

***OATT OPEN ACCESS TRANSMISSION TARIFF - OATT I. COMMON SERVICE PROVISIONS  
- OATT I. Definitions - OATT Definitions – O – P – Q***

**Definitions – O – P - Q**

**1.27C Office of the Interconnection:**

Office of the Interconnection shall have the meaning set forth in the Operating Agreement.

**1.28 Open Access Same-Time Information System (OASIS):**

The information system and standards of conduct contained in Part 37 and Part 38 of the Commission's regulations and all additional requirements implemented by subsequent Commission orders dealing with OASIS.

**1.28A Operating Agreement of the PJM Interconnection, L.L.C. or Operating Agreement:**

That agreement dated as of April 1, 1997 and as amended and restated as of June 2, 1997 and as amended from time to time thereafter, among the members of the PJM Interconnection, L.L.C.

**1.28A.01 Option to Build:**

The option of the New Service Customer to build certain Customer-Funded Upgrades, as set forth in, and subject to the terms of, the Construction Service Agreement.

**1.28B Optional Interconnection Study:**

A sensitivity analysis of an Interconnection Request based on assumptions specified by the Interconnection Customer in the Optional Interconnection Study Agreement.

**1.28C Optional Interconnection Study Agreement:**

The form of agreement for preparation of an Optional Interconnection Study, as set forth in Attachment N-3 of the Tariff.

**1.29 Part I:**

Tariff Definitions and Common Service Provisions contained in Sections 2 through 12.

**1.30 Part II:**

Tariff Sections 13 through 27 pertaining to Point-To-Point Transmission Service in conjunction with the applicable Common Service Provisions of Part I and appropriate Schedules and Attachments.

**1.31 Part III:**

Tariff Sections 28 through 35 pertaining to Network Integration Transmission Service in conjunction with the applicable Common Service Provisions of Part I and appropriate Schedules and Attachments.

**1.31A Part IV:**

Tariff Sections 36 through 112 pertaining to generation or merchant transmission interconnection to the Transmission System in conjunction with the applicable Common Service Provisions of Part I and appropriate Schedules and Attachments.

**1.31B Part V:**

Tariff Sections 113 through 122 pertaining to the deactivation of generating units in conjunction with the applicable Common Service Provisions of Part I and appropriate Schedules and Attachments.

**1.31C Part VI:**

Tariff Sections 200 through 237 pertaining to the queuing, study, and agreements relating to New Service Requests, and the rights associated with Customer-Funded Upgrades in conjunction with the applicable Common Service Provisions of Part I and appropriate Schedules and Attachments.

**1.32 Parties:**

The Transmission Provider, as administrator of the Tariff, and the Transmission Customer receiving service under the Tariff. PJMSettlement shall be the Counterparty to Transmission Customers.

**1.32.01 PJM:**

PJM Interconnection, L.L.C.

**1.32A PJM Administrative Service:**

The services provided by PJM pursuant to Schedule 9 of this Tariff.

**1.32B PJM Control Area:**

The Control Area that is recognized by NERC as the PJM Control Area.

**1.32C PJM Interchange Energy Market:**

The regional competitive market administered by the Transmission Provider for the purchase and sale of spot electric energy at wholesale interstate commerce and related services, as more fully set forth in Attachment K – Appendix to the Tariff and Schedule 1 to the Operating Agreement.

### **1.32D PJM Manuals:**

The instructions, rules, procedures and guidelines established by the Transmission Provider for the operation, planning, and accounting requirements of the PJM Region and the PJM Interchange Energy Market.

### **1.32E PJM Region:**

Shall mean the aggregate of the PJM West Region, the VACAR Control Zone, and the MAAC Control Zone.

### **1.32F PJM South Region:**

The VACAR Control Zone.

### **1.32.F.01 PJMSettlement:**

PJM Settlement, Inc. (or its successor).

### **1.32G PJM West Region:**

The PJM West Region shall include the Zones of Allegheny Power; Commonwealth Edison Company (including Commonwealth Edison Co. of Indiana); AEP East Operating Companies; The Dayton Power and Light Company; and the Duquesne Light Company, [American Transmission Systems, Incorporated, and Duke Energy Ohio, Inc. and Duke Energy Kentucky, Inc.](#)

### **1.33 Point(s) of Delivery:**

Point(s) on the Transmission Provider's Transmission System where capacity and energy transmitted by the Transmission Provider will be made available to the Receiving Party under Part II of the Tariff. The Point(s) of Delivery shall be specified in the Service Agreement for Long-Term Firm Point-To-Point Transmission Service.

### **1.33A Point of Interconnection:**

The point or points, shown in the appropriate appendix to the Interconnection Service Agreement and the Interconnection Construction Service Agreement, where the Customer Interconnection Facilities interconnect with the Transmission Owner Interconnection Facilities or the Transmission System.

### **1.34 Point(s) of Receipt:**

Point(s) of interconnection on the Transmission Provider's Transmission System where capacity and energy will be made available to the Transmission Provider by the Delivering Party under

Part II of the Tariff. The Point(s) of Receipt shall be specified in the Service Agreement for Long-Term Firm Point-To-Point Transmission Service.

**1.35 Point-To-Point Transmission Service:**

The reservation and transmission of capacity and energy on either a firm or non-firm basis from the Point(s) of Receipt to the Point(s) of Delivery under Part II of the Tariff.

**1.36 Power Purchaser:**

The entity that is purchasing the capacity and energy to be transmitted under the Tariff.

**1.36.01 Pre-Confirmed Application:**

An Application that commits the Eligible Customer to execute a Service Agreement upon receipt of notification that the Transmission Provider can provide the requested Transmission Service.

**1.36A Pre-Expansion PJM Zones:**

Zones included in this Tariff, along with applicable Schedules and Attachments, for certain Transmission Owners – Atlantic City Electric Company, Baltimore Gas and Electric Company, Delmarva Power and Light Company, Jersey Central Power and Light Company, Metropolitan Edison Company, PECO Energy Company, Pennsylvania Electric Company, Pennsylvania Power & Light Group, Potomac Electric Power Company, Public Service Electric and Gas Company, Allegheny Power, and Rockland Electric Company.

**1.36A.01 Project Financing:**

Shall mean: (a) one or more loans, leases, equity and/or debt financings, together with all modifications, renewals, supplements, substitutions and replacements thereof, the proceeds of which are used to finance or refinance the costs of the Customer Facility, any alteration, expansion or improvement to the Customer Facility, the purchase and sale of the Customer Facility or the operation of the Customer Facility; (b) a power purchase agreement pursuant to which Interconnection Customer's obligations are secured by a mortgage or other lien on the Customer Facility; or (c) loans and/or debt issues secured by the Customer Facility.

**1.36A.02 Project Finance Entity:**

Shall mean: (a) a holder, trustee or agent for holders, of any component of Project Financing; or (b) any purchaser of capacity and/or energy produced by the Customer Facility to which Interconnection Customer has granted a mortgage or other lien as security for some or all of Interconnection Customer's obligations under the corresponding power purchase agreement.

**1.36B Queue Position:**

The priority assigned to an Interconnection Request, a Completed Application, or an Upgrade Request pursuant to applicable provisions of Part VI.

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**ATTACHMENT C-2**

**Conversion of Service in the Duke Energy Ohio, Inc. and Duke Energy Kentucky, Inc. (“DEOK”) Zone**

The Office of the Interconnection is scheduled to become the Transmission Provider for the Duke Energy Ohio, Inc. and Duke Energy Kentucky, Inc. (“DEOK”) Zone under the terms of this Tariff on January 1, 2012 and the open access transmission tariff of the Midwest Independent Transmission System Operator, Inc. (“Midwest ISO”) shall be superseded with respect to the DEOK Zone. Reservations purchased on the Midwest ISO nodes prior to the integration of the DEOK Zone into PJM shall be converted to the appropriate service under this Tariff and subject to the rates, terms and conditions of this Tariff. In addition, interconnection requests under the Midwest ISO tariff pending prior to the integration of the DEOK Zone into PJM shall be converted to requests for interconnection under this Tariff. This Attachment sets forth the principles that shall govern such conversions of service.

For service with an export from the DEOK Zone and an import to the remainder of the PJM Region (or vice-versa), the transmission service will be converted into a single reservation under this Tariff. For service with an export from the DEOK Zone and an import to the Midwest ISO Region (or vice-versa), the transmission service cannot be converted into a single reservation. Customers who have reservations that need to be converted will be contacted directly by the Office of the Interconnection. Not all transmission service provided under the Midwest ISO tariff exactly matches a service under this Tariff. Differences include variations in product definitions and PJM Region LMP pricing points. These variances in transmission requests will be converted into the defined product types explained below. The guidelines for the conversion of service are as follows:

1. All existing reservations will retain the same capacity (in megawatts) and will be converted to a comparable PJM product and duration with the applicable point of receipt, point of delivery, and path. Firm Point-to-Point Transmission Service redirected on a non-firm basis to Secondary Receipt or Delivery Points under the Midwest ISO tariff prior to the DEOK integration date will be converted to service under this tariff on the basis of the original firm points of receipt and delivery. Firm Point-to-Point Transmission Service redirected on a firm basis under section 22.2 (Modification on a Firm Basis) (or equivalent) of the Midwest ISO tariff prior to the DEOK integration date will be converted to service under this tariff on the basis of the modified firm points of receipt and delivery.
2. All DEOK Zone Midwest ISO reservations extending past the integration date must select Source and Sink LMP pricing points, where applicable, and willing to pay congestion (or not), if applicable. Willing to pay congestion (or not) must be determined no later than 12:00 noon EPT, 30 days prior to the DEOK integration start date. In the event the customer does not choose within the allotted deadline above, PJM will convert

the service to the most closely analogous service under the PJM Tariff, in PJM's judgment. Willing to pay congestion is optional for non-firm and non-designated transmission service; Firm service, by definition, is willing to pay congestion. All converted service (as they exist) will be placed on the PJM OASIS no later than 30 days prior to the DEOK integration start date.

3. All Midwest ISO DEOK Zone import reservations will be converted to one of the following service types as defined by this Tariff or on the PJM OASIS: Spot market, Non-Firm Point-to-Point, Firm Point-to-Point, Network Designated or Network Non-Designated. This choice will be made on an individual reservation basis, based on the scheduling intent of the reservation.

All service with an export from the DEOK Zone into the Midwest ISO will be represented with new PJM reservations with one of the following service types as defined by this Tariff or on the PJM OASIS: Non-Firm Point-to-Point, or Firm Point-to-Point. This choice will be made on an individual reservation basis, based on the scheduling intent of the reservation.

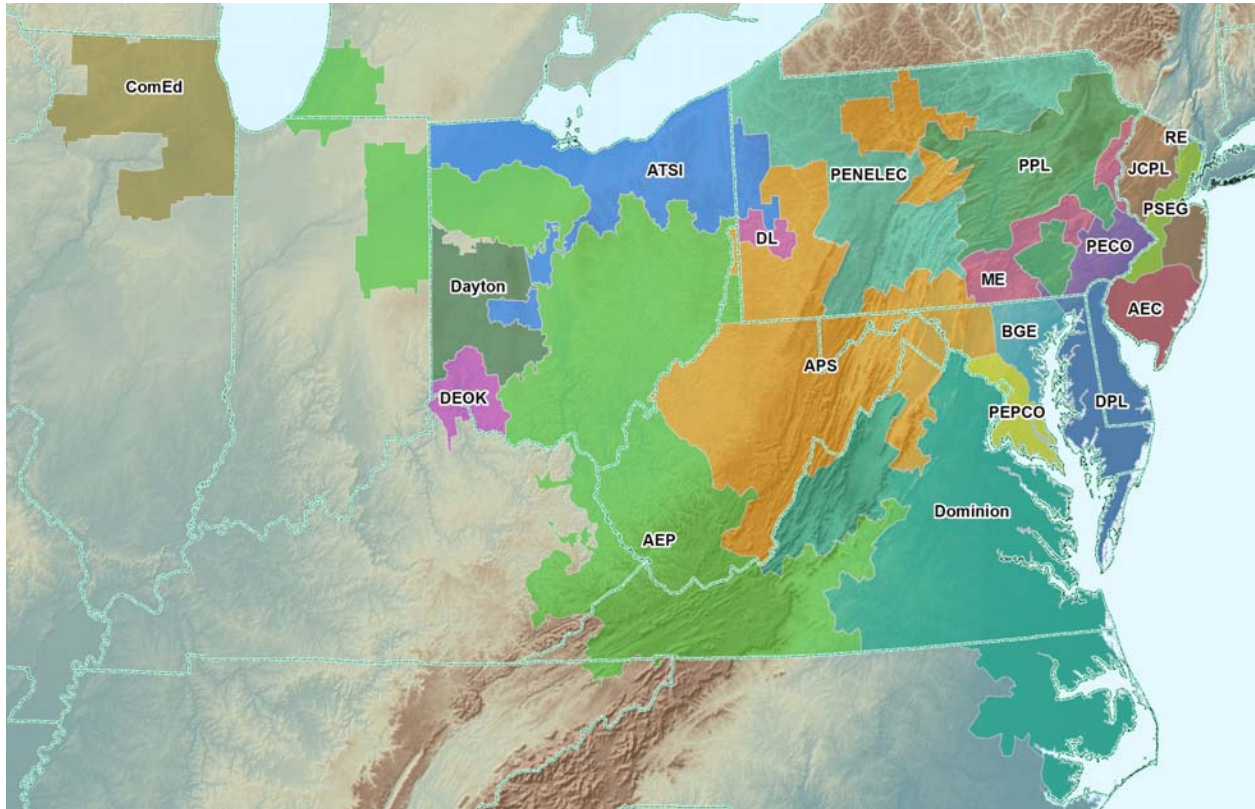
4. All existing DEOK Zone Midwest ISO extended transmission requests (i.e. monthly, weekly, daily) that span multiple months will be converted to their largest individual components as defined on the PJM OASIS. For example, a monthly request from October 1 to December 1 will be converted to two individual monthly requests, October 1 to November 1, and November 1 to December 1; and a daily request from January 1 of one year to January 1 of the next year will be converted to yearly service.
5. Sliding monthly service (i.e. monthly service that does not run from the first day of the given month to the last day of the given month) will be converted to weekly and daily service.
6. Sliding weekly service (i.e. weekly service that does not run from Monday at 00:00 to Sunday at 23:59) will be converted to daily service.
7. Transmission service that is not currently confirmed on the Midwest ISO DEOK Zone OASIS nodes and is in an active state such as "Received", "Queued" or "Study" will be transferred to the integrated PJM OASIS node and will maintain its initial queued date.
8. All "Grandfathered" requests that exist on the DEOK Zone Midwest ISO OASIS nodes will require a reservation on the PJM OASIS node.
9. To facilitate the OASIS transition, from one month prior to the integration start date until such integration start date, requests for service that are active on or after such date one month prior to the integration start date should be made on both the pre-integration transmission owner or OASIS nodes and the PJM OASIS nodes.
10. Reservations will be converted based on the priority of the product.

11. Although the Office of the Interconnection will attempt to convert existing transmission reservations into comparable reservations on the PJM OASIS, there will be unique instances where this will not be possible (e.g., reliability issues, etc.). In this case, reservations will be reviewed on a case-by-case basis. Transmission service that is not currently accepted on the DEOK Zone Midwest ISO OASIS nodes and is in an active state such as “Received”, “Queued” or “Study” will be assigned the same status and queue position on the PJM OASIS as it had on the Midwest ISO OASIS prior to conversion.
12. Converted Point-to-Point and Network transmission service reservations that intersect with or begin after the integration commencement date will be posted to the PJM OASIS web page on a weekly basis. The web page will identify the original DEOK Zone Midwest ISO reservation and the new PJM OASIS reservation.
13. An Interconnection Request pending under the Midwest ISO OATT at the time of the integration of the DEOK Zone shall be assigned the same priority date under this Tariff as such request had under the Midwest ISO’s OATT immediately prior to such integration. The Interconnection Request will be assigned a PJM queue identifier such that the Interconnection Customer’s priority date relative to existing PJM queued Interconnection Requests can be easily determined. All such Interconnection Requests will be integrated into PJM’s existing Interconnection Queue(s), effective on the DEOK integration start date, and will be subject to the generation interconnection procedures under Part IV and Part VI of this Tariff. On the DEOK integration date, PJM will assume the technical studies that have been started by the Midwest ISO. After the studies are complete, the Interconnection Customer will be required to pay for any Network Upgrades and/or Local Upgrades that are needed for the unit to qualify for Capacity Interconnection Rights under the this Tariff.

**OATT OPEN ACCESS TRANSMISSION TARIFF - OATT VI. ADMINISTRATION AND STUDY OF NEW SERVICE R - OATT ATTACHMENT J**

**ATTACHMENT J**

**PJM Transmission Zones**



**FULL NAME**

Pennsylvania Electric Company  
 Allegheny Power  
 PPL Electric Utilities Corporation  
 Metropolitan Edison Company  
 Jersey Central Power and Light Company  
 Public Service Electric and Gas Company  
 Atlantic City Electric Company  
 PECO Energy Company  
 Baltimore Gas and Electric Company  
 Delmarva Power and Light Company  
 Potomac Electric Power Company  
 Rockland Electric Company  
 Commonwealth Edison Company  
 AEP East Zone  
 The Dayton Power and Light Company  
 Duquesne Light Company  
 Virginia Electric and Power Company

**SHORT NAME**

PENELEC  
 APS  
 PPL  
 ME  
 JCPL  
 PSEG  
 AEC  
 PECO  
 BGE  
 DPL  
 PEPCO  
 RE  
 ComEd  
 AEP  
 Dayton  
 DL  
 Dominion



### **3.2 Market Buyers.**

#### **3.2.1 Spot Market Energy Charges.**

(a) The Office of the Interconnection shall calculate System Energy Prices in the form of Day-ahead System Energy Prices and Real-time System Energy Prices for the PJM Region, in accordance with Section 2 of this Schedule

(b) Market Buyers shall be charged for all load (net of Behind The Meter Generation expected to be operating, but not to be less than zero) scheduled to be served from the PJM Interchange Energy Market in the Day-ahead Energy Market at the Day-ahead System Energy Price .

(c) Generating Market Buyers shall be paid for all energy scheduled to be delivered to the PJM Interchange Energy Market in the Day-ahead Energy Market at the Day-ahead System Energy Price.

(d) At the end of each hour during an Operating Day, the Office of the Interconnection shall calculate the total amount of net hourly PJM Interchange for each Market Buyer, including Generating Market Buyers, in accordance with the PJM Manuals. For Internal Market Buyers that are Load Serving Entities or purchasing on behalf of Load Serving Entities, this calculation shall include determination of the net energy flows from: (i) tie lines; (ii) any generation resource the output of which is controlled by the Market Buyer but delivered to it over another entity's Transmission Facilities; (iii) any generation resource the output of which is controlled by another entity but which is directly interconnected with the Market Buyer's transmission system; (iv) deliveries pursuant to bilateral energy sales; (v) receipts pursuant to bilateral energy purchases; and (vi) an adjustment to account for the day-ahead PJM Interchange, calculated as the difference between scheduled withdrawals and injections by that Market Buyer in the Day-ahead Energy Market. For External Market Buyers and Internal Market Buyers that are not Load Serving Entities or purchasing on behalf of Load Serving Entities, this calculation shall determine the energy scheduled hourly for delivery to the Market Buyer net of the amounts scheduled by the External Market Buyer in the Day-ahead Energy Market.

(e) An Internal Market Buyer shall be charged for Spot Market Energy purchases to the extent of its hourly net purchases from the PJM Interchange Energy Market, determined as specified in Section 3.2.1(d) above. An External Market Buyer shall be charged for its Spot Market Energy purchases based on the energy delivered to it, determined as specified in Section 3.2.1(d) above. The total charge shall be determined by the product of the hourly net amount of PJM Interchange Imports times the hourly Real-time System Energy Price for that Market Buyer.

(f) A Generating Market Buyer shall be paid as a Market Seller for sales of Spot Market Energy to the extent of its hourly net sales into the PJM Interchange Energy Market, determined as specified in Section 3.2.1(d) above. The total payment shall be determined by the

product of the hourly net amount of PJM Interchange Exports times the hourly Real-time System Energy Price for that Market Seller.

### **3.2.2 Regulation.**

(a) Each Internal Market Buyer that is a Load Serving Entity in a Regulation Zone shall have an hourly Regulation objective equal to its pro rata share of the Regulation requirements of such Regulation Zone for the hour, based on the Market Buyer's total load (net of operating Behind The Meter Generation, but not to be less than zero) in such Regulation Zone for the hour ("Regulation Obligation"). An Internal Market Buyer that does not meet its hourly Regulation obligation shall be charged for Regulation dispatched by the Office of the Interconnection to meet such obligation at the Regulation market-clearing price determined in accordance with subsection (c) of this section, plus the amounts, if any, described in subsection (f) of this section.

