export-interface Zone that were assessed a

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(C) Where the two conditions stated in Paragraph (B) are not met, or the Sell Offer is pivotal, the Sell Offer shall be rejected if it exceeds 140 percent of: 1) the average of location-adjusted Sell Offers for Planned Generation Capacity Resources from the same asset class as such Sell Offer, submitted (and not rejected) (Asset-Class New Plant Offers) for such Delivery Year; or 2) if there are no Asset-Class New Plant Offers for such Delivery Year, the average of Asset-Class New Plant Offers for all prior Delivery Years; or 3) if there are no Asset-Class New Plant Offers for any prior Delivery Year, the Net CONE applicable for such Delivery Year in the LDA for which such offer was submitted. For purposes of this paragraph, asset classes shall be as stated in section 6.7(c) as effective for such Delivery Year, and Asset-Class New Plant Offers shall be location-adjusted by the ratio between the Net CONE effective for such Delivery Year for the LDA in which the Sell Offer subject to this paragraph was submitted and the average, weighted by installed capacity, of the Net CONEs for all LDAs in which the units underlying such Asset Class New Plant Offers are located. Following the conduct of the applicable auction and before the final determination of clearing prices, in accordance with Section 6.2(b) above, each Capacity Market Seller whose Sell Offer is so rejected shall be notified and allowed an opportunity to submit a revised Sell Offer that does not exceed such threshold. The Office of the Interconnection then shall clear the auction with such revised Sell Offer in place.

(b) Mitigation for Demand Resources

The Market Seller Offer Cap shall not be applied to Sell Offers of Demand Resources or Energy Efficiency Resources.

6.6 Offer Requirement for Capacity Resources

(a) To avoid application of subsection (d), all Unforced Capacity of all existing Generation Capacity Resources located in the PJM Region shall be offered (which may include submission as Self-Supply) in the Base Residual Auction for each Delivery Year, where Unforced Capacity is determined using an EFORD less than or equal to the greater of (i) the annual average EFORD for the five consecutive years ending on the September 30 that last precedes the submission of such offers or (ii) the EFORD for the 12 months ending on the September 30 that last precedes the submission of such offers.

(b) For each existing Generation Capacity Resource, a potential Capacity Market Seller must timely provide to the Market Monitoring Unit data and documentation required under section 6.6 to establish the EFORD applicable to each resource. The Generation Market Seller must promptly address any concerns identified by the Market Monitoring Unit regarding the data and documentation provided, review the proposed EFORD, and attempt to reach agreement with the Market Monitoring Unit on the level of the EFORD.

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(c) If the Market Monitoring Unit informs the Office of the Interconnection that a Capacity Market Seller has failed to submit costs consistent with section 6.7, it shall be required to submit any Sell Offer in the applicable auction as Self-Supply committed regardless of clearing price. If such Capacity Market Seller submits a Sell Offer that is not Self-Supply committed regardless of clearing price, the Market Monitoring Unit may seek relief from the Commission pursuant to section 6.4(d) below and section II.C of Attachment M - Appendix.

(d) In the event that a Capacity Market Seller and the Market Monitoring Unit cannot agree on the level of the EFORD, the Office of the Interconnection shall make its own determination of the level of the EFORD based on the requirements of the Tariff and the PJM Manuals. If the Capacity Market Seller submits an EFORD that the Office of the Interconnection determines would result in an increase of greater than five percent in any Zonal Capacity Price determined through such auction compared to the Office of the Interconnection's determination of the level of the EFORD, the Office of the Interconnection shall apply to FERC for an order, on an expedited basis, directing such Capacity Market Seller to submit an EFORD consistent with the Market Monitoring Unit's determination, or for other appropriate relief, and PJM shall postpone clearing the auction pending FERC's decision on the matter. Should the Market Monitoring Unit exercise its powers to inform Commission staff of its concerns and request a determination, on an expedited basis, directing a Capacity Market Seller to submit an EFORD consistent with the Market Monitoring Unit's determination, or for other appropriate relief, pursuant to section II.C of Attachment M - Appendix, PJM may postpone clearing the auction pending FERC's decision on the matter.

(e) Nothing in this section precludes the Capacity Market Seller from filing a petition with FERC seeking a determination of whether the EFORD complies with the requirements of the Tariff.