(b) A Generating Market Buyer supplying Regulation in a Regulation Zone at the direction of the Office of the Interconnection in excess of its hourly Regulation obligation shall be credited for each increment of such Regulation at the higher of (i) the Regulation market-clearing price in such Regulation Zone or (ii) the sum of the regulation offer and the unit-specific opportunity cost of the generation resource supplying the increment of Regulation, as determined by the Office of the Interconnection in accordance with procedures specified in the PJM Manuals.

(c) The Regulation market-clearing price in each Regulation Zone shall be determined at a time to be determined by the Office of the Interconnection which shall be no earlier than the day before the Operating Day. The market-clearing price for each regulating hour shall be equal to the highest sum of a resource's Regulation offer plus its estimated unit-specific opportunity costs, determined as described in subsection (d) below from among the resources selected to provide Regulation. A resource's Regulation offer by any Market Seller that fails the three-pivotal supplier test set forth in section 3.3.2A.1 of this Schedule shall not exceed the cost of providing Regulation from such resource, plus twelve dollars, as determined pursuant to the formula in section 1.10.1A(e) of this Schedule.

(d) In determining the Regulation market-clearing price for each Regulation Zone, the estimated unit-specific opportunity costs of a generation resource offering to sell Regulation in each regulating hour shall be equal to the sum of the unit-specific opportunity costs (i) incurred during the hour in which the obligation is fulfilled, plus costs (ii) associated with uneconomic operation during the hour preceding the initial regulating hour ("preceding shoulder hour"), plus costs (iii) associated with uneconomic operation during the hour after the final regulating hour ("following shoulder hour").

The unit-specific opportunity costs incurred during the hour in which the Regulation obligation is fulfilled shall be equal to the product of (i) the deviation of the set point of the generation resource that is expected to be required in order to provide Regulation from the generation resource's expected output level if it had been dispatched in economic merit order times, (ii) the absolute value of the difference between the expected Locational Marginal Price at the

generation bus for the generation resource and the lesser of the available market-based or highest available cost-based energy offer from the generation resource (at the megawatt level of the Regulation set point for the resource) in the PJM Interchange Energy Market.

The unit-specific opportunity costs associated with uneconomic operation during the preceding shoulder hour shall be equal to the product of (a) the deviation between the set point of the generation resource that is expected to be required in the initial regulating hour in order to provide Regulation and the resource's expected output during the preceding shoulder hour, times (b) the absolute value of the difference between the expected Locational Marginal Price at the generation bus for the generation resource during the preceding shoulder hour and the lesser of the available market-based or highest available cost-based energy offer from the generation resource (at the megawatt level of the Regulation set point for the resource in the initial regulating hour) in the PJM Interchange Energy Market, times (c) the percentage of the preceding shoulder hour during which the deviation was incurred.

The unit-specific opportunity costs associated with uneconomic operation during the following shoulder hour shall be equal to the product of (a) the deviation between the set point of the generation resource that is expected to be required in the final regulating hour in order to provide Regulation and the resource's expected output in the following shoulder hour, times (b) the absolute value of the difference between the expected Locational Marginal Price at the generation bus for the generation resource in the following shoulder hour and the lesser of the available market-based or highest available cost-based energy offer from the generation resource (at the megawatt level of the Regulation set point for the resource in final regulating hour) in the PJM Interchange Energy Market, times (c) the percentage of the following shoulder hour that the deviation was incurred.

Estimated opportunity costs for Demand Resources to provide Regulation are zero.

(e) In determining the credit under subsection (b) to a Generating Market Buyer selected to provide Regulation in a Regulation Zone and that actively follows the Office of the Interconnection's Regulation signals and instructions, the unit-specific opportunity cost of a generation resource shall be determined for each hour that the Office of the Interconnection requires a generation resource to provide Regulation, and for the percentage of the preceding shoulder hour and the following shoulder hour during which the Generating Market Buyer or Market Seller provided Regulation. The unit-specific opportunity cost incurred during the hour in which the Regulation obligation is fulfilled shall be equal to the product of (i) the deviation of the generation resource's output necessary to follow the Office of the Interconnection's Regulation signals from the generation resource's expected output level if it had been dispatched in economic merit order times (ii) the absolute value of the difference between the Locational Marginal Price at the generation bus for the generation resource and the lesser of the available market-based or highest available cost-based energy offer from the generation resource (at the actual megawatt level of the resource when the actual megawatt level is within the tolerance defined in the PJM Manuals for the Regulation set point, or at the Regulation set point for the resource when it is not within the corresponding tolerance) in the PJM Interchange Energy Market. Opportunity costs for Demand Resources to provide Regulation are zero.

The unit-specific opportunity costs associated with uneconomic operation during the preceding shoulder hour shall be equal to the product of (i) the deviation between the set point of the generation resource that is expected to be required in the initial regulating hour in order to provide Regulation and the lesser of the resource's actual or expected output in the preceding shoulder hour when the resource is requested at a lower output than what is otherwise economic in order to provide Regulation, or, the higher of the resource's actual or expected output in the preceding shoulder hour when the resource is requested at a higher output than what is otherwise economic in order to provide Regulation, times (ii) the absolute value of the difference between the Locational Marginal Price at the generation bus for the generation resource in the preceding shoulder hour and the lesser of the available market-based or highest available cost-based energy offer from the generation resource (at the megawatt level of the Regulation set point for the resource in the initial regulating hour) in the PJM Interchange Energy Market, times (iii) the percentage of the preceding shoulder hour during which the deviation was incurred, all as determined by the Office of the Interconnection in accordance with procedures specified in the PJM Manuals.

The unit-specific opportunity costs associated with uneconomic operation during the following shoulder hour shall be equal to the product of (i) the deviation between the set point of the generation resource that is expected to be required in the final regulating hour in order to provide Regulation and the lesser of the resource's actual or expected output in the following shoulder hour when the resource is requested at a lower output than what is otherwise economic in order to provide Regulation, or, the higher of the resource's actual or expected output in the following shoulder hour when the resource is requested at a higher output than what is otherwise economic in order to provide Regulation, times (ii) the absolute value of the difference between the Locational Marginal Price at the generation bus for the generation resource in the following shoulder hour and the lesser of the available market-based or highest available cost-based energy offer from the generation resource (at the megawatt level of the Regulation set point for the resource in final regulating hour) in the PJM Interchange Energy Market, times (iii) the percentage of the following shoulder hour during which the deviation was incurred, all as determined by the Office of the Interconnection in accordance with procedures specified in the PJM Manuals.

(f) Any amounts credited for Regulation in an hour in excess of the Regulation market-clearing price in that hour shall be allocated and charged to each Internal Market Buyer in a Regulation Zone that does not meet its hourly Regulation obligation in proportion to its purchases of Regulation in such Regulation Zone in megawatt-hours during that hour.

### **3.2.2A Offer Price Caps.**

#### **3.2.2A.1 Applicability.**

(a) Each hour, the Office of the Interconnection shall conduct a three-pivotal supplier test as described in this section. Regulation offers from Market Sellers that fail the three-pivotal supplier test shall be capped in the hour in which they failed the test at their cost based offers as determined pursuant to section 1.10.1A(e) of this Schedule. A Regulation supplier fails the

three-pivotal supplier test in any hour in which such Regulation supplier and the two largest other Regulation suppliers are jointly pivotal.

(b) For the purposes of conducting the three-pivotal supplier test pursuant to this section, the following applies:

(i) The three-pivotal supplier test will include in the definition of available supply all offers from resources capable of satisfying the Regulation requirement of the PJM Region for which the cost-based offer plus any eligible opportunity costs is no greater than 150 percent of the clearing price that would be calculated if all offers were limited to cost (plus eligible opportunity costs).

(ii) The three-pivotal supplier test will apply on a Regulation supplier basis (i.e. not a resource by resource basis) and only the Regulation suppliers that fail the three-pivotal supplier test will have their Regulation offers capped. A Regulation supplier for the purposes of this section includes corporate affiliates. Regulation from resources controlled by a Regulation supplier or its affiliates, whether by contract with unaffiliated third parties or otherwise, will be included as Regulation of that Regulation supplier. Regulation provided by resources owned by a Regulation supplier but controlled by an unaffiliated third party, whether by contract or otherwise, will be included as Regulation of that third party.

### **3.2.3 Operating Reserves.**

(a) A Market Seller's pool-scheduled resources capable of providing Operating Reserves shall be credited as specified below based on the prices offered for the operation of such resource, provided that the resource was available for the entire time specified in the Offer Data for such resource. To the extent that Section 3.2.A.01 of Schedule 1 of this Agreement does not meet the Day-ahead Scheduling Reserves Requirement, the Office of the Interconnection shall schedule additional Operating Reserves pursuant to Section 1.7.17 and 1.10 of Schedule 1 of this Agreement. In addition the Office of the Interconnection shall schedule Operating Reserves pursuant to those sections to satisfy any unforeseen Operating Reserve requirements that are not reflected in the Day-ahead Scheduling Reserves Requirement.

(b) The following determination shall be made for each pool-scheduled resource that is scheduled in the Day-ahead Energy Market: the total offered price for start-up and no-load fees and energy, determined on the basis of the resource's scheduled output, shall be compared to the total value of that resource's energy – as determined by the Day-ahead Energy Market and the Day-ahead Prices applicable to the relevant generation bus in the Day-ahead Energy Market. Except as provided in Section 3.2.3(n), if the total offered price summed over all hours exceeds the total value summed over all hours, the difference shall be credited to the Market Seller. The Office of the Interconnection shall apply any balancing Operating Reserve credits allocated pursuant to this Section 3.2.3(b) to real-time deviations from day-ahead schedules or real-time load share plus exports, pursuant to Section 3.2.3(p), depending on whether the balancing Operating Reserve credits are related to resources scheduled during the reliability analysis for an Operating Day, or during the actual Operating Day.

(i) For resources scheduled by the Office of the Interconnection during the reliability analysis for an Operating Day, the associated balancing Operating Reserve credits shall be allocated based on the reason the resource was scheduled according to the following provisions:

(A) If the Office of the Interconnection determines during the reliability analysis for an Operating Day that a resource was committed to operate in real-time to augment the physical resources committed in the Day-ahead Energy Market to meet the forecasted real-time load plus the Operating Reserve requirement, the associated balancing Operating Reserve credits, identified as RA Credits for Deviations, shall be allocated to real-time deviations from day-ahead schedules.

(B) If the Office of the Interconnection determines during the reliability analysis for an Operating Day that a resource was committed to maintain system reliability, the associated balancing Operating Reserve credits, identified as RA Credits for Reliability, shall be allocated according to ratio share of real time load plus export transactions.

(C) If the Office of the Interconnection determines during the reliability analysis for an Operating Day that a resource with a day-ahead schedule is required to deviate from that schedule to provide balancing Operating Reserves, the associated balancing Operating Reserve credits shall be segmented and separately allocated pursuant to subsections 3.2.3(b)(i)(A) or 3.2.3(b)(i)(B) hereof. Balancing Operating Reserve credits for such resources will be identified in the same manner as units committed during the reliability analysis pursuant to subsections 3.2.3(b)(i)(A) and 3.2.3(b)(i)(B) hereof.

(ii) For resources scheduled during an Operating Day, the associated balancing Operating Reserve credits shall be allocated according to the following provisions:

(A) If the Office of the Interconnection directs a resource to operate during an Operating Day to provide balancing Operating Reserves, the associated balancing Operating Reserve credits, identified as RT Credits for Reliability, shall be allocated according to ratio share of load plus exports. The foregoing notwithstanding, credits will be applied pursuant to this section only if the LMP at the resource's bus does not meet or exceed the applicable offer of the resource for at least four 5-minute intervals during one or more discrete clock hours during each period the resource operated and produced MWs during the relevant Operating Day. If a resource operated and produced MWs for less than four 5-minute intervals during one or more discrete clock hours during the relevant Operating Day, the credits for that resource during the hour it was operated less than four 5-minute intervals will be identified as being in the same category (RT

Credits for Reliability or RT Credits for Deviations) as identified for the Operating Reserves for the other discrete clock hours.

(B) If the Office of the Interconnection directs a resource not covered by Section 3.2.3(b)(ii)(A) hereof to operate in real-time during an Operating Day, the associated balancing Operating Reserve credits, identified as RT Credits for Deviations, shall be allocated according to real-time deviations from day-ahead schedules.

(iii) PJM shall post on its Web site the aggregate amount of MWs committed that meet the criteria referenced in subsections (b)(i) and (b)(ii) hereof.

(c) The sum of the foregoing credits calculated in accordance with Section 3.2.3(b) plus any unallocated charges from Section 3.2.3(h) and 5.1.7 and any shortfalls paid pursuant to the Market Settlement provision of the Day-ahead Economic Load Response Program, shall be the cost of Operating Reserves in the Day-ahead Energy Market.

(d) The cost of Operating Reserves in the Day-ahead Energy Market shall be allocated and charged to each Market Participant in proportion to the sum of its (i) scheduled load (net of Behind The Meter Generation expected to be operating, but not to be less than zero) and accepted Decrement Bids in the Day-ahead Energy Market in megawatt-hours for that Operating Day; and (ii) scheduled energy sales in the Day-ahead Energy Market from within the PJM Region to load outside such region in megawatt-hours for that Operating Day, but not including its bilateral transactions that are dynamically scheduled to load outside such area pursuant to Section 1.12.

(e) At the end of each Operating Day, the following determination shall be made for each synchronized pool-scheduled resource of each Market Seller that operates as requested by the Office of the Interconnection and that is not committed solely for the purpose of providing Synchronized Reserve: For each calendar day, pool-scheduled resources in the Real-time Energy Market shall be made whole for each of the following segments: 1) the greater of their day-ahead schedules or minimum run time (minimum down time for Demand Resources); and 2) any block of hours the resource operates at PJM's direction in excess of the greater of its day-ahead schedule or minimum run time (minimum down time for Demand Resources). For each calendar day, and for each synchronized start of a generation resource or PJM-dispatched economic load reduction, there will be a maximum of two segments for each resource. Segment 1 will be the greater of the day-ahead schedule and minimum run time (minimum down time for Demand Resources) and Segment 2 will include the remainder of the contiguous hours when the resource is operating at the direction of the Office of the Interconnection, provided that a segment is limited to the Operating Day in which it commenced and cannot include any part of the following Operating Day.

Credits received pursuant to this section shall be equal to the positive difference between a resource's total offered price for start-up (shutdown costs for Demand Resources) and no-load fees and energy, determined on the basis of the resource's scheduled output, and the total value of the resource's energy as determined by the Real-time Energy Market and the real-time

LMP(s) applicable to the relevant generation bus in the Real-time Energy Market. The foregoing notwithstanding, credits for segment 2 shall exclude start up (shutdown costs for Demand Resources) costs for generation resources.

Except as provided in Section 3.2.3(m), if the total offered price exceeds the total value, the difference less any credit as determined pursuant to Section 3.2.3(b) plus the resource's opportunity cost and less any amounts credited for Synchronized Reserve in excess of the Synchronized Reserve offer plus the resource's opportunity cost and less any amounts credited for Reactive Services as specified in Section 3.2.3.B, and less any amounts for Day-ahead Scheduling Reserve in excess of the Day-ahead Scheduling Reserve offer plus the resource's opportunity cost, shall be credited to the Market Seller.

Synchronized Reserve and Day-ahead Scheduling Reserve credits applied against Operating Reserve credits pursuant to this section shall be netted against the Operating Reserve credits earned in the corresponding hour(s) in which the Synchronized Reserve and Day-ahead Scheduling Reserve credits accrued, provided that for condensing combustion turbines, Synchronized Reserve credits will be netted against the total Operating Reserve credits accrued during each period the unit operates in condensing and generation mode for one or more contiguous hours.

(f) A Market Seller's steam-electric generating unit or combined cycle unit operating in combined cycle mode that is pool-scheduled (or self-scheduled, if operating according to Section 1.10.3 (c) hereof), the output of which is reduced or suspended at the request of the Office of the Interconnection due to a transmission constraint or other reliability issue, and for which the hourly integrated, real-time LMP at the unit's bus is higher than the unit's offer corresponding to the level of output requested by the Office of the Interconnection (as indicated either by the desired MWs of output from the unit determined by PJM's unit dispatch system or as directed by the PJM dispatcher through a manual override), shall be credited hourly in an amount equal to  $\{(LMP_{DMW} - AG) \times (URTLMP - UB)\}$ , where:

LMP<sub>DMW</sub> equals the level of output for the unit determined according to the point on the scheduled offer curve on which the unit was operating corresponding to the hourly integrated real time LMP;

AG equals the actual hourly integrated output of the unit;

URTLMP equals the real time LMP at the unit's bus;

UB equals the unit offer for that unit for which output is reduced or suspended, determined according to the real-time scheduled offer curve on which the unit was operating, unless such schedule was a price-based schedule and the offer associated with that price schedule is less than the cost-based offer provided for the unit, in which case the offer for the unit will be determined from the cost-based schedule; and

where  $URTLMP - UB$  shall not be negative.

(f-1) A Market Seller's combustion turbine unit or combined cycle unit operating in simple cycle mode that is pool-scheduled (or self-scheduled, if operating according to Section 1.10.3 (c) hereof), operated as requested by the Office of the Interconnection, shall be compensated for lost opportunity cost if either of the following conditions occur:

(i) if the unit output is reduced at the direction of the Office of the Interconnection and the real time LMP at the unit's bus is higher than the unit's offer corresponding to the level of output requested by the Office of the Interconnection (as directed by the PJM dispatcher), then the Market Seller shall be credited in a manner consistent with that described above for a steam unit or combined cycle unit operating in combined cycle mode.

(ii) if the unit is scheduled to produce energy in the day-ahead market, but the unit is not called on by PJM and does not operate in real time, then the Market Seller shall be credited hourly in an amount equal to the higher of (i)  $\{(URTLMP - UDALMP) \times DAG,$  or (ii)  $\{(URTLMP - UB) \times DAG$  where:

URTLMP equals the real time LMP at the unit's bus;

UDALMP equals the day-ahead LMP at the unit's bus;

DAG equals the day-ahead scheduled unit output for the hour;

UB equals the offer price for the unit, determined according to the schedule on which the unit was committed day-ahead, unless such schedule was a price-based schedule and the offer associated with that price schedule is less than the cost-based offer provided for the unit, in which case the offer for the unit will be determined from the cost-based schedule; and

where  $URTLMP - UDALMP$  and  $URTLMP - UB$  shall not be negative.

(f-2) A Market Seller's hydroelectric resource that is pool-scheduled (or self-scheduled, if operating according to Section 1.10.3 (c) hereof), the output of which is altered at the request of the Office of the Interconnection from the schedule submitted by the owner, due to a transmission constraint or other reliability issue, shall be compensated for lost opportunity cost in the same manner as provided in sections 3.2.2A(d) and 3.2.3A(f) and further detailed in the PJM Manuals.

(f-3) If a Market Seller believes that, due to specific pre-existing binding commitments to which it is a party, and that properly should be recognized for purposes of this section, the above calculations do not accurately compensate the Market Seller for opportunity cost associated with following PJM dispatch instructions and reducing or suspending a unit's output due to a transmission constraint or other reliability issue, then the Office of the Interconnection, the Market Monitoring Unit and the individual Market Seller will discuss a mutually acceptable, modified amount of opportunity cost compensation, taking into account the specific

circumstances binding on the Market Seller. Following such discussion, if the Office of the Interconnection accepts a modified amount of opportunity cost compensation, the Office of the Interconnection shall invoice the Market Seller accordingly. If the Market Monitoring Unit disagrees with the modified amount of opportunity cost compensation, as accepted by the Office of the Interconnection, it will exercise its powers to inform the Commission staff of its concerns.

(g) The sum of the foregoing credits, plus any cancellation fees paid in accordance with Section 1.10.2(d) such cancellation fees to be applied to the Operating Day for which the unit was scheduled, plus any shortfalls paid pursuant to the Market Settlement provision of the real-time Economic Load Response Program, less any payments received from another Control Area for Operating Reserves, plus any redispatch costs incurred in accordance with section 10(a) of this Schedule, shall be the cost of Operating Reserves for the Real-time Energy Market in each Operating Day.

(h) The cost of Operating Reserves for the Real-time Energy Market for each Operating Day shall be allocated and charged to each Market Participant in proportion to the sum of the absolute values of its (i) load deviations (net of operating Behind The Meter Generation) from the Day-ahead Energy Market in megawatt-hours during that Operating Day, except as noted below and in the PJM Manuals; (ii) generation deviations (not including deviations in Behind The Meter Generation) from the Day-ahead Energy Market for non-dispatchable generation resources, including External Resources, in megawatt-hours during the Operating Day; (iii) deviations from the Day-ahead Energy Market for bilateral transactions from outside the PJM Region for delivery within such region in megawatt-hours during the Operating Day; and (iv) deviations of energy sales from the Day-ahead Energy Market from within the PJM Region to load outside such region in megawatt-hours during that Operating Day, but not including its bilateral transactions that are dynamically scheduled to load outside such area pursuant to Section 1.12.

Deviations that occur within a single Zone shall be associated with the Eastern or Western Regions, as defined in Section 3.2.3(q) of this Schedule, and shall be subject to the regional balancing Operating Reserve rate determined in accordance with Section 3.2.3(q). Deviations at interfaces and hubs shall be associated with the Eastern or Western Region if all the busses that define all interfaces or all hubs are located in the region. If deviations at interfaces and hubs are associated with the Eastern or Western region, they shall be subject to the regional balancing Operating Reserve rate. Demand and supply deviations shall be based on total activity in a Zone, including all aggregates and hubs defined by busses that are wholly contained within the same Zone.

The foregoing notwithstanding, netting deviations shall be allowed in accordance with the following provisions:

(i) Generation resources with multiple units located at a single bus shall be able to offset deviations in accordance with the PJM Manuals to determine the net deviation MW at the relevant bus.

(ii) Demand deviations will be assessed by comparing all day-ahead demand transactions at a single transmission zone, hub, or interface against the real-time demand transactions at that same transmission zone, hub, or interface; except that the positive values of demand deviations, as set forth in the PJM Manuals, will not be assessed Operating Reserve charges in the event of an Operating Reserve shortage in real-time or where PJM initiates the request for load reductions in real-time in order to avoid an Operating Reserve shortage as described in this Schedule, Section 6A, Scarcity Pricing.

(iii) Supply deviations will be assessed by comparing all day-ahead transactions at a single transmission zone, hub, or interface against the real-time transactions at that same transmission zone, hub, or interface.

(i) At the end of each Operating Day, Market Sellers shall be credited on the basis of their offered prices for synchronous condensing for purposes other than providing Synchronized Reserve or Reactive Services, as well as the credits calculated as specified in Section 3.2.3(b) for those generators committed solely for the purpose of providing synchronous condensing for purposes other than providing Synchronized Reserve or Reactive Services, at the request of the Office of the Interconnection.

(j) The sum of the foregoing credits as specified in Section 3.2.3(i) shall be the cost of Operating Reserves for synchronous condensing for the PJM Region for purposes other than providing Synchronized Reserve or Reactive Services, or in association with post-contingency operation for the Operating Day and shall be separately determined for each Control Zone of the PJM Region based on the Control Zone to which the resource was synchronized to provide synchronous condensing for purposes other than providing Synchronized Reserve or Reactive Services, or in association with post-contingency operation.

(k) The cost of Operating Reserves for synchronous condensing for purposes other than providing Synchronized Reserve or Reactive Services, or in association with post-contingency operation for each Operating Day shall be allocated and charged to each Market Participant in proportion to the sum of its (i) deliveries of energy to load (net of operating Behind The Meter Generation, but not to be less than zero) in the PJM Region, served under Network Transmission Service, in megawatt-hours during that Operating Day; and (ii) deliveries of energy sales from within the PJM Region to load outside such region in megawatt-hours during that Operating Day, but not including its bilateral transactions that are dynamically scheduled to load outside such Control Zone pursuant to Section 1.12, as compared to the sum of all such deliveries for all Market Participants.

(l) For any Operating Day in either, as applicable, the Day-ahead Energy Market or the Real-time Energy Market for which, for all or any part of such Operating Day, the Office of the Interconnection: (i) declares a Maximum Generation Emergency; (ii) issues an alert that a Maximum Generation Emergency may be declared (“Maximum Generation Emergency Alert”); or (iii) schedules units based on the anticipation of a Maximum Generation Emergency or a Maximum Generation Emergency Alert, the Operating Reserves credit otherwise provided by Section 3.2.3.(b) or Section 3.2.3(e) in connection with market-based offers shall be limited as provided in subsections (n) or (m), respectively. The Office of the Interconnection shall provide

timely notice on its internet site of the commencement and termination of any of the actions described in subsection (i), (ii), or (iii) of this subsection (l) (collectively referred to as “MaxGen Conditions”). Following the posting of notice of the commencement of a MaxGen Condition, a Market Seller may elect to submit a cost-based offer in accordance with Schedule 2 of the Operating Agreement, in which case subsections (m) and (n) shall not apply to such offer; provided, however, that such offer must be submitted in accordance with the deadlines in Section 1.10 for the submission of offers in the Day-ahead Energy Market or Real-time Energy Market, as applicable. Submission of a cost-based offer under such conditions shall not be precluded by Section 1.9.7(b); provided, however, that the Market Seller must return to compliance with Section 1.9.7(b) when it submits its bid for the first Operating Day after termination of the MaxGen Condition.

(m) For the Real-time Energy Market, if the Effective Offer Price (as defined below) for a market-based offer is greater than \$1,000/MWh, the Market Seller shall not receive any credit for Operating Reserves. For purposes of this subsection (m), the Effective Offer Price shall be the amount that, absent subsections (l) and (m), would have been credited for Operating Reserves for such Operating Day pursuant to Section 3.2.3(e) plus the Real-time Energy Market revenues for the hours that the offer is economic divided by the megawatt hours of energy provided during the hours that the offer is economic. The hours that the offer is economic shall be: (i) the hours that the offer price for energy is less than or equal to the Real-time Price for the relevant generation bus, (ii) the hours in which the offer for energy is greater than Locational Marginal Price and the unit is operated at the direction of the Office of the Interconnection that are in addition to any hours required due to the minimum run time or other operating constraint of the unit, and (iii) for any unit with a minimum run time of one hour or less and with more than one start available per day, any hours the unit operated at the direction of the Office of the Interconnection.

(n) For the Day-ahead Energy Market, if notice of a MaxGen Condition is provided prior to 12:00 noon on the day before the Operating Day for which transactions are being scheduled and the Effective Offer Price is greater than \$1,000/MWh, the Market Seller shall not receive any credit for Operating Reserves. If notice of a MaxGen Condition is provided after 12:00 noon on the day before the Operating Day for which transactions are being scheduled and the Effective Offer Price is greater than \$1,000/MWh, the Market Seller shall receive credit for Operating Reserves determined in accordance with Section 3.2.3(b), subject to the limit on total compensation stated below. If the Effective Offer Price is less than or equal to \$1,000/MWh, regardless of when notice of a MaxGen Condition is provided, the Market Seller shall receive credit for Operating Reserves determined in accordance with Section 3.2.3(b), subject to the limit on total compensation stated below. For purposes of this subsection (n), the Effective Offer Price shall be the amount that, absent subsections (l) and (n), would have been credited for Operating Reserves for such Operating Day divided by the megawatt hours of energy offered during the Specified Hours, plus the offer for energy during such hours. The Specified Hours shall be the lesser of: (1) the minimum run hours stated by the Market Seller in its Offer Data; and (2) either (i) for steam-electric generating units and for combined-cycle units when such units are operating in combined-cycle mode, the six consecutive hours of highest Day-ahead Price during such Operating Day when such units are running or (ii) for combustion turbine units and for combined-cycle units when such units are operating in combustion turbine mode, the two

consecutive hours of highest Day-ahead Price during such Operating Day when such units are running. Notwithstanding any other provision in this subsection, the total compensation to a Market Seller on any Operating Day that includes a MaxGen Condition shall not exceed \$1,000/MWh during the Specified Hours, where such total compensation in each such hour is defined as the amount that, absent subsections (l) and (n), would have been credited for Operating Reserves for such Operating Day pursuant to Section 3.2.3(b) divided by the Specified Hours, plus the Day-ahead Price for such hour, and no Operating Reserves payments shall be made for any other hour of such Operating Day. If a unit operates in real time at the direction of the Office of the Interconnection consistently with its day-ahead clearing, then subsection (m) does not apply.

(o) Dispatchable pool-scheduled generation resources and dispatchable self-scheduled generation resources that follow dispatch shall not be assessed balancing Operating Reserve deviations. Pool-scheduled generation resources and dispatchable self-scheduled generation resources that do not follow dispatch shall be assessed balancing Operating Reserve deviations in accordance with the calculations described in the PJM Manuals. Ramp-limited desired MW values shall be used to determine generation resource real-time deviations from the resource’s day-ahead schedules.

The Office of the Interconnection shall calculate a ramp-limited desired MW value for resources where the economic minimum and economic maximum are at least as far apart in real-time as they are in day-ahead according to the following parameters:

- (i) real-time economic minimum  $\leq$  105% of day-ahead economic minimum or day-ahead economic minimum plus 5 MW, whichever is greater.
- (ii) real-time economic maximum  $\geq$  95% day-ahead economic maximum or day-ahead economic maximum minus 5 MW, whichever is lower.

The ramp-limited desired MW value for a generation resource shall be equal to:

$$\text{Ramp\_Request}_t = \frac{(\text{UDStarget}_{t-1} - \text{AOutput}_{t-1})}{(\text{UDSLAtime}_{t-1})}$$

$$\text{RL\_Desired}_t = \text{AOutput}_{t-1} + \left( \text{Ramp\_Request}_t * \text{Case\_Eff\_time}_{t-1} \right)$$

where:

1. UDStarget = UDS basepoint for the previous UDS case
2. AOutput = Unit’s output at case solution time
3. UDSLAtime = UDS look ahead time
4. Case\_Eff\_time = Time between base point changes
5. RL\_Desired = Ramp-limited desired MW

To determine if a resource is following dispatch the Office of the Interconnection shall determine the unit's MW off dispatch and % off dispatch by using the lesser of the difference between the actual output and the UDS Basepoint or the actual output and ramp-limited desired MW value. The % off dispatch and MW off dispatch will be a time-weighted average over the course of an hour.

A pool-scheduled or dispatchable self-scheduled resource is considered to be following dispatch if its actual output is between its ramp-limited desired MW value and UDS Basepoint, or if its % off dispatch is  $\leq 10$ , or its hourly integrated Real-time MWh is within 5% or 5 MW (whichever is greater) of the hourly integrated ramp-limited desired MW. A self-scheduled generator must also be dispatched above economic minimum. The degree of deviations for resources that are not following dispatch shall be determined in accordance with the following provisions:

- A dispatchable self-scheduled resource that is not dispatched above economic minimum shall be assessed balancing Operating Reserve deviations according to the following formula: hourly integrated Real-time MWh – Day-Ahead MWh.
- A resource that is dispatchable day-ahead but is Fixed Gen in real-time shall be assessed balancing Operating Reserve deviations according to the following formula: hourly integrated Real-time MWh – UDS LMP Desired MW.
- Pool-scheduled generators that are not following dispatch shall be assessed balancing Operating Reserve deviations according to the following formula: hourly integrated Real-time MWh – hourly integrated Ramp-Limited Desired MW.
- If a resource's real-time economic minimum is greater than its day-ahead economic minimum by 5% or 5 MW, whichever is greater, or its real-time economic maximum is less than its Day Ahead economic maximum by 5% or 5 MW, whichever is lower, and UDS LMP Desired MWh for the hour is either below the real time economic minimum or above the real time economic maximum, then balancing Operating Reserve deviations for the resource shall be assessed according to the following formula: hourly integrated Real time MWh – UDS LMP Desired MWh.
- If a resource is not following dispatch and its % Off Dispatch is  $\leq 20\%$ , balancing Operating Reserve deviations shall be assessed according to the following formula: hourly integrated Real-time Mwh – hourly integrated Ramp-Limited Desired MW. If deviation value is within 5% or 5 MW (whichever is greater) of Ramp-Limited Desired MW, balancing Operating Reserve deviations shall not be assessed.
- If a resource is not following dispatch and its % off Dispatch is  $> 20\%$ , balancing Operating Reserve deviations shall be assessed according to the following formula: hourly integrated Real time MWh – UDS LMP Desired MWh.
- If a resource is not following dispatch, and the resource has tripped, for the hour the resource tripped and the hours it remains offline throughout its day-ahead schedule

balancing Operating Reserve deviations shall be assessed according to the following formula: hourly integrated Real time MWh – Day-Ahead MWh.

- For resources that are not dispatchable in both the Day-Ahead and Real-time Energy Markets balancing Operating Reserve deviations shall be assessed according to the following formula: hourly integrated Real-time MWh and Day-Ahead MWh.

(p) The Office of the Interconnection shall allocate the charges assessed pursuant to Section 3.2.3(h) of Schedule 1 of this Agreement to real-time deviations from day-ahead schedules or real-time load share plus exports depending on whether the underlying balancing Operating Reserve credits are related to resources scheduled during the reliability analysis for an Operating Day, or during the actual Operating Day.

(i) For resources scheduled by the Office of the Interconnection during the reliability analysis for an Operating Day, the associated balancing Operating Reserve charges shall be allocated based on the reason the resource was scheduled according to the following provisions:

(A) If the Office of the Interconnection determines during the reliability analysis for an Operating Day that a resource was committed to operate in real-time to augment the physical resources committed in the Day-ahead Energy Market to meet the forecasted real-time load plus the Operating Reserve requirement, the associated balancing Operating Reserve charges shall be allocated to real-time deviations from day-ahead schedules.

(B) If the Office of the Interconnection determines during the reliability analysis for an Operating Day that a resource was committed to maintain system reliability, the associated balancing Operating Reserve charges shall be allocated according to ratio share of real time load plus export transactions.

(C) If the Office of the Interconnection determines during the reliability analysis for an Operating Day that a resource with a day-ahead schedule is required to deviate from that schedule to provide balancing Operating Reserves, the associated balancing Operating Reserve charges shall be allocated pursuant to (A) or (B) above.

(ii) For resources scheduled during an Operating Day, the associated balancing Operating Reserve charges shall be allocated according to the following provisions:

(A) If the Office of the Interconnection directs a resource to operate during an Operating Day to provide balancing Operating Reserves, the associated balancing Operating Reserve charges shall be allocated according to ratio share of load plus exports. The foregoing notwithstanding, charges will be assessed pursuant to this section only if the LMP at the resource's bus does not meet or

exceed the applicable offer of the resource for at least four-5-minute intervals during one or more discrete clock hours during each period the resource operated and produced MWs during the relevant Operating Day. If a resource operated and produced MWs for less than four 5-minute intervals during one or more discrete clock hours during the relevant Operating Day, the charges for that resource during the hour it was operated less than four 5-minute intervals will be identified as being in the same category as identified for the Operating Reserves for the other discrete clock hours.

(B) If the Office of the Interconnection directs a resource not covered by Section 3.2.3(h)(ii)(A) of Schedule 1 of this Agreement to operate in real-time during an Operating Day, the associated balancing Operating Reserve charges shall be allocated according to real-time deviations from day-ahead schedules.

(q) The Office of the Interconnection shall determine regional balancing Operating Reserve rates for the Western and Eastern Regions of the PJM Region. For the purposes of this section, the Western Region shall be the AEP, APS, ComEd, Duquesne, Dayton, ATSI, DEOK transmission Zones, and the Eastern Region shall be the AEC, BGE, Dominion, PENELEC, PEPCO, ME, PPL, JCPL, PECO, DPL, PSEG, RE transmission Zones. The regional balancing Operating Reserve rates shall be determined in accordance with the following provisions:

(i) The Office of the Interconnection shall calculate regional adder rates for the Eastern and Western Regions. Regional adder rates shall be equal to the total balancing Operating Reserve credits paid to generators for transmission constraints that occur on transmission system capacity equal to or less than 345kv. The regional adder rates shall be separated into reliability and deviation charges, which shall be allocated to real-time load or real-time deviations, respectively. Whether the underlying credits are designated as reliability or deviation charges shall be determined in accordance with Section 3.2.3(p).

(ii) The Office of the Interconnection shall calculate RTO balancing Operating Reserve rates. RTO balancing Operating Reserve rates shall be equal to balancing Operating Reserve credits in excess of the regional adder rates calculated pursuant to Section 3.2.3(q)(i) of Schedule 1 of this Agreement. The RTO balancing Operating Reserve rates shall be separated into reliability and deviation charges, which shall be allocated to real-time load or real-time deviations, respectively. Whether the underlying credits are allocated as reliability or deviation charges shall be determined in accordance with Section 3.2.3(p).

(iii) Reliability and deviation regional balancing Operating Reserve rates shall be determined by summing the relevant RTO balancing Operating Reserve rates and regional adder rates.

(iv) If the Eastern and/or Western Regions do not have regional adder rates, the relevant regional balancing Operating Reserve rate shall be the reliability and/or deviation RTO balancing Operating Reserve rate.

### **3.2.3A Synchronized Reserve.**

(a) Each Internal Market Buyer that is a Load Serving Entity shall have an obligation for hourly Synchronized Reserve equal to its pro rata share of Synchronized Reserve requirements for the hour for each Synchronized Reserve Zone of the PJM Region, based on the Market Buyer's total load (net of operating Behind The Meter Generation, but not to be less than zero) in such Synchronized Reserve Zone for the hour ("Synchronized Reserve Obligation"), less any amount obtained from condensers associated with provision of Reactive Services as described in section 3.2.3B(i) and any amount obtained from condensers associated with post-contingency operations, as described in section 3.2.3C(b). An Internal Market Buyer that does not meet its hourly Synchronized Reserve Obligation shall be charged for the Synchronized Reserve dispatched by the Office of the Interconnection to meet such obligation at the Synchronized Reserve Market Clearing Price determined in accordance with subsection (d) of this section, plus the amounts if any, described in subsections (g), (h) and (i) of this section.

(b) A Generating Market Buyer supplying Synchronized Reserve at the direction of the Office of the Interconnection, in excess of its hourly Synchronized Reserve Obligation, shall be credited as follows:

i) Credits for Synchronized Reserve provided by generation units that are then subject to the energy dispatch signals and instructions of the Office of the Interconnection and that increase their current output or Demand Resources that reduce their load in response to a Synchronized Reserve Event ("Tier 1 Synchronized Reserve") shall be at the Synchronized Energy Premium Price.

ii) Credits for Synchronized Reserve provided by generation resources that are synchronized to the grid but, at the direction of the Office of the Interconnection, are operating at a point that deviates from the Office of the Interconnection energy dispatch signals and instructions ("Tier 2 Synchronized Reserve") shall be the higher of (i) the Synchronized Reserve Market Clearing Price or (ii) the sum of (A) the Synchronized Reserve offer, and (B) the specific opportunity cost of the generation resource supplying the increment of Synchronized Reserve, as determined by the Office of the Interconnection in accordance with procedures specified in the PJM Manuals.

iii) Credits for Synchronized Reserve provided by Demand Resources that are synchronized to the grid and accept the obligation to reduce load in response to a synchronized Reserve Event initiated by the Office of the Interconnection shall be the sum of (i) the higher of (A) the Synchronized Reserve offer or (B) the synchronized Reserve Market Clearing Price and (ii) if a Synchronized Reserve Event is actually initiated by the Office of the Interconnection and the Demand Resource reduced its load in response to the event, the fixed costs associated with achieving the load reduction, as specified in the PJM Manuals.

(c) The Synchronized Reserve Energy Premium Price is the average of the five-minute Locational Marginal Prices calculated during the Synchronized Reserve Event plus an

adder in an amount to be determined periodically by the Office of the Interconnection not less than fifty dollars and not to exceed one hundred dollars per megawatt hour.

(d) The Synchronized Reserve Market Clearing Price shall be determined for each Synchronized Reserve Zone by the Office of the Interconnection prior to the operating hour and such market-clearing price shall be equal to, from among the generation resources or Demand Resources selected to provide Synchronized Reserve for such Synchronized Reserve Zone, the highest sum of either (i) a generation resource's Synchronized Reserve offer and opportunity cost or (ii) a demand response resource's Synchronized Reserve offer.

(e) In determining the Synchronized Reserve Market Clearing Price, the estimated unit-specific opportunity cost for a generation resource shall be equal to the sum of (i) the product of (A) the expected Locational Marginal Price at the generation bus for the generation resource times (B) the megawatts of energy used to provide Synchronized Reserve submitted as part of the Synchronized Reserve offer and (ii) the product of (A) the deviation of the set point of the generation resource that is expected to be required in order to provide Synchronized Reserve from the generation resource's expected output level if it had been dispatched in economic merit order times (B) the absolute value of the difference between the expected Locational Marginal Price at the generation bus for the generation resource and the offer price for energy from the generation resource (at the megawatt level of the Synchronized Reserve set point for the resource) in the PJM Interchange Energy Market. The opportunity costs for a Demand Resource shall be zero.