(f) Notwithstanding the foregoing, a Capacity Market Seller may submit an EFORD that it chooses, provided that (i) it has participated in good faith with the process described in this section 6.6 and in section II.C of Attachment M - Appendix, (ii) the offer is no higher than the level defined in any agreement reached by the Capacity Market Seller and the Market Monitoring Unit that resulted from the foregoing process, and (iii) the offer is accepted by the Office of the Interconnection subject to the criteria set forth in the Tariff and the PJM Manuals.

(g) Existing generation resources in the PJM Region capable of qualifying as a Generation Capacity Resource may not avoid the rule in subsection (a) by failing to qualify as a Generation Capacity Resource, or by attempting to remove a unit previously qualified as a Generation Capacity Resource from classification as a Capacity Resource, excepting only generation resources that, as shown by appropriate documentation: (i) are reasonably expected to be physically unable to participate in the relevant Delivery Year; (ii) have a financially and physically firm commitment to an external sale of its capacity, or (iii) were interconnected to the Transmission System as Energy Resources and not subsequently converted to a Capacity Resource. A Generation Capacity Resource that does not qualify for submission into an RPM Auction because it is not owned or controlled by the Capacity Market Seller for a full Delivery Year is not subject to the offer requirement hereunder; provided, however, that a Capacity Market Seller planning to transfer ownership or control of a Generation Capacity Resource during a Delivery Year pursuant to a sale or transfer agreement entered into after March 26, 2009 shall be required to satisfy the offer

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exceptions stated in the prior subsection (g): (i) may not participate in any subsequent auctions conducted for such Delivery Year; (ii) shall not receive any payments under section 5.14 for such Delivery Year; and (iii) shall not be permitted to satisfy any LSE's Unforced Capacity Obligation, or any entity's obligation to obtain the commitment of Capacity Resources, for such Delivery Year.

(i) To avoid application of subsection (j), any existing Generation Capacity Resource located in the PJM Region that is offered into the Base Residual Auction for a Delivery Year, but that does not clear in such auction, shall be offered in the First, Second, and Third Incremental Auctions (and any Conditional Incremental Auction) for such Delivery Year, unless such Generation Capacity Resource, as shown by appropriate documentation, (i) is reasonably expected to be physically unable to participate in the relevant auction; (ii) has a financially and physically firm commitment to an external sale of its capacity; or (iii) was interconnected to the Transmission System as an Energy Resource and not subsequently converted to a Capacity Resource.

(j) Any existing Generation Capacity Resource located in the PJM Region that is offered into the Base Residual Auction for a particular Delivery Year, does not clear in such auction, is not offered into the First, Second, Third, and Conditional Incremental Auctions for such Delivery Year, and does not meet any of the exceptions stated in subsection (g): (i) may not participate in any subsequent auctions conducted for such Delivery Year; (ii) shall not receive any payments under section 5.14 for such Delivery Year; (iii) shall not be permitted to satisfy any LSE's Unforced Capacity Obligation, or any entity's obligation to obtain the commitment of Capacity Resources, for such Delivery Year, and (iv) may be subject to further action by the Market Monitoring Unit under Attachment M and Attachment M - Appendix.

(k) In addition to the remedies set forth in subsections (g), (h), (i), and (j), if the Market Monitoring Unit determines that one or more Capacity Market Sellers' failure to offer part or all of one or more existing generation resources into an auction would result in an increase of greater than five percent in any Zonal Capacity Price determined through such auction, the Office of the Interconnection shall apply to FERC for an order, on an expedited basis, directing such Capacity Market Seller to participate in the auction, or for other appropriate relief, and PJM will postpone clearing the auction pending FERC's decision on the matter.

6.7 Data Submission

(a) Potential participants in any PJM Reliability Pricing Model Auction shall submit, together with supporting documentation for each item, to the Market Monitoring Unit no later than four months prior to the posted date for the conduct of such auction, a list of owned or controlled generation resources by PJM transmission zone for the specified Delivery Year, including the amount of gross capacity, the EFORd and the net (unforced) capacity.

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(b) Except as provided in subsection (c) below, potential participants in any PJM Reliability Pricing Model Auction in any LDA or Unconstrained LDA Group that fails the Preliminary Market Structure Screen (or, if such region fails the screen, potential auction participants in the entire PJM Region) shall, in addition, submit the following data, together with supporting documentation for each item, to the Market Monitoring Unit no later than two months prior to the conduct of such auction:

i. If the Capacity Market Seller intends to submit a non-zero price in its Sell Offer in any such auction, the Capacity Market Seller shall submit a calculation of the Avoidable Cost Rate and Projected PJM Market Revenues, as defined in subsection (d) below, together with detailed supporting documentation.

ii. If the Capacity Market Seller intends to submit a Sell Offer based on opportunity cost, the Capacity Market Seller shall also submit a calculation of Opportunity Cost, as defined in subsection (d), with detailed supporting documentation.