(f) In determining the credit under subsection (b) to a Generating Market Buyer selected to provide Tier 2 Synchronized Reserve and that actively follows the Office of the Interconnection's signals and instructions, the unit-specific opportunity cost of a generation resource shall be determined for each hour that the Office of the Interconnection requires a generation resource to provide Tier 2 Synchronized Reserve and shall be equal to the sum of (i) the product of (A) the megawatts of energy used by the resource to provide Synchronized Reserve as submitted as part of the generation resource's Synchronized Reserve offer times (B) the Locational Marginal Price at the generation bus of the generation resource, and (ii) the product of (A) the deviation of the generation resource's output necessary to follow the Office of the Interconnection's signals and instructions from the generation resource's expected output level if it had been dispatched in economic merit order, times (B) the absolute value of the difference between the Locational Marginal Price at the generation bus for the generation resource and the offer price for energy from the generation resource (at the megawatt level of the Synchronized Reserve set point for the generation resource) in the PJM Interchange Energy Market. The opportunity costs for a Demand Resource shall be zero.

(g) Charges for Tier 1 Synchronized Reserve will be allocated in proportion to the amount of Tier 1 Synchronized Reserve applied to each Synchronized Reserve Obligation. In the event Tier 1 Synchronized Reserve is provided by a Market Seller in excess of that Market Seller's Synchronized Reserve Obligation, the remainder of the Tier 1 Synchronized Reserve that is not utilized to fulfill the Seller's obligation will be allocated proportionately among all other Synchronized Reserve Obligations.

(h) Any amounts credited for Tier 2 Synchronized Reserve in an hour in excess of the Synchronized Reserve Market Clearing Price in that hour shall be allocated and charged to each Internal Market Buyer that does not meet its hourly Synchronized Reserve Obligation in proportion to its purchases of Synchronized Reserve in megawatt-hours during that hour.

(i) In the event the Office of the Interconnection needs to assign more Tier 2 Synchronized Reserve during an hour than was estimated as needed at the time the Synchronized Reserve Market Clearing Price was calculated for that hour due to a reduction in available Tier 1 Synchronized Reserve, the costs of the excess Tier 2 Synchronized Reserve shall be allocated and charged to those providers of Tier 1 Synchronized Reserve whose available Tier 1 Synchronized Reserve was reduced from the needed amount estimated during the Synchronized Reserve Market Clearing Price calculation, in proportion to the amount of the reduction in Tier 1 Synchronized Reserve availability.

(j) In the event a generation resource or Demand Resource that either has been assigned by the Office of the Interconnection or self-scheduled by the owner to provide Tier 2 Synchronized Reserve fails to provide the assigned or self-scheduled amount of Synchronized Reserve in response to an actual Synchronized Reserve Event, the owner of the resource shall incur an additional Synchronized Reserve Obligation in the amount of the shortfall for a period of three consecutive days with the same peak classification (on-peak or off-peak) as the day of the Synchronized Reserve Event at least three business days following the Synchronized Reserve Event. The overall Synchronized Reserve requirement for each Synchronized Reserve Zone of the PJM Region on which the Synchronized Reserve Obligations, except for the additional obligations set forth in this section, are based shall be reduced by the amount of this shortfall for the applicable three-day period.

(k) The magnitude of response to a Synchronized Reserve Event by a generation resource or a Demand Resource, except for Batch Load Demand Resources covered by section 3.2.3A(l) is the difference between the generation resource's output or the Demand Resource's consumption at the start of the event and its output or consumption 10 minutes after the start of the event. In order to allow for small fluctuations and possible telemetry delays, generation resource output or Demand Resource consumption at the start of the event is defined as the lowest telemetered generator resource output or greatest Demand Resource consumption between one minute prior to and one minute following the start of the event. Similarly, a generation resource's output or a Demand Resource's consumption 10 minutes after the event is defined as the greatest generator resource output or lowest Demand Resource consumption achieved between 9 and 11 minutes after the start of the event. The response actually credited to a generation resource will be reduced by the amount the megawatt output of the generation resource falls below the level achieved after 10 minutes by either the end of the event or after 30 minutes from the start of the event, whichever is shorter. The response actually credited to a Demand Resource will be reduced by the amount the megawatt consumption of the Demand Resource exceeds the level achieved after 10 minutes by either the end of the event or after 30 minutes from the start of the event, whichever is shorter.

(l) The magnitude of response by a Batch Load Demand Resource that is at the stage in its production cycle when its energy consumption is less than the level of megawatts in its

offer at the start of a Synchronized Reserve Event shall be the difference between (i) the Batch Load Demand Resource's consumption at the end of the Synchronized Reserve Event and (ii) the Batch Load Demand Resource's consumption during the minute within the ten minutes after the end of the Synchronized Reserve Event in which the Batch Load Demand Resource's consumption was highest and for which its consumption in all subsequent minutes within the ten minutes was not less than fifty percent of the consumption in such minute; provided that, the magnitude of the response shall be zero if, when the Synchronized Reserve Event commences, the scheduled off-cycle stage of the production cycle is greater than ten minutes.

### **3.2.3A.01 Day-ahead Scheduling Reserves.**

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

(b) A Day-ahead Scheduling Reserves Resource that receives a Day-ahead Scheduling Reserves schedule pursuant to subsection (a) of this section shall be paid the hourly Day-ahead Scheduling Reserves Market clearing price for the MW obligation in each hour of the schedule, subject to meeting the requirements of subsection (c) of this section.

(c) To be eligible for payment pursuant to subsection (b) of this section, Day-ahead Scheduling Reserves Resources shall comply with the following provisions:

(i) Generation resources with a start time greater than thirty minutes are required to be synchronized and operating at the direction of the Office of the Interconnection during the resource's Day-ahead Scheduling Reserves schedule and shall have a dispatchable range equal to or greater than the Day-ahead Scheduling Reserves schedule.

(ii) Generation resources and Demand Resources with start times or shut-down times, respectively, equal to or less than 30 minutes are required to respond to dispatch directives from the Office of the Interconnection during the resource's Day-ahead Scheduling Reserves schedule. To meet this requirement the resource shall be required to start or shut down within the specified notification time plus its start or shut down time, provided that such time shall be less than thirty minutes.

(iii) Demand Resources with a Day-ahead Scheduling Reserves schedule shall be credited based on the difference between the resource's MW consumption at the time the resource is directed by the Office of the Interconnection to reduce its load (starting MW usage) and the resource's MW consumption at the time when the Demand Resource is no longer dispatched by PJM (ending MW usage). For the purposes of this subsection, a resource's starting MW usage shall be the greatest telemetered consumption between one minute prior to and one minute following the issuance of a dispatch instruction from the Office of the Interconnection, and a resource's ending MW usage shall be the lowest consumption between one minute before and one minute after a dispatch instruction from the Office of the Interconnection that is no longer necessary to reduce.

(iv) Notwithstanding subsection (iii) above, the credit for a Batch Load Demand Resource that is at the stage in its production cycle when its energy consumption is less than the level of megawatts in its offer at the time the resource is directed by the Office of the Interconnection to reduce its load shall be the difference between (i) the "ending MW usage" (as defined above) and (ii) the Batch Load Demand Resource's consumption during the minute within the ten minutes after the time of the "ending MW usage" in which the Batch Load Demand Resource's consumption was highest and for which its consumption in all subsequent minutes within the ten minutes was not less than fifty percent of the consumption in such minute; provided that, the credit shall be zero if, at the time the resource is directed by the Office of the Interconnection to reduce its load, the scheduled off-cycle stage of the production cycle is greater than the timeframe for which the resource was dispatched by PJM.

Resources that do not comply with the provisions of this subsection (c) shall not be eligible to receive credits pursuant to subsection (b) of this section.

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

(e) If the Day-ahead Scheduling Reserves Requirement is not satisfied through the operation of subsection (a) of this section, any additional Operating Reserves required to meet the requirement shall be scheduled by the Office of the Interconnection pursuant to Section 3.2.3 of Schedule 1 of this Agreement.

### **3.2.3B Reactive Services.**

(a) A Market Seller providing Reactive Services at the direction of the Office of the Interconnection shall be credited as specified below for the operation of its resource. These provisions are intended to provide payments to generating units when the LMP dispatch algorithms would not result in the dispatch needed for the required reactive service. LMP will be used to compensate generators that are subject to redispatch for reactive transfer limits.

(b) At the end of each Operating Day, where the active energy output of a Market Seller's resource is reduced or suspended at the request of the Office of the Interconnection for the purpose of maintaining reactive reliability within the PJM Region, the Market Seller shall be credited according to Sections 3.2.3B(c) & 3.2.3B(d).

(c) A Market Seller providing Reactive Services from either a steam-electric generating unit or combined cycle unit operating in combined cycle mode, where such unit is pool-scheduled (or self-scheduled, if operating according to Section 1.10.3 (c) hereof), and where the hourly integrated, real time LMP at the unit's bus is higher than the price offered by the Market Seller for energy from the unit at the level of output requested by the Office of the Interconnection (as indicated either by the desired MWs of output from the unit determined by PJM's unit dispatch system or as directed by the PJM dispatcher through a manual override) shall be compensated for lost opportunity cost by receiving a credit hourly in an amount equal to  $\{(LMP_{DMW} - AG) \times (URTLMP - UB)\}$

where:

LMP<sub>DMW</sub> equals the level of output for the unit determined according to the point on the scheduled offer curve on which the unit was operating corresponding to the hourly integrated real time LMP;

AG equals the actual hourly integrated output of the unit;

URTLMP equals the real time LMP at the unit's bus;

UB equals the unit offer for that unit for which output is reduced or suspended determined according to the real time scheduled offer curve on which the unit was operating, unless such schedule was a price-based schedule and the offer associated with that price-based schedule is less than the cost-based offer for the unit, in which case the offer for the unit will be determined based on the cost-based schedule; and

where  $URTLMP - UB$  shall not be negative.

(d) A Market Seller providing Reactive Services from either a combustion turbine unit or combined cycle unit operating in simple cycle mode that is pool scheduled (or self-scheduled, if operating according to Section 1.10.3 (c) hereof), operated as requested by the Office of the Interconnection, shall be compensated for lost opportunity cost if either of the following conditions occur:

(i) if the unit output is reduced at the direction of the Office of the Interconnection and the real time LMP at the unit's bus is higher than the price offered by the Market Seller for energy from the unit at the level of output requested by the Office of the Interconnection as directed by the PJM dispatcher, then the Market Seller shall be credited in a manner consistent with that described above in Section 3.2.3B(c) for a steam unit or a combined cycle unit operating in combined cycle mode.

(ii) if the unit is scheduled to produce energy in the day-ahead market, but the unit is not called on by PJM and does not operate in real time, then the Market Seller shall be credited hourly in an amount equal to the higher of (i)  $\{(URTLMP - UDALMP) \times DAG\}$ , or (ii)  $\{(URTLMP - UB) \times DAG\}$  where:

URTLMP equals the real time LMP at the unit's bus;

UDALMP equals the day-ahead LMP at the unit's bus;

DAG equals the day-ahead scheduled unit output for the hour;

UB equals the offer price for the unit determined according to the schedule on which the unit was committed day-ahead, unless such schedule was a price-based schedule and the offer associated with that price-based schedule is less than the cost-based offer for the unit, in which case the offer for the unit will be determined based on the cost-based schedule; and

where  $URTLMP - UDALMP$  and  $URTLMP - UB$  shall not be negative.

(e) At the end of each Operating Day, where the active energy output of a Market Seller's unit is increased at the request of the Office of the Interconnection for the purpose of maintaining reactive reliability within the PJM Region and the offered price of the energy is above the real-time LMP at the unit's bus, the Market Seller shall be credited according to Section 3.2.3B(f).

(f) A Market Seller providing Reactive Services from either a steam-electric generating unit, combined cycle unit or combustion turbine unit, where such unit is pool scheduled (or self-scheduled, if operating according to Section 1.10.3 (c) hereof), and where the hourly integrated, real time LMP at the unit's bus is lower than the price offered by the Market Seller for energy from the unit at the level of output requested by the Office of the Interconnection (as indicated either by the desired MWs of output from the unit determined by PJM's unit dispatch system or as directed by the PJM dispatcher through a manual override), shall receive a credit hourly in an amount equal to  $\{(AG - LMPDMW) \times (UB - URTLMP)\}$  where:

AG equals the actual hourly integrated output of the unit;

LMPD<sub>MW</sub> equals the level of output for the unit determined according to the point on the scheduled offer curve on which the unit was operating corresponding to the hourly integrated real time LMP;

UB equals the unit offer for that unit for which output is increased, determined according to the real time scheduled offer curve on which the unit was operating;

URTLMP equals the real time LMP at the unit's bus; and

where  $UB - URTLMP$  shall not be negative.

(g) A Market Seller providing Reactive Services from a hydroelectric resource where such resource is pool scheduled (or self-scheduled, if operating according to Section 1.10.3 (c) hereof), and where the output of such resource is altered from the schedule submitted by the Market Seller for the purpose of maintaining reactive reliability at the request of the Office of the Interconnection, shall be compensated for lost opportunity cost in the same manner as provided in sections 3.2.2A(d) and 3.2.3A(f) and further detailed in the PJM Manuals.

(h) If a Market Seller believes that, due to specific pre-existing binding commitments to which it is a party, and that properly should be recognized for purposes of this section, the above calculations do not accurately compensate the Market Seller for lost opportunity cost associated with following the Office of the Interconnection's dispatch instructions to reduce or suspend a unit's output for the purpose of maintaining reactive reliability, then the Office of the Interconnection, the Market Monitoring Unit and the individual Market Seller will discuss a mutually acceptable, modified amount of such alternate lost opportunity cost compensation, taking into account the specific circumstances binding on the Market Seller. Following such discussion, if the Office of the Interconnection accepts a modified amount of alternate lost opportunity cost compensation, the Office of the Interconnection shall invoice the Market Seller accordingly. If the Market Monitoring Unit disagrees with the modified amount of alternate lost opportunity cost compensation, as accepted by the Office of the Interconnection, it will exercise its powers to inform the Commission staff of its concerns.

(i) The amount of Synchronized Reserve provided by generating units maintaining reactive reliability shall be counted as Synchronized Reserve satisfying the overall PJM Synchronized Reserve requirements. Operators of these generating units shall be notified of such provision, and to the extent a generating unit's operator indicates that the generating unit is capable of providing Synchronized Reserve, shall be subject to the same requirements contained in Section 3.2.3A regarding provision of Tier 2 Synchronized Reserve. At the end of each Operating Day, to the extent a condenser operated to provide Reactive Services also provided Synchronized Reserve, a Market Seller shall be credited for providing synchronous condensing for the purpose of maintaining reactive reliability at the request of the Office of the Interconnection, in an amount equal to the higher of (i) the hourly Synchronized Reserve Market Clearing Price for each hour a generating unit provided synchronous condensing multiplied by the amount of Synchronized reserve provided by the synchronous condenser or (ii) the sum of (A) the generating unit's hourly cost to provide synchronous condensing, calculated in accordance with the PJM Manuals, (B) the hourly product of MW energy usage for providing

synchronous condensing multiplied by the real time LMP at the generating unit's bus, (C) the generating unit's startup-cost of providing synchronous condensing, and (D) the unit-specific lost opportunity cost of the generating resource supplying the increment of Synchronized Reserve as determined by the Office of the Interconnection in accordance with procedures specified in the PJM Manuals. To the extent a condenser operated to provide Reactive Services was not also providing Synchronized Reserve, the Market Seller shall be credited only for the generating unit's cost to condense, as described in (ii) above. The total Synchronized Reserve Obligations of all Load Serving Entities under section 3.2.3A(a) in the zone where these condensers are located shall be reduced by the amount counted as satisfying the PJM Synchronized Reserve requirements. The Synchronized Reserve Obligation of each Load Serving Entity in the zone under section 3.2.3A(a) shall be reduced to the same extent that the costs of such condensers counted as Synchronized Reserve are allocated to such Load Serving Entity pursuant to paragraph (l) below.

(j) A Market Seller's pool scheduled steam-electric generating unit or combined cycle unit operating in combined cycle mode, that is not committed to operate in the Day-ahead Market, but that is directed by the Office of Interconnection to operate solely for the purpose of maintaining reactive reliability, at the request of the Office of the Interconnection, shall be credited in the amount of the unit's offered price for start-up and no-load fees. The unit also shall receive, if applicable, compensation in accordance with Sections 3.2.3B(e)-(f).

(k) The sum of the foregoing credits as specified in Sections 3.2.3B(b)-(j) shall be the cost of Reactive Services for the purpose of maintaining reactive reliability for the Operating Day and shall be separately determined for each transmission zone in the PJM Region based on whether the resource was dispatched for the purpose of maintaining reactive reliability in such transmission zone.

(l) The cost of Reactive Services for the purpose of maintaining reactive reliability in a transmission zone in the PJM Region for each Operating Day shall be allocated and charged to each Market Participant in proportion to its deliveries of energy to load (net of operating Behind The Meter Generation) in such transmission zone, served under Network Transmission Service, in megawatt-hours during that Operating Day, as compared to all such deliveries for all Market Participants in such transmission zone.

(m) Generating units receiving dispatch instructions from the Office of the Interconnection under the expectation of increased actual or reserve reactive shall inform the Office of the Interconnection dispatcher if the requested reactive capability is not achievable. Should the operator of a unit receiving such instructions realize at any time during which said instruction is effective that the unit is not, or likely would not be able to, provide the requested amount of reactive support, the operator shall as soon as practicable inform the Office of the Interconnection dispatcher of the unit's inability, or expected inability, to provide the required reactive support, so that the associated dispatch instruction may be cancelled. PJM Performance Compliance personnel will audit operations after-the-fact to determine whether a unit that has altered its active power output at the request of the Office of the Interconnection has provided the actual reactive support or the reactive reserve capability requested by the Office of the Interconnection. PJM shall utilize data including, but not limited to, historical reactive

performance and stated reactive capability curves in order to make this determination, and may withhold such compensation as described above if reactive support as requested by the Office of the Interconnection was not or could not have been provided.

### **3.2.3C Synchronous Condensing for Post-Contingency Operation.**

(a) Under normal circumstances, PJM operates generation out of merit order to control contingency overloads when the flow on the monitored element for loss of the contingent element (“contingency flow”) exceeds the long-term emergency rating for that facility, typically a 4-hour or 2-hour rating. At times however, and under certain, specific system conditions, PJM does not operate generation out of merit order for certain contingency overloads until the contingency flow on the monitored element exceeds the 30-minute rating for that facility (“post-contingency operation”). In conjunction with such operation, when the contingency flow on such element exceeds the long-term emergency rating, PJM operates synchronous condensers in the areas affected by such constraints, to the extent they are available, to provide greater certainty that such resources will be capable of producing energy in sufficient time to reduce the flow on the monitored element below the normal rating should such contingency occur.

(b) The amount of Synchronized Reserve provided by synchronous condensers associated with post-contingency operation shall be counted as Synchronized Reserve satisfying the PJM Synchronized Reserve requirements. Operators of these generation units shall be notified of such provision, and to the extent a generation unit’s operator indicates that the generation unit is capable of providing Synchronized Reserve, shall be subject to the same requirements contained in Section 3.2.3A regarding provision of Tier 2 Synchronized Reserve. At the end of each Operating Day, to the extent a condenser operated in conjunction with post-contingency operation also provided Synchronized Reserve, a Market Seller shall be credited for providing synchronous condensing in conjunction with post-contingency operation at the request of the Office of the Interconnection, in an amount equal to the higher of (i) the hourly Synchronized Reserve Market Clearing Price for each hour a generation resource provided synchronous condensing multiplied by the amount of Synchronized Reserve provided by the synchronous condenser or (ii) the sum of (A) the generation resource’s hourly cost to provide synchronous condensing, calculated in accordance with the PJM Manuals, (B) the hourly product of the megawatts of energy used to provide synchronous condensing multiplied by the real-time LMP at the generation bus of the generation resource, (C) the generation resource’s start-up cost of providing synchronous condensing, and (D) the unit-specific lost opportunity cost of the generation resource supplying the increment of Synchronized Reserve as determined by the Office of the Interconnection in accordance with procedures specified in the PJM Manuals. To the extent a condenser operated in association with post-contingency constraint control was not also providing Synchronized Reserve, the Market Seller shall be credited only for the generation unit’s cost to condense, as described in (ii) above. The total Synchronized Reserve Obligations of all Load Serving Entities under section 3.2.3A(a) in the zone where these condensers are located shall be reduced by the amount counted as satisfying the PJM Synchronized Reserve requirements. The Synchronized Reserve Obligation of each Load Serving Entity in the zone under section 3.2.3A(a) shall be reduced to the same extent that the costs of such condensers counted as Synchronized Reserve are allocated to such Load Serving Entity pursuant to section (d) below.

(c) The sum of the foregoing credits as specified in section 3.2.3C(b) shall be the cost of synchronous condensers associated with post-contingency operations for the Operating Day and shall be separately determined for each transmission zone in the PJM Region based on whether the resource was dispatched in association with post-contingency operation in such transmission zone.

(d) The cost of synchronous condensers associated with post-contingency operations in a transmission zone in the PJM Region for each Operating Day shall be allocated and charged to each Market Participant in proportion to its deliveries of energy to load (net of operating Behind The Meter Generation) in such transmission zone, served under Network Transmission Service, in megawatt-hours during that Operating Day, as compared to all such deliveries for all Market Participants in such transmission zone.

#### **3.2.4 Transmission Congestion Charges.**

Each Market Buyer shall be assessed Transmission Congestion Charges as specified in Section 5 of this Schedule.

#### **3.2.5 Transmission Loss Charges.**

Each Market Buyer shall be assessed Transmission Loss Charges as specified in Section 5 of this Schedule.

#### **3.2.6 Emergency Energy.**

(a) Market Participants shall be allocated a proportionate share of the net cost of Emergency energy purchased by the Office of the Interconnection. Such allocated share during each hour of such Emergency energy purchase shall be in proportion to the amount of each Market Participant's real-time deviation from its net PJM Interchange in the Day-ahead Energy Market, whenever that deviation increases the Market Participant's spot market purchases or decreases its spot market sales. This deviation shall not include any reduction or suspension of output of pool scheduled resources requested by PJM to manage an Emergency within the PJM Region.

(b) Net revenues in excess of Real-time Prices attributable to sales of energy in connection with Emergencies to other Control Areas shall be credited to Market Participants during each hour of such Emergency energy sale in proportion to the sum of (i) each Market Participant's real-time deviation from its net PJM Interchange in the Day-ahead Energy Market, whenever that deviation increases the Market Participant's spot market purchases or decreases its spot market sales, and (ii) each Market Participant's energy sales from within the PJM Region to entities outside the PJM Region that have been curtailed by PJM.

(c) The net costs or net revenues associated with sales or purchases of hourly energy in connection with a Minimum Generation Emergency in the PJM Region, or in another Control Area, shall be allocated during each hour of such Emergency sale or purchase to each Market

Participant in proportion to the amount of each Market Participant's real-time deviation from its net PJM Interchange in the Day-ahead Market, whenever that deviation increases the Market Participant's spot market sales or decreases its spot market purchases.

### **3.2.7 Billing.**

(a) PJMSettlement shall prepare a billing statement each billing cycle for each Market Buyer in accordance with the charges and credits specified in Sections 3.2.1 through 3.2.6 of this Schedule, and showing the net amount to be paid or received by the Market Buyer. Billing statements shall provide sufficient detail, as specified in the PJM Manuals, to allow verification of the billing amounts and completion of the Market Buyer's internal accounting.

(b) If deliveries to a Market Buyer that has PJM Interchange meters in accordance with Section 14 of the Operating Agreement include amounts delivered for a Market Participant that does not have PJM Interchange meters separate from those of the metered Market Buyer, PJMSettlement shall prepare a separate billing statement for the unmetered Market Participant based on the allocation of deliveries agreed upon between the Market Buyer and the unmetered Market Participant specified by them to the Office of the Interconnection.

***OATT OPEN ACCESS TRANSMISSION TARIFF - OATT VI. ADMINISTRATION AND STUDY OF NEW SERVICE R - OATT ATTACHMENT K – APPENDIX - OATT 7. FINANCIAL TRANSMISSION RIGHTS AUCTIONS - OATT Atch K Appendix 7.4 Allocation of Auction Re***  
**7.4 Allocation of Auction Revenues.**

**7.4.1 Eligibility.**

(a) Annual auction revenues, net of payments to entities selling Financial Transmission Rights into the auction, shall be allocated among holders of Auction Revenue Rights in proportion to, but not more than, the Target Allocation of Auction Revenue Rights Credits for the holder.

(b) Auction Revenue Rights Credits will be calculated based upon the clearing price results of the applicable Annual Financial Transmission Rights auction.

(c) Monthly and Balance of Planning Period FTR auction revenues, net of payments to entities selling Financial Transmission Rights into the auction, shall be allocated according to the following priority schedule:

(i) To stage 1 and 2 Auction Revenue Rights holders in accordance with section 7.4.4 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)(ii) of this section;

(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 ARRs 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 fourth calendar day following the initial publication. Should any of the above deadlines pass without the associated action on the part of the Office of the Interconnection, 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 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 subsection (f) of this section) may request Auction Revenue Rights based on the megawatts of firm service provided between the receipt and delivery points as to which the Transmission Customer had Point-to-Point Transmission Service during the historical reference year. The historical reference year for all Zones shall be 1998, except that the historical reference year shall be: 2002 for the Allegheny Power and Rockland Electric Zones; 2004 for the AEP East, The Dayton Power & Light Company and Commonwealth Edison Company Zones; 2005 for the Virginia Electric and Power Company and Duquesne Light Company Zones; 2011 for the ATSI Zone; **2012 for the DEOK Zone**; and the Office of the Interconnection shall specify a historical reference year for a new PJM zone corresponding to the year that the zone is integrated into the PJM Interchange Energy Market. For stage 1, the Office of the Interconnection shall determine a set of eligible historical generation resources for each Zone based on the historical reference year and assign a pro rata

amount of megawatt capability from each historical generation resource to each Network Service User in the Zone based on its proportion of peak load in the Zone. Auction Revenue Rights shall be allocated to each Network Service User in a Zone from each historical generation resource in a number of megawatts equal to or less than the amount of the historical generation resource that has been assigned to the Network Service User. Each Auction Revenue Right allocated to a Network Service User shall be to the aggregate load buses of such Network Service User in a Zone or, with respect to Non-Zone Network Load, to the border of the PJM Region. In stage 1A of the allocation process, the sum of each Network Service User's allocated Auction Revenue Rights for a Zone must be equal to or less than the Network Service User's pro-rata share of the Zonal Base Load for that Zone.

Each Network Service User's pro-rata share of the Zonal Base Load shall be based on its proportion of peak load in the Zone. The sum of each Network Service User's Auction Revenue Rights for Non-Zone Network Load must be equal to or less than fifty percent (50%) of the Network Service User's transmission responsibility for Non-Zone Network Load as determined under Section 34.1 of the Tariff. The sum of each Qualifying Transmission Customer's Auction Revenue Rights must be equal to or less than fifty percent (50%) of the megawatts of firm service provided between the receipt and delivery points as to which the Transmission Customer had Point-to-Point Transmission Service during the historical reference year. If stage 1A Auction Revenue Rights are adversely affected by any new or revised statute, regulation or rule issued by an entity with jurisdiction over the Office of the Interconnection, the Office of the Interconnection shall, to the greatest extent practicable, and consistent with any such statute, regulation or rule change, preserve the priority of the stage 1A Auction Revenue Rights for a minimum period covering the ten (10) consecutive PJM Planning Periods ("Stage 1A Transition Period") immediately following the implementation of any such changes, provided that the terms of all stage 1A Auction Revenue Rights in effect at the time the Office of the Interconnection implements the Stage 1A Transition Period shall be reduced by one PJM Planning Period during each annual stage 1A Auction Revenue Rights allocation performed during the Stage 1A Transition Period so that all stage 1A Auction Revenue Rights that were effective at the start of the Stage 1A Transition Period expire at the end of that period.

(c) In stage 1B of the allocation process each Network Service User may request Auction Revenue Rights from the subset of the historical generation resources determined pursuant to Section 7.4.2(b) that were not allocated in stage 1A of the allocation process, and each Qualifying Transmission Customer may request Auction Revenue Rights based on the megawatts of firm service determined pursuant to Section 7.4.2(b) that were not allocated in stage 1A of the allocation process. In stage 1B of the allocation process, the sum of each Network Service User's allocated Auction Revenue Rights request for a Zone must be equal to or less than the difference between the Network Service User's peak load for that Zone as determined pursuant to Section 34.1 of the Tariff and the sum of its Auction Revenue Rights Allocation from stage 1A of the allocation process for that Zone. The sum of each Network Service User's Auction Revenue Rights for Non-Zone Network Load must be equal to or less than the difference between one hundred percent (100%) of the Network Service User's transmission responsibility for Non-Zone Network Load as determined pursuant to Section 7.4.2(b) and the sum of its Auction Revenue Rights Allocation from stage 1A of the allocation process for that Zone. The sum of each Qualifying Transmission Customer's Auction Revenue

Rights must be equal to or less than the difference between one hundred percent (100%) of the megawatts of firm service as determined pursuant to Section 7.4.2(b) and the sum of its Auction Revenue Rights Allocation from stage 1A of the allocation process for that Zone.

(d) In stage 2 of the allocation process, the Office of the Interconnection shall conduct an iterative allocation process that consists of three rounds with up to one third of the remaining system Auction Revenue Rights capability allocated in each round. Each round of this allocation process will be conducted sequentially with Network Service Users and Transmission Customers being given the opportunity to view results of each allocation round prior to submission of Auction Revenue Right requests into the subsequent round. In each round, each Network Service User shall designate a subset of buses from which Auction Revenue Rights will be sourced. Valid Auction Revenue Rights source buses include only Zones, generators, hubs and external Interface Pricing Points. The Network Service User shall specify the amount of Auction Revenue Rights requested from each source bus. Each Auction Revenue Right shall be sunk to the aggregate load buses of the Network Service User in a Zone or, with respect to Non-Zone Network Load, to the border of the PJM Region. The sum of each Network Service User's Auction Revenue Rights requests in each stage 2 allocation round for each Zone must be equal to or less than one third of the difference between the Network Service User's peak load for that Zone as determined pursuant to Section 7.4.2(b) and the sum of its Auction Revenue Right Allocation from stages 1A and 1B of the allocation process for that Zone. The stage 2 allocation to Transmission Customers shall be as set forth in subsection (f)

(e) On a daily basis within the annual Financial Transmission Rights auction period, a proportionate share of Network Service User's Auction Revenue Rights for each Zone are reallocated as Network Load changes from one Network Service User to another within that Zone.

(f) A Qualifying Transmission Customer shall be any customer with an agreement for Long-Term Point-to-Point Transmission Service, as defined in the PJM Tariff, used to deliver energy from a designated Network Resource located either outside or within the PJM Region to load located either outside or within the PJM Region, and that was confirmed and in effect during the historical reference year for the Zone in which the resource is located. Such an agreement shall allow the Qualifying Transmission Customer to participate in the first stage of the allocation, but only if such agreement has remained in effect continuously following the historical reference year and is to continue in effect for the period addressed by the allocation, either by its term or by renewal or rollover. The megawatts of Auction Revenue Rights the Qualifying Transmission Customer may request in the first stage of the allocation may not exceed the lesser of: (i) the megawatts of firm service between the designated Network Resource and the load delivery point (or applicable point at the border of the PJM Region for load located outside such region) under contract during the historical reference year; and (ii) the megawatts of firm service presently under contract between such historical reference year receipt and delivery points.

A Qualifying Transmission Customer may request Auction Revenue Rights in either or both of the stage 1 or 2 of the allocation without regard to whether such customer is subject to a charge for Firm Point-to-Point Transmission Service under Section 1 of Schedule 7 of the PJM Tariff

(“Base Transmission Charge”). A Transmission Customer that is not a Qualifying Transmission Customer may request Auction Revenue Rights in stage 2 of the allocation process, but only if it is subject to a Base Transmission Charge. The Auction Revenue Rights that such a Transmission Customer may request in each round of stage 2 of the allocation process must be equal to or less than one third of the number of megawatts equal to the megawatts of firm service being provided between the receipt and delivery points as to which the Transmission Customer currently has Firm Point-to-Point Transmission Service. The source point of the Auction Revenue Rights must be the designated source point that is specified in the Transmission Service Request and the sink point of the Auction Revenue Rights must be the designated sink point that is specified in the Transmission Service Request. A Qualifying Transmission Customer may request Auction Revenue Rights in each round of stage 2 of the allocation process in a number of megawatts equal to or less than one third of the difference between the number of megawatts of firm service being provided between the receipt and delivery points as to which the Transmission Customer currently has Firm Point-to-Point Transmission Service and its Auction Revenue Right Allocation from stage 1 of the allocation process.

(g) PJM Transmission Customers that serve load in the Midwest ISO may participate in stage 1 of the allocation to the extent permitted by, and in accordance with, this Section 7.4.2 and other applicable provisions of this Schedule 1. For service from non-historic sources, these customers may participate in stage 2, but in no event can they receive an allocation of ARR/FTRs from PJM greater than their firm service to loads in MISO.

(h) Subject to subsection (i) of this section, all Auction Revenue Rights must be simultaneously feasible. If all Auction Revenue Right requests made during the annual allocation process are not feasible then Auction Revenue Rights are prorated and allocated in proportion to the megawatt level requested and in inverse proportion to the effect on the binding constraints.

(i) If any Auction Revenue Right requests made during stage 1A of the annual allocation process are not feasible, then PJM shall increase the capability limits of the binding constraints that would have rendered the Auction Revenue Rights infeasible to the extent necessary in order to allocate such Auction Revenue Rights without their being infeasible, and such increased limits shall be included in all modeling used for subsequent Auction Revenue Rights and Financial Transmission Rights allocations and auctions for the Planning Year; provided that, the foregoing notwithstanding, this subsection (i) shall not apply if the infeasibility is caused by extraordinary circumstances. For the purposes of this subsection, extraordinary circumstances shall mean an event of force majeure that reduces the capability of existing or planned transmission facilities and such reduction in capability is the cause of the infeasibility of such Auction Revenue Rights. Extraordinary circumstances do not include those system conditions and assumptions modeled in simultaneous feasibility analyses conducted pursuant to section 7.5 of Schedule 1 of this Agreement. If PJM allocates stage 1A Auction Revenue Rights as a result of this subsection (i) that would not otherwise have been feasible, then PJM shall notify Members and post on its web site (a) the aggregate megawatt quantities, by sources and sinks, of such Auction Revenue Rights and (b) any increases in capability limits used to allocate such Auction Revenue Rights.

(j) Long-Term Firm Point-to-Point Transmission Service customers that are not Qualifying Transmission Customers and Network Service Users serving Non-Zone Network Load may participate in stage 1 of the annual allocation of Auction Revenue Rights pursuant to Section 7.4.2(a)-(c) of Schedule 1 of this Agreement, subject to the following conditions:

i. The relevant Transmission Service shall be used to deliver energy from a designated Network Resource located either outside or within the PJM Region to load located outside the PJM Region.

ii. To be eligible to participate in stage 1A of the annual Auction Revenue Rights allocation: 1) the relevant Transmission Service shall remain in effect for the stage 1A period addressed by the allocation; and 2) the control area in which the external load is located has similar rules for load external to the relevant control area.

iii. Source points for stage 1 requests authorized pursuant to this subsection 7.4.2(j) shall be limited to: 1) generation resources owned by the LSE serving the load located outside the PJM Region; or 2) generation resources subject to a bona fide firm energy and capacity supply contract executed by the LSE to meet its load obligations, provided that such contract remains in force and effect for a minimum term of ten (10) years from the first effective Planning Period that follows the initial stage 1 request.

iv. For Long-Term Firm Point-to-Point Transmission customers requesting stage 1 Auction Revenue Rights pursuant to this subsection 7.4.2(j), the generation resource(s) designated as source points may include any portion of the generating capacity of such resource(s) that is not, at the time of the request, already identified as a Capacity Resource.

v. For Network Service Users requesting stage 1 Auction Revenue Rights pursuant to this subsection 7.4.2(j), at the time of the request, the generation resource(s) designated as source points must either be committed into PJM's RPM market or be designated as part of the entity's FRR Capacity Plan for the purpose of serving the capacity requirement of the external load.

vi. All stage 1 source point requests made pursuant to this subsection 7.4.2(j) shall not increase the megawatt flow on facilities binding in the relevant annual Auction Revenue Rights allocation or in future stage 1A allocations and shall not cause megawatt flow to exceed applicable ratings on any other facilities in either set of conditions in the simultaneous feasibility test prescribed in subsection (vii) of this subsection 7.4.2(j).

vii. To ensure the conditions of subsection (vi) of this subsection 7.4.2(j) are met, a simultaneous feasibility test shall be conducted: 1) based on next allocation year with all existing stage 1 and stage 2 Auction Revenue Rights modeled as fixed injection-withdrawal pairs; and 2) based on 10 year allocation model with all eligible stage 1A Auction Revenue Rights for each year including base load growth for each year.

viii. Requests for stage 1 Auction Revenue Rights made pursuant to this subsection 7.4.2(j) that are received by PJM by November 1st of a Planning Period shall be

processed for the next annual Auction Revenue Rights allocation. Requests received after November 1st shall not be considered for the upcoming annual Auction Revenue Rights allocation. If all requests are not simultaneously feasible then requests will be awarded on a pro-rata basis.

ix. Requests for new or alternate stage 1 resources made by Network Service Users and external LSEs that are received by November 1st shall be evaluated at the same time. If all requests are not simultaneously feasible then requests will be awarded on a pro-rata basis.

x. Stage 1 Auction Revenue Rights source points that qualify pursuant to this subsection 7.4.2(j) shall be eligible as stage 1 Auction Revenue Rights source points in subsequent annual Auction Revenue Rights allocations.

xi. Long-Term Firm Point-to-Point Transmission customers requesting stage 1 Auction Revenue Rights pursuant to this subsection 7.4.2(j) may request Auction Revenue Rights megawatts up to the lesser of: 1) the customer's Long-Term Firm Point-to-Point Transmission service contract megawatt amount; or 2) the customer's Firm Transmission Withdrawal Rights.

xii. Network Service Users requesting stage 1 Auction Revenue Rights pursuant to this subsection 7.4.2(j) may request Auction Revenue Rights megawatts up to the lesser of: 1) the customer's network service peak load; or 2) the customer's Firm Transmission Withdrawal Rights.

xiii. Stage 1A Auction Revenue Rights requests made pursuant to this subsection 7.4.2(j) shall not exceed 50% of the maximum allowed megawatts authorized by subsections (xi) and (xii) of this subsection 7.4.2(j).

xiv. Stage 1B Auction Revenue Rights requests made pursuant to this subsection 7.4.2(j) shall not exceed the difference between the maximum allowed megawatts authorized by subsections (xi) and (xii) of this subsection 7.4.2(j) and the Auction Revenue Rights megawatts granted in stage 1A.

xv. In each round of Stage 2 of an annual allocation of Auction Revenue Rights megawatt requests made pursuant to this subsection 7.4.2(j) shall be equal to or less than one third of the difference between the maximum allowed megawatts authorized by subsections (xi) and (xii) of this subsection 7.4.2(j) and the Auction Revenue Rights megawatt amount allocated in stage 1.

xvi. Stage 1 Auction Revenue Rights sources established pursuant to this subsection 7.4.2(j) and the associated Auction Revenue Rights megawatt amount may be replaced with an alternate resource pursuant to the process established in Section 7.7 of Schedule 1 of this Agreement.

#### **7.4.2a Bilateral Transfers of Auction Revenue Rights**

(a) Market Participants may enter into bilateral agreements to transfer Auction Revenue Rights or the right to receive an allocation of Auction Revenue Rights to a third party. Such bilateral transfers shall be reported to the Office of the Interconnection in accordance with this Schedule and pursuant to the LLC's rules related to its eFTR tools.

(b) For purposes of clarity, with respect to all bilateral transfers of Auction Revenue Rights or the right to receive an allocation of Auction Revenue Rights, the rights and obligations to the Auction Revenue Rights or the right to receive an allocation of Auction Revenue Rights that are the subject of such a bilateral transfer shall pass to the buyer under the bilateral contract subject to the provisions of this Schedule. In no event, shall the purchase and sale of an Auction Revenue Right or the right to receive an allocation of Auction Revenue Rights pursuant to a bilateral transfer constitute a transaction with PJMSettlement or a transaction in any auction under this Schedule.

(c) Consent of the Office of the Interconnection shall be required for a seller to transfer to a buyer any obligations associated with the Auction Revenue Rights or the right to receive an allocation of Auction Revenue Rights. Such consent shall be based upon the Office of the Interconnection's assessment of the buyer's ability to perform the obligations transferred in the bilateral contract. If consent for a transfer is not provided by the Office of the Interconnection, the title to the Auction Revenue Rights or the right to receive an allocation of Auction Revenue Rights shall not transfer to the third party and the holder of the Auction Revenue Rights or the right to receive an allocation of Auction Revenue Rights shall continue to receive all rights attributable to the Auction Revenue Rights or the right to receive an allocation of Auction Revenue Rights and remain subject to all credit requirements and obligations associated with the Auction Revenue Rights or the right to receive an allocation of Auction Revenue Rights.