(c) Potential auction participants identified in subsection (b) above need not submit the data specified in that subsection for any Generation Capacity Resource:

i. that is in an Unconstrained LDA Group or, if this is the relevant market, the entire PJM Region, and is in a resource class identified in the table below as not likely to include the marginal price-setting resources in such auction; or

ii. for which the potential participant commits that any Sell Offer it submits as to such resource shall not include any price above: (1) the level identified below for the relevant resource class, less (2) the Projected PJM Market Revenues for such resource, as determined in accordance with this Tariff.

Nothing herein precludes the Market Monitoring Unit from requesting additional information from any potential auction participant as deemed necessary by the Market Monitoring Unit, including, without limitation, additional cost data on resources in a class that is not otherwise expected to include the marginal price setting resource; and compliance with such request shall be a condition of participation in any auction. Any Sell Offer submitted in any auction that is inconsistent with any commitment made pursuant to this subsection shall be rejected, and the Capacity Market Seller shall be required promptly to resubmit a Sell Offer that complies with such commitments. If the Capacity Market Seller does not timely resubmit its Sell Offer, it shall be deemed to have submitted a Sell Offer that complies with the commitments made under this subsection, with a default price equal to the maximum price for the class of resource

determined under section (c)(ii) above. The obligation imposed under section 6.6(a) shall not be satisfied unless and until the Capacity Market Seller submits (or is deemed to have submitted) a Sell Offer that conforms to its commitments made pursuant to this subsection or subject to the procedures set forth in section 6.4 and section II.H of Attachment M - Appendix. The default Avoidable Cost Rates referenced in section (c)(ii) above are as set forth in the tables below for any auction conducted after September 1, 2009 for any Delivery Year through the 2012-2013 Delivery Year. To determine the default ACR values for the 2013-2014 and subsequent Delivery Years, the Office of the Interconnection shall multiply the ACR values for the immediately preceding Delivery Year by a factor equal to the most recent ten-calendar-year annual average rate of change in the applicable Handy-Whitman Index of Public Utility Construction Costs or a comparable index approved by the Commission, as calculated by the Office of the Interconnection and posted to its Web site; provided, however, that after the Handy-Whitman indexing methodology has been employed to determine the default ACR values for the RPM Auctions for three consecutive Delivery Years, the Office of the Interconnection shall: i) review the default ACR values to determine whether any changes other than those produced by such methodology are warranted for subsequent Delivery Years (including seeking the analysis and advice of the Independent Market Monitor on such matter) and report its conclusions to the Members in writing no later than four months after the Base Residual Auction for the third such Delivery Year; and ii) file with FERC resulting changes, if any, to this section no later than seven months after such Base Residual Auction, to be effective for the Base Residual Auction for the following Delivery Year; provided further, that nothing herein precludes the Office of the Interconnection from filing with FERC changes to the default ACR values or any other provision of this section prior to the deadline stated in the previous clause, or at any other time. Capacity Market Sellers shall use the one-year mothball Avoidable Cost Rate shown below, unless such Capacity Market Seller satisfies the criteria set forth in section 6.7(e), in which case the Capacity Market Seller may use the retirement Avoidable Cost Rate. PJM shall also publish on its Web site the number of Generation Capacity Resources and megawatts per LDA that use the retirement Avoidable Cost Rates.

Technology Classes Not Likely to be the Marginal Price Setting Resource						
Technology	2010-2011 Mothball Avoidable Cost Rate (\$/MW-Day)	2010-2011 Retirement Avoidable Cost Rate (\$/MW-Day)	2011-2012 Mothball Avoidable Cost Rate (\$/MW-Day)	2011-2012 Retirement Avoidable Cost Rate (\$/MW-Day)	2012-2013 Mothball Avoidable Cost Rate (\$/MW-Day)	2012 -2013 Retirement Avoidable Cost Rate (\$/MW-Day)
Nuclear	N/a	N/a	N/a	N/a	N/a	N/a
Pumped Storage	\$20.77	\$29.17	\$21.72	\$30.50	\$22.71	\$31.89
Hydro	\$71.01	\$92.87	\$74.24	\$97.10	\$77.62	\$101.52
Sub-Critical Coal	\$170.48	\$188.98	\$178.24	\$197.58	\$186.35	\$206.57
Super Critical Coal	\$176.13	\$192.65	\$184.15	\$201.42	\$192.53	\$210.59
Waste Coal - Small	\$224.83	\$272.31	\$235.06	\$284.70	\$245.75	\$297.65
Waste Coal – Large	\$83.15	\$100.45	\$86.94	\$105.02	\$90.89	\$109.80
Wind	N/a	N/a	N/a	N/a	N/a	N/a