(d) A seller under such a bilateral contract shall guarantee and indemnify the Office of the Interconnection, PJMSettlement, and the Members for the buyer's obligation to pay any charges associated with the Auction Revenue Right and for which payment is not made to PJMSettlement by the buyer under such a bilateral transfer.

(e) All payments and related charges associated with such a bilateral contract shall be arranged between the parties to such bilateral contract and shall not be billed or settled by PJMSettlement or the Office of the Interconnection. 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 such a bilateral contract reported to the Office of the Interconnection under this Schedule.

(f) All claims regarding a default of a buyer to a seller under such a bilateral contract shall be resolved solely between the buyer and the seller.

#### **7.4.3 Target Allocation of Auction Revenue Right Credits.**

(a) A Target Allocation of Auction Revenue Right Credits for each entity holding an Auction Revenue Right shall be determined for each Auction Revenue Right. After each round

of the annual Financial Transmission Right auction, each Auction Revenue Right shall be divided by four and multiplied by the price differences for the receipt and delivery points associated with the Auction Revenue Right, calculated as the Locational Marginal Price at the delivery points(s) minus the Locational Marginal Price at the receipt point(s), where the price for the receipt and delivery point is determined by the clearing prices of each round of the annual Financial Transmission Right auction. The daily total Target Allocation for an entity holding the Auction Revenue Rights shall be the sum of the daily Target Allocations associated with all of the entity's Auction Revenue Rights.

(b) A Target Allocation of Residual Auction Revenue Rights Credits for each entity allocated Residual Auction Revenue Rights pursuant to section 7.9 of Schedule 1 of this Agreement shall be determined on a monthly basis for each month in a Planning Period beginning with the month the Residual Auction Revenue Right(s) becomes effective through the end of the relevant Planning Period. The Target Allocation for Residual Auction Revenue Rights Credits shall be equal to megawatt amount of the Residual Auction Revenue Rights multiplied by the LMP differential between the source and sink nodes of the corresponding FTR obligations in each prompt-month FTR auction that occurs from the effective date of the Residual Auction Revenue Rights through the end of the relevant Planning Period.

#### **7.4.4 Calculation of Auction Revenue Right Credits.**

(a) Each day, the total of all the daily Target Allocations determined as specified above in Section 7.4.3 plus any additional Auction Revenue Rights Target Allocations applicable for that day shall be compared to the total revenues of all applicable monthly Financial Transmission Rights auction(s) (divided by the number of days in the month) plus the total revenues of the annual Financial Transmission Rights auction (divided by the number of days in the Planning Period). If the total of the Target Allocations is less than the total auction revenues, the Auction Revenue Right Credit for each entity holding an Auction Revenue Right shall be equal to its Target Allocation. All remaining funds shall be distributed as Excess Congestion Charges pursuant to Section 5.2.5.

(b) If the total of the Target Allocations is greater than the total auction revenues, each holder of Auction Revenue Rights shall be assigned a share of the total auction revenues in proportion to its Auction Revenue Rights Target Allocations for Auction Revenue Rights which have a positive Target Allocation value. Auction Revenue Rights which have a negative Target Allocation value are assigned the full Target Allocation value as a negative Auction Revenue Right Credit.

(c) At the end of a Planning Period, if all Auction Revenue Right holders did not receive Auction Revenue Right Credits equal to their Target Allocations, PJMSettlement shall assess a charge equal to the difference between the Auction Revenue Right Credit Target Allocations for all revenue deficient Auction Revenue Rights and the actual Auction Revenue Right Credits allocated to those Auction Revenue Right holders. The aggregate charge for a Planning Period assessed pursuant to this section, if any, shall be added to the aggregate charge for a Planning Period assessed pursuant to section 5.2.5(c) of Schedule 1 of this Agreement and collected pursuant to section 5.2.5(c) of Schedule 1 of this Agreement and distributed to the

Auction Revenue Right holders that did not receive Auction Revenue Right Credits equal to their Target Allocation.

**ATTACHMENT L**  
**List of Transmission Owners**

Allegheny Electric Cooperative, Inc.  
*American Transmission Systems, Incorporated*  
Atlantic City Electric Company  
Baltimore Gas and Electric Company  
NAEA Rock Springs, LLC  
Delmarva Power & Light Company  
Duke Energy Ohio, Inc., and Duke Energy Kentucky, Inc.  
Jersey Central Power & Light Company  
Metropolitan Edison Company  
Neptune Regional Transmission System, LLC  
Old Dominion Electric Cooperative  
Pennsylvania Electric Company  
PECO Energy Company  
Pennsylvania Power & Light Company  
Potomac Electric Power Company  
Public Service Electric and Gas Company  
Rockland Electric Company  
Trans-Allegheny Interstate Line Company  
UGI Utilities, Inc.  
Monongahela Power Company, The Potomac Edison Company, and West Penn Power  
Company, all doing business as Allegheny Power  
Commonwealth Edison Company and Commonwealth Edison Company of Indiana, Inc.  
The Dayton Power and Light Company  
AEP East Operating Companies (Appalachian Power Company, Columbus Southern Power  
Company, Indiana Michigan Power Company, Kentucky Power Company, Kingsport Power  
Company, Ohio Power Company and Wheeling Power Company)  
Duquesne Light Company  
Virginia Electric and Power Company  
Linden VFT, LLC  
City of Cleveland, Department of Public Utilities, Division of Cleveland Public Power

**5.10 Auction Clearing Requirements**

The Office of the Interconnection shall clear each Base Residual Auction and Incremental Auction for a Delivery Year in accordance with the following:

a) Variable Resource Requirement Curve

The Office of the Interconnection shall determine Variable Resource Requirement Curves for the PJM Region and for such Locational Deliverability Areas as determined appropriate in accordance with subsection (a)(iii) for such Delivery Year to establish the level of Capacity Resources that will provide an acceptable level of reliability consistent with the Reliability Principles and Standards. It is recognized that the variable resource requirement reflected in the Variable Resource Requirement Curve can result in an optimized auction clearing in which the level of Capacity Resources committed for a Delivery Year exceeds the PJM Region Reliability Requirement (less the Forecast RTO ILR Obligation for Delivery Years through May 31, 2012, or less the Short-Term Resource Procurement Target for Delivery Years thereafter) or Locational Deliverability Area Reliability Requirement (less the Forecast Zonal ILR Obligation for Delivery Years through May 31, 2012, or less the Short-Term Resource Procurement Target for Delivery Years thereafter for the Zones associated with such LDA) for such Delivery Year. For any auction, the Updated Forecast Peak Load, and Short-Term Resource Procurement Target applicable to such auction, shall be used.

i) Methodology to Establish the Variable Resource Requirement Curve

Prior to the Base Residual Auction, in accordance with the schedule in the PJM Manuals, the Office of the Interconnection shall establish the Variable Resource Requirement Curve for the PJM Region as follows:

- Each Variable Resource Requirement Curve shall be plotted on a graph on which Unforced Capacity is on the x-axis and price is on the y-axis;
- The Variable Resource Requirement Curve for the PJM Region shall be plotted by first combining (i) a horizontal line from the y-axis to point (1), (ii) a straight line connecting points (1) and (2), (iii) a straight line connecting points (2) and (3), and (iv) a vertical line from point (3) to the x-axis, where:
  - For point (1), price equals:  $[1.5 \text{ times (the Cost of New Entry minus the Net Energy and Ancillary Service Revenue Offset)}]$  divided by  $(\text{one minus the pool-wide average EFORD})$  and Unforced Capacity equals:  $[\text{the PJM Region Reliability Requirement multiplied by } (100\% \text{ plus the approved PJM Region Installed Reserve Margin ("IRM")\% minus } 3\%) \text{ divided by } (100\% \text{ plus IRM\%)}]$  minus the Forecast RTO ILR Obligation for Delivery

Years through May 31, 2012 or less the Short-Term Resource Procurement Target for Delivery Years thereafter;

- For point (2), price equals: (the Cost of New Entry minus the Net Energy and Ancillary Service Revenue Offset) divided by (one minus the pool-wide average EFORD) and Unforced Capacity equals: [the PJM Region Reliability Requirement multiplied by (100% plus IRM% plus 1%) divided by (100% plus IRM%)] minus the Forecast RTO ILR Obligation for Delivery Years through May 31, 2012 or less the Short-Term Resource Procurement Target for Delivery Years thereafter; and
- For point (3), price equals [0.2 times (the Cost of New Entry minus the Net Energy and Ancillary Service Revenue Offset)] divided by (one minus the pool-wide average EFORD) and Unforced Capacity equals: [the PJM Region Reliability Requirement multiplied by (100% plus IRM% plus 5%) divided by (100% plus IRM%)] minus the Forecast RTO ILR Obligation for Delivery Years through May 31, 2012 or less the Short-Term Resource Procurement Target for Delivery Years thereafter;

ii) For any Delivery Year, the Office of the Interconnection shall establish a separate Variable Resource Requirement Curve for each LDA for which:

- A. the Capacity Emergency Transfer Limit is less than 1.15 times the Capacity Emergency Transfer Objective, as determined by the Office of the Interconnection in accordance with NERC and Applicable Regional Reliability Council guidelines; or
- B. such LDA had a Locational Price Adder in any one or more of the three immediately preceding Base Residual Auctions; or
- C. such LDA is determined in a preliminary analysis by the Office of the Interconnection to be likely to have a Locational Price Adder, based on historic offer price levels; provided however that for the Base Residual Auction conducted for the Delivery Year commencing on June 1, 2012, the EMAAC, SWMAAC and MAAC LDAs shall employ separate Variable Resource Requirement Curves regardless of the outcome of the above three tests; and provided further that the Office of the Interconnection may establish a separate Variable Resource Requirement Curve for an LDA not otherwise qualifying under the above three tests if it finds that such is required to achieve an acceptable level of reliability consistent with the Reliability Principles and Standards, in which case the Office of the Interconnection shall post such finding, such LDA, and such Variable Resource Requirement Curve on its internet site no later than the March 31 last preceding the Base Residual Auction for such Delivery Year. The same process as set forth in subsection (a)(i) shall be used to

establish the Variable Resource Requirement Curve for any such LDA, except that the Locational Deliverability Area Reliability Requirement for such LDA shall be substituted for the PJM Region Reliability Requirement and the LDA Short-Term Resource Procurement Target shall be substituted for the PJM Region Short-Term Resource Procurement Target. For purposes of calculating the Capacity Emergency Transfer Limit under this section, all generation resources located in the PJM Region that are, or that qualify to become, Capacity Resources, shall be modeled at their full capacity rating, regardless of the amount of capacity cleared from such resource for the immediately preceding Delivery Year.

iii) Procedure for ongoing review of Variable Resource Requirement Curve shape.

Beginning no later than for the Delivery Year that commences June 1, 2015, and continuing no later than for every third Delivery Year thereafter, the Office of the Interconnection shall perform a review of the shape of the Variable Resource Requirement Curve, as established by the requirements of the foregoing subsection. Such analysis shall be based on simulation of market conditions to quantify the ability of the market to invest in new Capacity Resources and to meet the applicable reliability requirements on a probabilistic basis. Based on the results of such review, PJM shall prepare a recommendation to either modify or retain the existing Variable Resource Requirement Curve shape. The Office of the Interconnection shall post the recommendation and shall review the recommendation through the stakeholder process to solicit stakeholder input. If a modification of the Variable Resource Requirement Curve shape is recommended, the following process shall be followed:

- A) If the Office of the Interconnection determines that the Variable Resource Requirement Curve shape should be modified, Staff of the Office of the Interconnection shall propose a new Variable Resource Requirement Curve shape on or before September 1, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values would be applied.
- B) The PJM Members shall review the proposed modification to the Variable Resource Requirement Curve shape.
- C) The PJM Members shall either vote to endorse the proposed modification, to propose alternate modifications or to recommend no modification by October 31, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values would be applied.
- D) The PJM Board of Managers shall consider a proposed modification to the Variable Resource Requirement Curve shape, and the Office of the Interconnection shall file any approved modified Variable Resource Requirement Curve shape with the FERC by December 1, prior to the conduct of the Base Residual

Auction for the first Delivery Year in which the new values would be applied.

iv) Cost of New Entry

A) For the Delivery Year commencing on June 1, 2012, and continuing thereafter unless and until changed pursuant to subsection (B) below, the Cost of New Entry for the PJM Region shall be \$112,868 per MW-year. The Cost of New Entry for each LDA shall be determined based upon the Transmission Owner zones that comprise such LDA, as provided in the table below. If an LDA combines transmission zones with differing Cost of New Entry values, the lowest such value shall be used.

<b>Geographic Location Within the PJM Region Encompassing These Zones</b>	<b>Cost of New Entry in \$/MW-Year</b>
PS, JCP&L, AE, PECO, DPL, RECO (“CONE Area 1”)	122,040
BGE, PEPSCO (“CONE Area 2”)	112,868
AEP, Dayton, ComEd, APS, DQL, ATSI, <b>DEOK</b> (“CONE Area 3”)	115,479
PPL, MetEd, Penelec (“CONE Area 4”)	112,868
Dominion (“CONE Area 5”)	112,868

B) Beginning with the 2013-2014 Delivery Year, the CONE shall be adjusted to reflect changes in generating plant construction costs based on changes in the Applicable H-W Index, in accordance with the following:

(1) The Applicable H-W Index for any Delivery Year shall be the most recently published twelve-month change, at the time CONE values are required to be posted for the Base Residual Auction for such Delivery Year, in the Total Other Production Plant Index shown in the Handy-Whitman Index of Public Utility Construction Costs for the North Atlantic Region for purposes of CONE Areas 1, 2, and 4, for the North Central Region for purposes of CONE Area 3, and for the South Atlantic Region for purposes of CONE Area 5.

(2) The CONE in a CONE Area shall be adjusted prior to the Base Residual Auction for each Delivery Year by applying the Applicable H-W Index for such CONE Area to the Benchmark CONE for such CONE Area.

(3) The Benchmark CONE for a CONE Area shall be the CONE used for such CONE Area in the Base Residual Auction for the prior Delivery Year.

(4) Notwithstanding the foregoing, CONE values for any CONE Area for any Delivery Year shall be subject to amendment pursuant to appropriate filings with FERC under the Federal Power Act, including, without limitation, any filings resulting from the process described in section 5.10(a)(vii)(C) or any filing to establish new or revised CONE Areas.

v) Net Energy and Ancillary Services Revenue Offset

A) The Office of the Interconnection shall determine the Net Energy and Ancillary Services Revenue Offset each year for the PJM Region as (A) the annual average of the revenues that would have been received by the Reference Resource during a period of three consecutive calendar years preceding the time of the determination, based on (1) the heat rate and other characteristics of such Reference Resource; (2) fuel prices reported during such period at an appropriate pricing point for the PJM Region with a fuel transmission adder appropriate for such region, as set forth in the PJM Manuals, assumed variable operation and maintenance expenses for such resource of \$6.47 per MWh, and actual PJM hourly average Locational Marginal Prices recorded in the PJM Region during such period; and (3) an assumption that the Reference Resource would be dispatched on a Peak-Hour Dispatch basis; plus (B) ancillary service revenues of \$2,199 per MW-year.

B) The Office of the Interconnection also shall determine a Net Energy and Ancillary Market Revenue Offset each year for each sub-region of the PJM Region for which the Cost of New Entry is determined, as identified above, using the same procedures and methods as set forth in the previous subsection; provided, however, that: (1) the average hourly LMPs for the transmission zone in which such resource was assumed to be installed for purposes of the CONE estimate (as specified in the PJM Manuals) shall be used in place of the PJM Region average hourly LMPs; (2) if such sub-region was not integrated into the PJM Region for the entire applicable period, then the offset shall be calculated using only those whole calendar years during which the sub-region was integrated; and (3) a posted fuel pricing point in such sub-region, if available, and (if such pricing point is not available) a fuel transmission adder appropriate to each assumed Cost of New Entry location from an appropriate PJM Region pricing point shall be used for each such sub-region.

vi) Adjustment to Net Energy and Ancillary Services Revenue Offset

Beginning with the Base Residual Auction scheduled for May 2010, the Net Energy and Ancillary Services Revenue Offset for a CONE Area shall be adjusted following any Delivery Year during which Scarcity Pricing was effective in such CONE Area pursuant to the Scarcity Pricing provisions of section 6A of Schedule 1 to the PJM Operating Agreement. Following

each Delivery Year, the Scarcity Pricing revenues the Reference Resource in each CONE Area would have received during such Delivery Year shall be calculated based on the assumed heat rate and other characteristics of the Reference Resource, assumed Peak-Hour Dispatch, and the actual locational marginal prices and actual fuel prices during the Delivery Year for the applicable location, which shall be the transmission zone in which such resource was assumed to be installed for purposes of the estimate of CONE applicable to such CONE Area. The Scarcity Pricing revenues so determined shall be subtracted from the Net CONE otherwise calculated for such CONE Area for use in the Base Residual Auction next occurring after the Delivery Year in which Scarcity Pricing was effective in such CONE Area.

vii) Process for Establishing Parameters of Variable Resource Requirement Curve

- A) The parameters of the Variable Resource Requirement Curve will be established prior to the conduct of the Base Residual Auction for a Delivery Year and will be used for such Base Residual Auction.
- B) The Office of the Interconnection shall determine the PJM Region Reliability Requirement and the Locational Deliverability Area Reliability Requirement for each Locational Deliverability Area for which a Variable Resource Requirement Curve has been established for such Base Residual Auction on or before February 1, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values will be applied, in accordance with the Reliability Assurance Agreement.
- C) Beginning no later than for the Delivery Year that commences June 1, 2015, and continuing no later than for every third Delivery Year thereafter, the Office of the Interconnection shall review the calculation of the Cost of New Entry for each CONE Area.
  - 1) If the Office of the Interconnection determines that the Cost of New Entry values should be modified, the Staff of the Office of the Interconnection shall propose new Cost of New Entry values on or before September 1, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values would be applied.
  - 2) The PJM Members shall review the proposed values.
  - 3) The PJM Members shall either vote to endorse the proposed values or propose alternate values by October 31, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values would be applied.

- 4) The PJM Board of Managers shall consider Cost of New Entry values, and the Office of the Interconnection shall file any approved modified Cost of New Entry values with the FERC by December 1, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values would be applied.
- D) Beginning no later than for the Delivery Year that commences June 1, 2015, and continuing no later than for every third Delivery Year thereafter, the Office of the Interconnection shall review the methodology set forth in this Attachment for determining the Net Energy and Ancillary Services Revenue Offset for the PJM Region and for each Zone.
- 1) If the Office of the Interconnection determines that the Net Energy and Ancillary Services Revenue Offset methodology should be modified, Staff of the Office of the Interconnection shall propose a new Net Energy and Ancillary Services Revenue Offset methodology on or before September 1, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new methodology would be applied.
  - 2) The PJM Members shall review the proposed methodology.
  - 3) The PJM Members shall either vote to endorse the proposed methodology or propose an alternate methodology by October 31, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new methodology would be applied.
  - 4) The PJM Board of Managers shall consider the Net Revenue Offset methodology, and the Office of the Interconnection shall file any approved modified Net Energy and Ancillary Services Revenue Offset values with the FERC by December 1, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values would be applied.

b) Locational Requirements

The Office of Interconnection shall establish locational requirements prior to the Base Residual Auction to quantify the amount of Unforced Capacity that must be committed in each Locational Deliverability Area, in accordance with the PJM Reliability Assurance Agreement.

c) Minimum Annual Resource Requirements

Prior to the Base Residual Auction and each Incremental Auction for each Delivery Year, beginning with the Delivery Year that starts on June 1, 2014, the Office of the Interconnection shall establish the Minimum Annual Resource Requirement and the Minimum Extended Summer Resource Requirement for the PJM Region and for each Locational Deliverability Area for which the Office of the Interconnection is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for such Delivery Year.

d) Preliminary PJM Region Peak Load Forecast for the Delivery Year

The Office of the Interconnection shall establish the Preliminary PJM Region Load Forecast for the Delivery Year in accordance with the PJM Manuals by February 1, prior to the conduct of the Base Residual Auction for such Delivery Year.

e) Updated PJM Region Peak Load Forecasts for Incremental Auctions

The Office of the Interconnection shall establish the updated PJM Region Peak Load Forecast for a Delivery Year in accordance with the PJM Manuals by February 1, prior to the conduct of the First, Second, and Third Incremental Auction for such Delivery Year.

**3.2 Market Buyers.**

**3.2.1 Spot Market Energy Charges.**

(a) The Office of the Interconnection shall calculate System Energy Prices in the form of Day-ahead System Energy Prices and Real-time System Energy Prices for the PJM Region, in accordance with Section 2 of this Schedule.

(b) Market Buyers shall be charged for all load (net of Behind The Meter Generation expected to be operating, but not to be less than zero) scheduled to be served from the PJM Interchange Energy Market in the Day-ahead Energy Market at the Day-ahead System Energy Price.

(c) Generating Market Buyers shall be paid for all energy scheduled to be delivered to the PJM Interchange Energy Market in the Day-ahead Energy Market at the Day-ahead System Energy Price.

(d) At the end of each hour during an Operating Day, the Office of the Interconnection shall calculate the total amount of net hourly PJM Interchange for each Market Buyer, including Generating Market Buyers, in accordance with the PJM Manuals. For Internal Market Buyers that are Load Serving Entities or purchasing on behalf of Load Serving Entities, this calculation shall include determination of the net energy flows from: (i) tie lines; (ii) any generation resource the output of which is controlled by the Market Buyer but delivered to it over another entity's Transmission Facilities; (iii) any generation resource the output of which is controlled by another entity but which is directly interconnected with the Market Buyer's transmission system; (iv) deliveries pursuant to bilateral energy sales; (v) receipts pursuant to bilateral energy purchases; and (vi) an adjustment to account for the day-ahead PJM Interchange, calculated as the difference between scheduled withdrawals and injections by that Market Buyer in the Day-ahead Energy Market. For External Market Buyers and Internal Market Buyers that are not Load Serving Entities or purchasing on behalf of Load Serving Entities, this calculation shall determine the energy scheduled hourly for delivery to the Market Buyer net of the amounts scheduled by the External Market Buyer in the Day-ahead Energy Market.

(e) An Internal Market Buyer shall be charged for Spot Market Energy purchases to the extent of its hourly net purchases from the PJM Interchange Energy Market, determined as specified in Section 3.2.1(d) above. An External Market Buyer shall be charged for its Spot Market Energy purchases based on the energy delivered to it, determined as specified in Section 3.2.1(d) above. The total charge shall be determined by the product of the hourly net amount of PJM Interchange Imports times the hourly Real-time System Energy Price for that Market Buyer.

(f) A Generating Market Buyer shall be paid as a Market Seller for sales of Spot Market Energy to the extent of its hourly net sales into the PJM Interchange Energy Market, determined as specified in Section 3.2.1(d) above. The total payment shall be determined by the product of

the hourly net amount of PJM Interchange Exports times the hourly Real-time System Energy Price for that Market Seller.

### **3.2.2 Regulation.**

(a) Each Internal Market Buyer that is a Load Serving Entity in a Regulation Zone shall have an hourly Regulation objective equal to its pro rata share of the Regulation requirements of such Regulation Zone for the hour, based on the Market Buyer's total load (net of operating Behind The Meter Generation, but not to be less than zero) in such Regulation Zone for the hour ("Regulation Obligation"). An Internal Market Buyer that does not meet its hourly Regulation obligation shall be charged for Regulation dispatched by the Office of the Interconnection to meet such obligation at the Regulation market-clearing price determined in accordance with subsection (c) of this Section, plus the amounts, if any, described in subsection (f) of this section.

(b) A Generating Market Buyer supplying Regulation in a Regulation Zone at the direction of the Office of the Interconnection in excess of its hourly Regulation obligation shall be credited for each increment of such Regulation at the higher of (i) the Regulation market-clearing price in such Regulation Zone or (ii) the sum of the regulation offer and the unit-specific opportunity cost of the generation resource supplying the increment of Regulation, as determined by the Office of the Interconnection in accordance with procedures specified in the PJM Manuals.

(c) The Regulation market-clearing price in each Regulation Zone shall be determined at a time to be determined by the Office of the Interconnection which shall be no earlier than the day before the Operating Day. The market-clearing price for each regulating hour shall be equal to the highest sum of a resource's Regulation offer plus its estimated unit-specific opportunity costs, determined as described in subsection (d) below from among the resources selected to provide Regulation. A resource's Regulation offer by any Market Seller that fails the three-pivotal supplier test set forth in section 3.3.2A.1 of this Schedule shall not exceed the cost of providing Regulation from such resource, plus twelve dollars, as determined pursuant to the formula in section 1.10.1A(e) of this Schedule.

(d) In determining the Regulation market-clearing price for each Regulation Zone, the estimated unit-specific opportunity costs of a generation resource offering to sell Regulation in each regulating hour shall be equal to the sum of the unit-specific opportunity costs (i) incurred during the hour in which the obligation is fulfilled, plus costs (ii) associated with uneconomic operation during the hour preceding the initial regulating hour ("preceding shoulder hour"), plus costs (iii) associated with uneconomic operation during the hour after the final regulating hour ("following shoulder hour").

The unit-specific opportunity costs incurred during the hour in which the Regulation obligation is fulfilled shall be equal to the product of (i) the deviation of the set point of the generation resource that is expected to be required in order to provide Regulation from the generation resource's expected output level if it had been dispatched in economic merit order times (ii) the absolute value of the difference between the expected Locational Marginal Price at the generation bus for the generation resource and the lesser of the available market-based or highest

available cost-based energy offer from the generation resource (at the megawatt level of the Regulation set point for the resource) in the PJM Interchange Energy Market.

The unit-specific opportunity costs associated with uneconomic operation during the preceding shoulder hour shall be equal to the product of (i) the deviation between the set point of the generation resource that is expected to be required in the initial regulating hour in order to provide Regulation and the lesser of the resource's actual or expected output in the preceding shoulder hour when the resource is requested at a lower output than what is otherwise economic in order to provide Regulation, or, the higher of the resource's actual or expected output in the preceding shoulder hour when the resource is requested at a higher output than what is otherwise economic in order to provide Regulation, times (ii) the absolute value of the difference between the Locational Marginal Price at the generation bus for the generation resource in the preceding shoulder hour and the lesser of the available market-based or highest available cost-based energy offer from the generation resource (at the megawatt level of the Regulation set point for the resource in the initial regulating hour) in the PJM Interchange Energy Market, times (iii) the percentage of the preceding shoulder hour during which the deviation was incurred, all as determined by the Office of the Interconnection in accordance with procedures specified in the PJM Manuals.

The unit-specific opportunity costs associated with uneconomic operation during the following shoulder hour shall be equal to the product of (i) the deviation between the set point of the generation resource that is expected to be required in the final regulating hour in order to provide Regulation and the lesser of the resource's actual or expected output in the following shoulder hour when the resource is requested at a lower output than what is otherwise economic in order to provide Regulation, or, the higher of the resource's actual or expected output in the following shoulder hour when the resource is requested at a higher output than what is otherwise economic in order to provide Regulation, times (ii) the absolute value of the difference between the Locational Marginal Price at the generation bus for the generation resource in the following shoulder hour and the lesser of the available market-based or highest available cost-based energy offer from the generation resource (at the megawatt level of the Regulation set point for the resource in final regulating hour) in the PJM Interchange Energy Market.

Estimated opportunity costs for Demand Resources to provide Regulation are zero.

(e) In determining the credit under subsection (b) to a Generating Market Buyer selected to provide Regulation in a Regulation Zone and that actively follows the Office of the Interconnection's Regulation signals and instructions, the unit-specific opportunity cost of a generation resource shall be determined for each hour that the Office of the Interconnection requires a generation resource to provide Regulation, and for the percentage of the preceding shoulder hour and the following shoulder hour during which the Generating Market Buyer or Market Seller provided Regulation. The unit-specific opportunity cost incurred during the hour in which the Regulation obligation is fulfilled shall be equal to the product of (i) the deviation of the generation resource's output necessary to follow the Office of the Interconnection's Regulation signals from the generation resource's expected output level if it had been dispatched in economic merit order times (ii) the absolute value of the difference between the Locational Marginal Price at the generation bus for the generation resource and the lesser of the available

market-based or highest available cost-based energy offer from the generation resource (at the actual megawatt level of the resource when the actual megawatt level is within the tolerance defined in the PJM Manuals for the Regulation set point, or at the Regulation set point for the resource when it is not within the corresponding tolerance) in the PJM Interchange Energy Market. Opportunity costs for Demand Resources to provide Regulation are zero.

The unit-specific opportunity costs associated with uneconomic operation during the preceding shoulder hour shall be equal to the product of (i) the deviation between the set point of the generation resource that is expected to be required in the initial regulating hour in order to provide Regulation and the lesser of the resource's actual or expected output in the preceding shoulder hour when the resource is requested at a lower output than what is otherwise economic in order to provide Regulation, or, the higher of the resource's actual or expected output in the preceding shoulder hour when the resource is requested at a higher output than what is otherwise economic in order to provide Regulation, times (ii) the absolute value of the difference between the Locational Marginal Price at the generation bus for the generation resource in the preceding shoulder hour and the lesser of the available market-based or highest available cost-based energy offer from the generation resource (at the megawatt level of the Regulation set point for the resource in the initial regulating hour) in the PJM Interchange Energy Market, times (iii) the percentage of the preceding shoulder hour during which the deviation was incurred, all as determined by the Office of the Interconnection in accordance with procedures specified in the PJM Manuals.

The unit-specific opportunity costs associated with uneconomic operation during the following shoulder hour shall be equal to the product of (i) the deviation between the set point of the generation resource that is expected to be required in the final regulating hour in order to provide Regulation and the lesser of the resource's actual or expected output in the following shoulder hour when the resource is requested at a lower output than what is otherwise economic in order to provide Regulation, or, the higher of the resource's actual or expected output in the following shoulder hour when the resource is requested at a higher output than what is otherwise economic in order to provide Regulation, times (ii) the absolute value of the difference between the Locational Marginal Price at the generation bus for the generation resource in the following shoulder hour and the lesser of the available market-based or highest available cost-based energy offer from the generation resource (at the megawatt level of the Regulation set point for the resource in final regulating hour) in the PJM Interchange Energy Market, times (iii) the percentage of the following shoulder hour during which the deviation was incurred, all as determined by the Office of the Interconnection in accordance with procedures specified in the PJM Manuals.

(f) Any amounts credited for Regulation in an hour in excess of the Regulation market-clearing price in that hour shall be allocated and charged to each Internal Market Buyer in a Regulation Zone that does not meet its hourly Regulation obligation in proportion to its purchases of Regulation in such Regulation Zone in megawatt-hours during that hour.

### **3.2.2A Offer Price Caps.**

#### **3.2.2A.1 Applicability.**

(a) Each hour, the Office of the Interconnection shall conduct a three-pivotal supplier test as described in this section. Regulation offers from Market Sellers that fail the three-pivotal supplier test shall be capped in the hour in which they failed the test at their cost based offers as determined pursuant to section 1.10.1A(e) of this Schedule. A Regulation supplier fails the three-pivotal supplier test in any hour in which such Regulation supplier and the two largest other Regulation suppliers are jointly pivotal.

(b) For the purposes of conducting the three-pivotal supplier test pursuant to this section, the following applies:

- (i) The three-pivotal supplier test will include in the definition of available supply all offers from resources capable of satisfying the Regulation requirement of the PJM Region for which the cost-based offer plus any eligible opportunity costs is no greater than 150 percent of the clearing price that would be calculated if all offers were limited to cost (plus eligible opportunity costs).
- (ii) The three-pivotal supplier test will apply on a Regulation supplier basis (i.e. not a resource by resource basis) and only the Regulation suppliers that fail the three-pivotal supplier test will have their Regulation offers capped. A Regulation supplier for the purposes of this section includes corporate affiliates. Regulation from resources controlled by a Regulation supplier or its affiliates, whether by contract with unaffiliated third parties or otherwise, will be included as Regulation of that Regulation supplier. Regulation provided by resources owned by a Regulation supplier but controlled by an unaffiliated third party, whether by contract or otherwise, will be included as Regulation of that third party.

### **3.2.3 Operating Reserves.**

(a) A Market Seller's pool-scheduled resources capable of providing Operating Reserves shall be credited as specified below based on the prices offered for the operation of such resource, provided that the resource was available for the entire time specified in the Offer Data for such resource. To the extent that Section 3.2.A.01 of Schedule 1 of this Agreement does not meet the Day-ahead Scheduling Reserves Requirement, the Office of the Interconnection shall schedule additional Operating Reserves pursuant to Section 1.7.17 and 1.10 of Schedule 1 of this Agreement. In addition the Office of the Interconnection shall schedule Operating Reserves pursuant to those sections to satisfy any unforeseen Operating Reserve requirements that are not reflected in the Day-ahead Scheduling Reserves Requirement.

(b) The following determination shall be made for each pool-scheduled resource that is scheduled in the Day-ahead Energy Market: the total offered price for start-up and no-load fees and energy, determined on the basis of the resource's scheduled output, shall be compared to the total value of that resource's energy – as determined by the Day-ahead Energy Market and the Day-ahead Prices applicable to the relevant generation bus in the Day-ahead Energy Market.

Except as provided in Section 3.2.3(n), if the total offered price summed over all hours exceeds the total value summed over all hours, the difference shall be credited to the Market Seller. The Office of the Interconnection shall apply any balancing Operating Reserve credits allocated pursuant to this Section 3.2.3(b) to real-time deviations from day-ahead schedules or real-time load share plus exports, pursuant to Section 3.2.3(p), depending on whether the balancing Operating Reserve credits are related to resources scheduled during the reliability analysis for an Operating Day, or during the actual Operating Day.

- (i) For resources scheduled by the Office of the Interconnection during the reliability analysis for an Operating Day, the associated balancing Operating Reserve credits shall be allocated based on the reason the resource was scheduled according to the following provisions:

- (A) If the Office of the Interconnection determines during the reliability analysis for an Operating Day that a resource was committed to operate in real-time to augment the physical resources committed in the Day-ahead Energy Market to meet the forecasted real-time load plus the Operating Reserve requirement, the associated balancing Operating Reserve credits, identified as RA Credits for Deviations, shall be allocated to real-time deviations from day-ahead schedules.

- (B) If the Office of the Interconnection determines during the reliability analysis for an Operating Day that a resource was committed to maintain system reliability, the associated balancing Operating Reserve credits, identified as RA Credits for Reliability, shall be allocated according to ratio share of real time load plus export transactions.

- (C) If the Office of the Interconnection determines during the reliability analysis for an Operating Day that a resource with a day-ahead schedule is required to deviate from that schedule to provide balancing Operating Reserves, the associated balancing Operating Reserve credits shall be segmented and separately allocated pursuant to subsections 3.2.3(b)(i)(A) or 3.2.3(b)(i)(B) hereof. Balancing Operating Reserve credits for such resources will be identified in the same manner as units committed during the reliability analysis pursuant to subsections 3.2.3(b)(i)(A) and 3.2.3(b)(i)(B) hereof.

- (ii) For resources scheduled during an Operating Day, the associated balancing Operating Reserve credits shall be allocated according to the following provisions:

- (A) If the Office of the Interconnection directs a resource to operate during an Operating Day to provide balancing Operating Reserves, the associated balancing Operating Reserve credits, identified as RT Credits for Reliability, shall be allocated according to ratio share of load plus exports. The foregoing notwithstanding, credits will be applied pursuant

to this section only if the LMP at the resource's bus does not meet or exceed the applicable offer of the resource for at least four 5-minute intervals during one or more discrete clock hours during each period the resource operated and produced MWs during the relevant Operating Day. If a resource operated and produced MWs for less than four 5-minute intervals during one or more discrete clock hours during the relevant Operating Day, the credits for that resource during the hour it was operated less than four 5-minute intervals will be identified as being in the same category (RT Credits for Reliability or RT Credits for Deviations) as identified for the Operating Reserves for the other discrete clock hours.

(B) If the Office of the Interconnection directs a resource not covered by Section 3.2.3(b)(ii)(A) hereof to operate in real-time during an Operating Day, the associated balancing Operating Reserve credits, identified as RT Credits for Deviations, shall be allocated according to real-time deviations from day-ahead schedules.

(iii) PJM shall post on its Web site the aggregate amount of MWs committed that meet the criteria referenced in subsections (b)(i) and (b)(ii) hereof.

(c) The sum of the foregoing credits calculated in accordance with Section 3.2.3(b) plus any unallocated charges from Section 3.2.3(h) and 5.1.7, and any shortfalls paid pursuant to the Market Settlement provision of the Day-ahead Economic Load Response Program shall be the cost of Operating Reserves in the Day-ahead Energy Market.

(d) The cost of Operating Reserves in the Day-ahead Energy Market shall be allocated and charged to each Market Participant in proportion to the sum of its (i) scheduled load (net of Behind The Meter Generation expected to be operating, but not to be less than zero) and accepted Decrement Bids in the Day-ahead Energy Market in megawatt-hours for that Operating Day; and (ii) scheduled energy sales in the Day-ahead Energy Market from within the PJM Region to load outside such region in megawatt-hours for that Operating Day, but not including its bilateral transactions that are dynamically scheduled to load outside such area pursuant to Section 1.12.

(e) At the end of each Operating Day, the following determination shall be made for each synchronized pool-scheduled resource of each Market Seller that operates as requested by the Office of the Interconnection and that is not committed solely for the purpose of providing Synchronized Reserve: For each calendar day, pool-scheduled resources in the Real-time Energy Market shall be made whole for each of the following segments: 1) the greater of their day-ahead schedules or minimum run time (minimum down time for Demand Resources); and 2) any block of hours the resource operates at PJM's direction in excess of the greater of its day-ahead schedule or minimum run time (minimum down time for Demand Resources). For each calendar day, and for each synchronized start of a generation resource or PJM-dispatched economic load reduction, there will be a maximum of two segments for each resource. Segment 1 will be the greater of the day-ahead schedule and minimum run time (minimum down time for Demand Resources) and Segment 2 will include the remainder of the contiguous hours when the resource

is operating at the direction of the Office of the Interconnection, provided that a segment is limited to the Operating Day in which it commenced and cannot include any part of the following Operating Day.

Credits received pursuant to this section shall be equal to the positive difference between a resource's total offered price for start-up (shutdown costs for Demand Resources) and no-load fees and energy, determined on the basis of the resource's scheduled output, and the total value of the resource's energy as determined by the Real-time Energy Market and the real-time LMP(s) applicable to the relevant generation bus in the Real-time Energy Market. The foregoing notwithstanding, credits for segment 2 shall exclude start up (shutdown costs for Demand Resources) costs for generation resources.

Except as provided in Section 3.2.3(m), if the total offered price exceeds the total value, the difference less any credit as determined pursuant to Section 3.2.3(b) plus the resource's opportunity cost and less any amounts credited for Synchronized Reserve in excess of the Synchronized Reserve offer plus the resource's opportunity cost and less any amounts credited for providing Reactive Services as specified in Section 3.2.3B, and less any amounts for Day-ahead Scheduling Reserve in excess of the Day-ahead Scheduling Reserve offer plus the resource's opportunity cost, shall be credited to the Market Seller.

Synchronized Reserve and Day-ahead Scheduling Reserve credits applied against Operating Reserve credits pursuant to this section shall be netted against the Operating Reserve credits earned in the corresponding hour(s) in which the Synchronized Reserve and Day-ahead Scheduling Reserve credits accrued, provided that for condensing combustion turbines, Synchronized Reserve credits will be netted against the total Operating Reserve credits accrued during each period the unit operates in condensing and generation mode for one or more contiguous hours.

(f) A Market Seller's steam-electric generating unit or combined cycle unit operating in combined cycle mode that is pool scheduled (or self-scheduled, if operating according to Section 1.10.3 (c) hereof), the output of which is reduced or suspended at the request of the Office of the Interconnection due to a transmission constraint or other reliability issue, and for which the hourly integrated, real-time LMP at the unit's bus is higher than the unit's offer corresponding to the level of output requested by the Office of the Interconnection (as indicated either by the desired MWs of output from the unit determined by PJM's unit dispatch system or as directed by the PJM dispatcher through a manual override), shall be credited hourly in an amount equal to  $\{(LMP_{DMW} - AG) \times (URTLMP - UB)\}$ , where:

LMP<sub>DMW</sub> equals the level of output for the unit determined according to the point on the scheduled offer curve on which the unit was operating corresponding to the hourly integrated real time LMP;

AG equals the actual hourly integrated output of the unit;

URTLMP equals the real time LMP at the unit's bus;

UB equals the unit offer for that unit for which output is reduced or suspended, determined according to the real-time scheduled offer curve on which the unit was operating, unless such schedule was a price-based schedule and the offer associated with that price schedule is less than the cost-based offer provided for the unit, in which case the offer for the unit will be determined from the cost-based schedule; and

where  $URTLMP - UB$  shall not be negative.