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Maximum Avoidable Cost Rates by Technology Class

2010-2011 Mothball Avoidable Cost Rate (\$/MW-Day)	2010-2011 Retirement Avoidable Cost Rate (\$/MW-Day)	2011-2012 Mothball Avoidable Cost Rate (\$/MW-Day)	2011-2012 Retirement Avoidable Cost Rate (\$/MW-Day)	2012-2013 Mothball Avoidable Cost Rate (\$/MW-Day)	2012-2013 Retirement Avoidable Cost Rate (\$/MW-Day)
\$30.92	\$43.86	\$32.33	\$45.85	\$33.80	\$47.94
\$34.33	\$46.48	\$35.89	\$48.60	\$37.52	\$50.81
\$26.76	\$37.16	\$27.98	\$38.85	\$29.26	\$40.62
\$114.93	\$154.43	\$120.16	\$161.45	\$125.62	\$168.80
\$24.57	\$32.68	\$25.69	\$34.17	\$26.86	\$35.73
\$24.28	\$32.41	\$25.38	\$33.87	\$26.54	\$35.42
\$23.08	\$30.89	\$24.13	\$32.29	\$25.23	\$33.76
\$55.87	\$82.36	\$58.42	\$86.10	\$61.07	\$90.02
\$29.30	\$43.20	\$30.64	\$45.17	\$32.03	\$47.23
\$23.69	\$34.12	\$24.77	\$35.68	\$25.90	\$37.30
\$26.29	\$33.39	\$27.49	\$34.91	\$28.74	\$36.49
\$65.21	\$79.39	\$68.18	\$83.01	\$71.28	\$86.78

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After the Market Monitoring Unit conducts its annual review of the table of default Avoided Cost Rates included in section 6.7(c) above in accordance with the procedure specified in section II.H of Attachment M – Appendix, it will provide updated values or notice of its determination that updated values are not needed to Office of the Interconnection. In the event that the Office of the Interconnection disagrees with the values proposed for revising the matrix, the Office of the Interconnection shall file its values.

(d) In order for costs to qualify for inclusion in the Market Seller Offer Cap, the Capacity Market Seller must provide to the Market Monitoring Unit relevant cost data concerning each data item specified as set forth in section 6. If cost data is not available at the time of submission for the time periods specified in section 6.8, costs may be estimated for such period based on the most recent data available, with an explanation of and basis for the estimate used. Based on the data and calculations submitted by the Capacity Market Sellers for each existing generation resource and the formulas specified below, the Market Monitoring Unit shall calculate the Market Seller Offer Cap for each such resource, and notify the Capacity Market Seller one month prior to the auction of its determination.

i. **Avoidable Cost Rate:** The Avoidable Cost Rate for an existing generation resource shall be determined using the formula below and applied to the unit's Base Offer Segment.

ii. **Opportunity Cost:** Opportunity Cost shall be the documented price available to an existing generation resource in a market external to PJM. In the event that the total MW of existing generation resources submitting opportunity cost offers in any auction for a Delivery Year exceeds the firm export capability of the PJM system for such Delivery Year, or the capability of external markets to import capacity in such year, the Office of the Interconnection will accept such offers on a competitive basis. PJM will construct a supply curve of opportunity cost offers, ordered by opportunity cost, and accept such offers to export starting with the highest opportunity cost, until the maximum level of such exports is reached. The maximum level of such exports is the lesser of the Office of the Interconnection's ability to permit firm exports or the ability of the importing area(s) to accept firm imports or imports of capacity, taking account of relevant export limitations by location. If, as a result, an opportunity cost offer is not accepted from an existing generation resource, the Market Seller Offer Cap applicable to Sell Offers relying on such generation resource shall be the Avoidable Cost Rate. The default Avoidable Cost Rate shall be the one year mothball Avoidable Cost Rate set forth in the tables in section 6.7(c) above unless Capacity Market Seller satisfies the criteria delineated in section 6.7(c) below.

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iii. Projected PJM Market Revenues, as defined by section 6.8(d), for any Generation Capacity Resource to which the Avoidable Cost Rate is applied.

(e) In order for the retirement Avoidable Cost Rate set forth in the table in section 6.7(c) to apply, a Capacity Market Seller must timely submit to the Office of the Interconnection and the Market Monitoring Unit a written sworn, notarized statement of a corporate officer representing that the Capacity Market Seller will retire the Generation Capacity Resource if it does not receive during the relevant Delivery Year at least the applicable retirement Avoidable Cost Rate because it would be uneconomic to continue to operate the Generation Capacity Resource in the Delivery Year without the retirement Avoidable Cost Rate, and specifying the date the Generation Capacity Resource would otherwise be retired.

6.8 Avoidable Cost Definition

(a) **Avoidable Cost Rate:** The Avoidable Cost Rate for a Generation Capacity Resource that is the subject of a Sell Offer shall be determined using the following formula, expressed in dollars per MW-year:

$$\text{Avoidable Cost Rate} = [\text{Adjustment Factor} * (\text{AOML} + \text{AAE} + \text{AME} + \text{AVE} + \text{ATFI} + \text{ACC} + \text{ACLE}) + \text{ARPIR} + \text{APIR}]$$

Where:

- **Adjustment Factor** equals 1.10 (to provide a margin of error for understatement of costs) plus an additional adjustment referencing the 10-year average Handy-Whitman Index in order to account for expected inflation from the time interval between the submission of the Sell Offer and the commencement of the Delivery Year.
- **AOML (Avoidable Operations and Maintenance Labor)** consists of the avoidable labor expenses related directly to operations and maintenance of the generating unit for the twelve months preceding the month in which the data must be provided. The categories of expenses included in AOML are those incurred for: (a) on-site based labor engaged in operations and maintenance

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ii) If the total Unforced Capacity of all Base Load Generation Resources committed in a Base Residual Auction for a Delivery Year is less than the forecasted minimum hourly load calculated by the Office of the Interconnection for such Delivery Year, the Office of the Interconnection will investigate the cause of shortfall. If such a shortfall occurs in the Base Residual Auctions for three consecutive Delivery Years, the Office of the Interconnection shall declare a capacity shortage and make a filing with FERC for approval to conduct a Reliability Backstop Auction. Upon receipt of such approval, the Office of the Interconnection will conduct a Reliability Backstop Auction in accordance with Section 16.4.

b) In addition to the foregoing events that trigger reliability backstop measures, if a near-term, i.e., later in time than the conduct of the Base Residual Auction for a Delivery Year, transmission criteria violation caused by an announced generation resource deactivation is identified by the regional transmission reliability planning analysis performed by the Office of the Interconnection in accordance with Part V of this Tariff, the Office of the Interconnection will identify the necessary transmission upgrade. In accordance with such rules, such generation resource may remain in service until the transmission upgrade is installed. No Reliability Backstop Auction will be conducted.

16.4. Reliability Backstop Auction

a) Scope of Auction

The Office of the Interconnection shall conduct each Reliability Backstop Auction to commit additional Generation Capacity Resources, or in the case of an auction triggered by section 16.3(a)(ii), additional Base Load Generation Resources to the PJM Region to resolve the system-wide reliability criteria violation that triggered the need for such auction. Capacity Resources committed in a Reliability Backstop Auction for a Delivery Year shall not include any Planned Generation Capacity Resources previously committed in the Base Residual Auction for such Delivery Year. The Reliability Backstop Auction shall obtain commitments of additional Generation Capacity Resources (or, as applicable, additional Base Load Generation Resources) for a term of up to fifteen (15) Delivery Years. If a Reliability Backstop Auction is required, the offer period for such auction shall commence, subject to FERC approval as specified above, no later than four months after the Base Residual Auction in which the third consecutive Capacity Resource shortfall occurs. Upon verification and notification by the PJM Board of Managers that a Reliability Backstop Auction is required, the Office of the Interconnection shall post notification that a Reliability Backstop Auction is to be held. Upon such notification, the offer period shall commence, and shall remain open for six (6) months. [PJM Settlement shall be the Counterparty to the capacity transaction resulting from committed Capacity Resources clearing the Reliability Backstop Auction.](#)

b) Sell Offers

Each Sell Offer shall specify the following information, as further specified in the PJM Manuals:

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- the minimum price in \$/MW-day required by the Capacity Market Seller to provide additional Unforced Capacity from a Generation Capacity Resource (or from a Base Load Generation Resource, in the case of an auction triggered by section 16.3(a)(ii));
- the megawatts of Unforced Capacity to be provided by such resource;
- the specific location of the proposed plant;
- all information required from a Generation Interconnection Customer by Part IV of this Tariff and the PJM Manuals;
- general plant technical specifications, as specified in the PJM Manuals;
- the term of cost recovery (“Backstop Period”) requested, not to exceed 15 years; and
- the first full Delivery Year for which such resource shall be available, which shall also be the first year of the Backstop Period.

Each Generation Capacity Resource (or Base Load Generation Resource) accepted in a Reliability Backstop Auction shall comply with the procedures for new generation interconnection in Part IV of this Tariff, and each such resource shall be responsible for satisfying all capability and deliverability requirements for Capacity Resources, pursuant to the Reliability Assurance Agreement.

c) Submission of Sell Offers

The Sell Offer period shall begin at 00:01 Eastern Prevailing Time on the date specified by the Office of the Interconnection in the notification posting and shall end at 23:59 Eastern Prevailing Time six calendar months after such date. Sell offers shall be submitted during such period in writing to the Office of the Interconnection, and shall conform to the submission procedures as specified in the PJM Manuals. The Office of the Interconnection shall confirm in writing the receipt of each Sell Offer, within two weeks after receipt of each such offer.

d) Posting of Information by the Office of the Interconnection

Upon notification by the PJM Board of Managers that a Reliability Backstop Auction will be conducted, the Office of the Interconnection shall post the following information:

- System condition that necessitates a Reliability Backstop Auction;
- Megawatt quantity of Unforced Capacity required from additional Generation Capacity Resources, or from additional Base Load Generation Resources;
- Date by which the resources must be capable of delivering Unforced Capacity;
- Any other required specifications for the additional Unforced Capacity sought through such auction.

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- e) Conduct of the Reliability Backstop Auction
 - i) Auction Clearing Procedure

The Reliability Backstop Auction shall select the Sell Offer or combination of Sell Offers that that satisfies the requirements posted by the Office of the Interconnection at the lowest offer price(s). If more than one Sell Offer must be selected to satisfy the specified requirements, the Sell Offers shall be selected in rank order from lowest offer price to highest offer price until the requirement is satisfied. In the event two or more Sell Offers specify the same offer price, and fewer than all of such offers are needed to satisfy the specified requirements, the Office of the Interconnection shall select the Sell Offer(s) proposing Generation Capacity Resource(s), or, as applicable, Base Load Generation Resource(s) that will best satisfy overall reliability requirements for the PJM Region, as determined by the Office of the Interconnection using transmission reliability analysis.

- ii) Market Settlement

Pursuant to the agreement specified below, each Capacity Market Seller submitting a Sell Offer that is accepted in a Reliability Backstop Auction shall be paid [by PJMSettlement](#) the offer price in such Sell Offer for each MW-day in the Backstop Period, less any payments the Capacity Market Seller is entitled to receive pursuant to section 5 of this Attachment as a result of Sell Offers submitted with respect to such Generation Capacity Resource in any Base Residual Auction or Incremental Auction, including, without limitation, payments of Capacity Resource Clearing Prices (including for Self-Supply) and Resource Make-Whole Payments; and less any payments the Capacity Market Seller is entitled to receive for energy or ancillary services pursuant to Schedule 1 of the Operating Agreement with respect to services provided by such resource, net of the Variable Operations and Maintenance costs of such resource, as determined in accordance with the PJM Manuals.

PJM shall recover the costs of any such payments to Capacity Market Sellers for such resources through a charge, in addition to the Locational Reliability Charge, assessed on all LSEs in the PJM Region, pro rata based on each such LSE's Daily Unforced Capacity Obligations in all LDAs in which such LSE serves load. [PJMSettlement shall be the Counterparty to the LSE's obligation to pay, and payment of, such charges.](#)

- iii) Standard Contract Provisions

~~The Office of the Interconnection, on behalf of all LSEs in the PJM Region, PJMSettlement,~~ will enter into an agreement with each Capacity Market Seller that submitted an accepted Sell Offer in any Reliability Backstop Auction providing for the payments specified above. Such agreement shall include the provisions and address the standards set forth

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PJM Interconnection, L.L.C.
FERC Electric Tariff
Sixth Revised Volume No. 1

Original Sheet No. 630

in Section 16.4(b), and shall include such other terms and conditions as are customary in the industry, as specified in the PJM Manuals.

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