(f-1) A Market Seller's combustion turbine unit or combined cycle unit operating in simple cycle mode that is pool-scheduled (or self-scheduled, if operating according to Section 1.10.3 (c) hereof), operated as requested by the Office of the Interconnection, shall be compensated for lost opportunity cost if either of the following conditions occur:

- (i) if the unit output is reduced at the direction of the Office of the Interconnection and the real time LMP at the unit's bus is higher than the unit's offer corresponding to the level of output requested by the Office of the Interconnection (as directed by the PJM dispatcher), then the Market Seller shall be credited in a manner consistent with that described above for a steam unit or combined cycle unit operating in combined cycle mode.
- (ii) if the unit is scheduled to produce energy in the day-ahead market, but the unit is not called on by PJM and does not operate in real time, then the Market Seller shall be credited hourly in an amount equal to the higher of (i)  $\{(URTLMP - UDALMP) \times DAG\}$ , or (ii)  $\{(URTLMP - UB) \times DAG\}$  where:

$URTLMP$  equals the real time LMP at the unit's bus;

$UDALMP$  equals the day-ahead LMP at the unit's bus;

$DAG$  equals the day-ahead scheduled unit output for the hour;

UB equals the offer price for the unit, determined according to the schedule on which the unit was committed day-ahead, unless such schedule was a price-based schedule and the offer associated with that price schedule is less than the cost-based offer provided for the unit, in which case the offer for the unit will be determined from the cost-based schedule; and

where  $URTLMP - UDALMP$  and  $URTLMP - UB$  shall not be negative.

(f-2) A Market Seller's hydroelectric resource that is pool-scheduled (or self-scheduled, if operating according to Section 1.10.3 (c) hereof), the output of which is altered at the request of the Office of the Interconnection from the schedule submitted by the owner, due to a

transmission constraint or other reliability issue, shall be compensated for lost opportunity cost in the same manner as provided in sections 3.2.2A(d) and 3.2.3A(f) and further detailed in the PJM Manuals.

(f-3) If a Market Seller believes that, due to specific pre-existing binding commitments to which it is a party, and that properly should be recognized for purposes of this section, the above calculations do not accurately compensate the Market Seller for opportunity cost associated with following PJM dispatch instructions and reducing or suspending a unit's output due to a transmission constraint or other reliability issue, then the Office of the Interconnection, the Market Monitoring Unit and the individual Market Seller will discuss a mutually acceptable, modified amount of opportunity cost compensation, taking into account the specific circumstances binding on the Market Seller. Following such discussion, if the Office of the Interconnection accepts a modified amount of opportunity cost compensation, the Office of the Interconnection shall invoice the Market Seller accordingly. If the Market Monitoring Unit disagrees with the modified amount of opportunity cost compensation, as accepted by the Office of the Interconnection, it will exercise its powers to inform the Commission staff of its concerns.

(g) The sum of the foregoing credits, plus any cancellation fees paid in accordance with Section 1.10.2(d), such cancellation fees to be applied to the Operating Day for which the unit was scheduled, plus any shortfalls paid pursuant to the Market Settlement provision of the real-time Economic Load Response Program, less any payments received from another Control Area for Operating Reserves, plus any redispatch costs incurred in accordance with section 10(a) of this Schedule, shall be the cost of Operating Reserves for the Real-time Energy Market in each Operating Day.

(h) The cost of Operating Reserves for the Real-time Energy Market for each Operating Day shall be allocated and charged to each Market Participant in proportion to the sum of the absolute values of its (i) load deviations (net of operating Behind The Meter Generation) from the Day-ahead Energy Market in megawatt-hours during that Operating Day; (ii) generation deviations (not including deviations in Behind The Meter Generation) from the Day-ahead Energy Market for non-dispatchable generation resources, including External Resources, in megawatt-hours during the Operating Day; (iii) deviations from the Day-ahead Energy Market for bilateral transactions from outside the PJM Region for delivery within such region in megawatt-hours during the Operating Day, except as noted below and in the PJM Manuals; and (iv) deviations of energy sales from the Day-ahead Energy Market from within the PJM Region to load outside such region in megawatt-hours during that Operating Day, but not including its bilateral transactions that are dynamically scheduled to load outside such region pursuant to Section 1.12.

Deviations that occur within a single Zone shall be associated with the Eastern or Western Region, as defined in Section 3.2.3(q) of this Schedule, and shall be subject to the regional balancing Operating Reserve rate determined in accordance with Section 3.2.3(q). Deviations at interfaces and hubs shall be associated with the Eastern or Western Region if all the busses that define all interfaces or all hubs are located in the region. If deviations at interfaces and hubs are associated with the Eastern or Western region, they shall be subject to the regional balancing Operating Reserve rate. Demand and supply deviations shall be based on total activity in a Zone,

including all aggregates and hubs defined by busses that are wholly contained within the same Zone.

The foregoing notwithstanding, netting deviations shall be allowed in accordance with the following provisions:

- (i) Generation resources with multiple units located at a single bus shall be able to offset deviations in accordance with the PJM Manuals to determine the net deviation MW at the relevant bus.
- (ii) Demand deviations will be assessed by comparing all day-ahead demand transactions at a single transmission zone, hub, or interface against the real-time demand transactions at that same transmission zone, hub, or interface; except that the positive values of demand deviations, as set forth in the PJM Manuals, will not be assessed Operating Reserve charges in the event of an Operating Reserve shortage in real-time or where PJM initiates the request for load reductions in real-time in order to avoid an Operating Reserve shortage as described in this Schedule, Section 6A, Scarcity Pricing.
- (iii) Supply deviations will be assessed by comparing all day-ahead transactions at a single transmission zone, hub, or interface against the real-time transactions at that same transmission zone, hub, or interface.

(i) At the end of each Operating Day, Market Sellers shall be credited on the basis of their offered prices for synchronous condensing for purposes other than providing Synchronized Reserve or Reactive Services, as well as the credits calculated as specified in Section 3.2.3(b) for those generators committed solely for the purpose of providing synchronous condensing for purposes other than providing Synchronized Reserve or Reactive Services, at the request of the Office of the Interconnection.

(j) The sum of the foregoing credits as specified in Section 3.2.3(i) shall be the cost of Operating Reserves for synchronous condensing for the PJM Region for purposes other than providing Synchronized Reserve or Reactive Services, or in association with post-contingency operation for the Operating Day and shall be separately determined for each Control Zone of the PJM Region based on the Control Zone to which the resource was synchronized to provide synchronous condensing for purposes other than providing Synchronized Reserve or Reactive Services, or in association with post-contingency operation.

(k) The cost of Operating Reserves for synchronous condensing for purposes other than providing Synchronized Reserve or Reactive Services, or in association with post-contingency operation for each Operating Day shall be allocated and charged to each Market Participant in proportion to the sum of its (i) deliveries of energy to load (net of operating Behind The Meter Generation, but not to be less than zero) in the PJM Region, served under Network Transmission Service, in megawatt-hours during that Operating Day; and (ii) deliveries of energy sales from within the PJM Region to load outside such region in megawatt-hours during that Operating

Day, but not including its bilateral transactions that are dynamically scheduled to load outside such Control Zone pursuant to Section 1.12, as compared to the sum of all such deliveries for all Market Participants.

(l) For any Operating Day in either, as applicable, the Day-ahead Energy Market or the Real-time Energy Market for which, for all or any part of such Operating Day, the Office of the Interconnection: (i) declares a Maximum Generation Emergency; (ii) issues an alert that a Maximum Generation Emergency may be declared (“Maximum Generation Emergency Alert”); or (iii) schedules units based on the anticipation of a Maximum Generation Emergency or a Maximum Generation Emergency Alert, the Operating Reserves credit otherwise provided by Section 3.2.3.(b) or Section 3.2.3(e) in connection with marked-based offers shall be limited as provided in subsections (n) or (m), respectively. The Office of the Interconnection shall provide timely notice on its internet site of the commencement and termination of any of the actions described in subsection (i), (ii), or (iii) of this subsection (l) (collectively referred to as “MaxGen Conditions”). Following the posting of notice of the commencement of a MaxGen Condition, a Market Seller may elect to submit a cost-based offer in accordance with Schedule 2 of the Operating Agreement, in which case subsections (m) and (n) shall not apply to such offer; provided, however, that such offer must be submitted in accordance with the deadlines in Section 1.10 for the submission of offers in the Day-ahead Energy Market or Real-time Energy Market, as applicable. Submission of a cost-based offer under such conditions shall not be precluded by Section 1.9.7(b); provided, however, that the Market Seller must return to compliance with Section 1.9.7(b) when it submits its bid for the first Operating Day after termination of the MaxGen Condition.

(m) For the Real-time Energy Market, if the Effective Offer Price (as defined below) for a market-based offer is greater than \$1,000/MWh, the Market Seller shall not receive any credit for Operating Reserves. For purposes of this subsection (m), the Effective Offer Price shall be the amount that, absent subsections (l) and (m), would have been credited for Operating Reserves for such Operating Day pursuant to Section 3.2.3(e) plus the Real-time Energy Market revenues for the hours that the offer is economic divided by the megawatt hours of energy provided during the hours that the offer is economic. The hours that the offer is economic shall be: (i) the hours that the offer price for energy is less than or equal to the Real-time Price for the relevant generation bus, (ii) the hours in which the offer for energy is greater than Locational Marginal Price and the unit is operated at the direction of the Office of the Interconnection that are in addition to any hours required due to the minimum run time or other operating constraint of the unit, and (iii) for any unit with a minimum run time of one hour or less and with more than one start available per day, any hours the unit operated at the direction of the Office of the Interconnection.

(n) For the Day-ahead Energy Market, if notice of a MaxGen Condition is provided prior to 12:00 noon on the day before the Operating Day for which transactions are being scheduled and the Effective Offer Price is greater than \$1,000/MWh, the Market Seller shall not receive any credit for Operating Reserves. If notice of a MaxGen Condition is provided after 12:00 noon on the day before the Operating Day for which transactions are being scheduled and the Effective Offer Price is greater than \$1,000/MWh, the Market Seller shall receive credit for Operating Reserves determined in accordance with Section 3.2.3(b), subject to the limit on total compensation stated below. If the Effective Offer Price is less than or equal to \$1,000/MWh,

regardless of when notice of a MaxGen Condition is provided, the Market Seller shall receive credit for Operating Reserves determined in accordance with Section 3.2.3(b), subject to the limit on total compensation stated below. For purposes of this subsection (n), the Effective Offer Price shall be the amount that, absent subsections (l) and (n), would have been credited for Operating Reserves for such Operating Day divided by the megawatt hours of energy offered during the Specified Hours, plus the offer for energy during such hours. The Specified Hours shall be the lesser of: (1) the minimum run hours stated by the Market Seller in its Offer Data; and (2) either (i) for steam-electric generating units and for combined-cycle units when such units are operating in combined-cycle mode, the six consecutive hours of highest Day-ahead Price during such Operating Day when such units are running or (ii) for combustion turbine units and for combined-cycle units when such units are operating in combustion turbine mode, the two consecutive hours of highest Day-ahead Price during such Operating Day when such units are running. Notwithstanding any other provision in this subsection, the total compensation to a Market Seller on any Operating Day that includes a MaxGen Condition shall not exceed \$1,000/MWh during the Specified Hours, where such total compensation in each such hour is defined as the amount that, absent subsections (l) and (n), would have been credited for Operating Reserves for such Operating Day pursuant to Section 3.2.3(b) divided by the Specified Hours, plus the Day-ahead Price for such hour, and no Operating Reserves payments shall be made for any other hour of such Operating Day. If a unit operates in real time at the direction of the office of the Interconnection consistently with its day-ahead clearing, then subsection (m) does not apply.

(o) Dispatchable pool-scheduled generation resources and dispatchable self-scheduled generation resources that follow dispatch shall not be assessed balancing Operating Reserve deviations. Pool-scheduled generation resources and dispatchable self-scheduled generation resources that do not follow dispatch shall be assessed balancing Operating Reserve deviations in accordance with the calculations described in the PJM Manuals. Ramp-limited desired MW values shall be used to determine generation resource real-time deviations from the resource's day-ahead schedules.

The Office of the Interconnection shall calculate a ramp-limited desired MW value for resources where the economic minimum and economic maximum are at least as far apart in real-time as they are in day-ahead according to the following parameters:

- (i) real-time economic minimum  $\leq$  105% of day-ahead economic minimum or day-ahead economic minimum plus 5 MW, whichever is greater.
- (ii) real-time economic maximum  $\geq$  95% day-ahead economic maximum or day-ahead economic maximum minus 5 MW, whichever is lower.

The ramp-limited desired MW value for a generation resource shall be equal to:

$$\text{Ramp\_Request}_t = \frac{(\text{UDS}_{\text{target}}_{t-1} - \text{AOutput}_{t-1})}{(\text{UDSLA}_{\text{time}}_{t-1})}$$

$$\text{RL\_Desired}_t = \text{AOutput}_{t-1} + \left( \text{Ramp\_Request}_t * \text{Case\_Eff\_time}_{t-1} \right)$$

where:

1. UDStarget = UDS basepoint for the previous UDS case
2. AOutput = Unit's output at case solution time
3. UDSLAtime = UDS look ahead time
4. Case\_Eff\_time = Time between base point changes
5. RL\_Desired = Ramp-limited desired MW

To determine if a resource is following dispatch the Office of the Interconnection shall determine the unit's MW off dispatch and % off dispatch by using the lesser of the difference between the actual output and the UDS Basepoint or the actual output and ramp-limited desired MW value. The % off dispatch and MW off dispatch will be a time-weighted average over the course of an hour.

A pool-scheduled or dispatchable self-scheduled resource is considered to be following dispatch if its actual output is between its ramp-limited desired MW value and UDS Basepoint, or if its % off dispatch is  $\leq 10$ , or it's hourly integrated Real-time MWh is within 5% or 5 MW (whichever is greater) of the hourly integrated ramp-limited desired MW. A self-scheduled generator must also be dispatched above economic minimum. The degree of deviations for resources that are not following dispatch shall be determined in accordance with the following provisions:

- A dispatchable self-scheduled resource that is not dispatched above economic minimum shall be assessed balancing Operating Reserve deviations according to the following formula: hourly integrated Real-time MWh – Day-Ahead MWh.
- A resource that is dispatchable day-ahead but is Fixed Gen in real-time shall be assessed balancing Operating Reserve deviations according to the following formula: hourly integrated Real-time MWh – UDS LMP Desired MW.
- Pool-scheduled generators that are not following dispatch shall be assessed balancing Operating Reserve deviations according to the following formula: hourly integrated Real-time MWh – hourly integrated Ramp-Limited Desired MW.
- If a resource's real-time economic minimum is greater than its day-ahead economic minimum by 5% or 5 MW, whichever is greater, or its real-time economic maximum is less than its Day Ahead economic maximum by 5% or 5 MW, whichever is lower, and UDS LMP Desired MWh for the hour is either below the real time economic minimum or above the real time economic maximum, then balancing Operating Reserve deviations for the resource shall be assessed according to the following formula: hourly integrated Real time MWh – UDS LMP Desired MWh.
- If a resource is not following dispatch and its % Off Dispatch is  $\leq 20\%$ , balancing Operating Reserve deviations shall be assessed according to the following formula: hourly integrated Real-time Mwh – hourly integrated Ramp-Limited Desired MW. If

deviation value is within 5% or 5 MW (whichever is greater) of Ramp-Limited Desired MW, balancing Operating Reserve deviations shall not be assessed.

- If a resource is not following dispatch and its % off Dispatch is > 20%, balancing Operating Reserve deviations shall be assessed according to the following formula: hourly integrated Real time MWh – UDS LMP Desired MWh.
- If a resource is not following dispatch, and the resource has tripped, for the hour the resource tripped and the hours it remains offline throughout its day-ahead schedule balancing Operating Reserve deviations shall be assessed according to the following formula: hourly integrated Real time MWh – Day-Ahead MWh.
- For resources that are not dispatchable in both the Day-Ahead and Real-time Energy Markets balancing Operating Reserve deviations shall be assessed according to the following formula: hourly integrated Real-time MWh and Day-Ahead MWh.

(p) The Office of the Interconnection shall allocate the charges assessed pursuant to Section 3.2.3(h) of Schedule 1 of this Agreement to real-time deviations from day-ahead schedules or real-time load share plus exports depending on whether the underlying balancing Operating Reserve credits are related to resources scheduled during the reliability analysis for an Operating Day, or during the actual Operating Day.

(i) For resources scheduled by the Office of the Interconnection during the reliability analysis for an Operating Day, the associated balancing Operating Reserve charges shall be allocated based on the reason the resource was scheduled according to the following provisions:

(A) If the Office of the Interconnection determines during the reliability analysis for an Operating Day that a resource was committed to operate in real-time to augment the physical resources committed in the Day-ahead Energy Market to meet the forecasted real-time load plus the Operating Reserve requirement, the associated balancing Operating Reserve charges shall be allocated to real-time deviations from day-ahead schedules.

(B) If the Office of the Interconnection determines during the reliability analysis for an Operating Day that a resource was committed to maintain system reliability, the associated balancing Operating Reserve charges shall be allocated according to ratio share of real time load plus export transactions.

(C) If the Office of the Interconnection determines during the reliability analysis for an Operating Day that a resource with a day-ahead schedule is required to deviate from that schedule to provide balancing Operating Reserves, the associated balancing Operating Reserve charges shall be allocated pursuant to (A) or (B) above.

(ii) For resources scheduled during an Operating Day, the associated balancing Operating Reserve charges shall be allocated according to the following provisions:

(A) If the Office of the Interconnection directs a resource to operate during an Operating Day to provide balancing Operating Reserves, the associated balancing Operating Reserve charges shall be allocated according to ratio share of load plus exports. The foregoing notwithstanding, charges will be assessed pursuant to this section only if the LMP at the resource's bus does not meet or exceed the applicable offer of the resource for at least four 5-minute intervals during one or more discrete clock hours during each period the resource operated and produced MWs during the relevant Operating Day. If a resource operated and produced MWs for less than four 5-minute intervals during one or more discrete clock hours during the relevant Operating Day, the charges for that resource during the hour it was operated less than four 5-minute intervals will be identified as being in the same category as identified for the Operating Reserves for the other discrete clock hours.

(B) If the Office of the Interconnection directs a resource not covered by Section 3.2.3(h)(ii)(A) of Schedule 1 of this Agreement to operate in real-time during an Operating Day, the associated balancing Operating Reserve charges shall be allocated according to real-time deviations from day-ahead schedules.

(q) The Office of the Interconnection shall determine regional balancing Operating Reserve rates for the Western and Eastern Regions of the PJM Region. For the purposes of this section, the Western Region shall be the AEP, APS, ComEd, Duquesne, Dayton, ATSI, Duke transmission Zones, and the Eastern Region shall be the AEC, BGE, Dominion, PENELEC, PEPCO, ME, PPL, JCPL, PECO, DPL, PSEG, RE transmission Zones. The regional balancing Operating Reserve rates shall be determined in accordance with the following provisions:

(i) The Office of the Interconnection shall calculate regional adder rates for the Eastern and Western Regions. Regional adder rates shall be equal to the total balancing Operating Reserve credits paid to generators for transmission constraints that occur on transmission system capacity equal to or less than 345kv. The regional adder rates shall be separated into reliability and deviation charges, which shall be allocated to real-time load or real-time deviations, respectively. Whether the underlying credits are designated as reliability or deviation charges shall be determined in accordance with Section 3.2.3(p).

(ii) The Office of the Interconnection shall calculate RTO balancing Operating Reserve rates. RTO balancing Operating Reserve rates shall be equal to balancing Operating Reserve credits in excess of the regional adder rates calculated pursuant to Section 3.2.3(q)(i) of Schedule 1 of this Agreement. The RTO balancing Operating Reserve rates shall be separated into reliability and deviation charges, which shall be allocated to real-time load or real-time

deviations, respectively. Whether the underlying credits are allocated as reliability or deviation charges shall be determined in accordance with Section 3.2.3(p).

(iii) Reliability and deviation regional balancing Operating Reserve rates shall be determined by summing the relevant RTO balancing Operating Reserve rates and regional adder rates.

(iv) If the Eastern and/or Western Regions do not have regional adder rates, the relevant regional balancing Operating Reserve rate shall be the reliability and/or deviation RTO balancing Operating Reserve rate.

### **3.2.3A Synchronized Reserve.**

(a) Each Internal Market Buyer that is a Load Serving Entity shall have an obligation for hourly Synchronized Reserve equal to its pro rata share of Synchronized Reserve requirements for the hour for each Synchronized Reserve Zone of the PJM Region, based on the Market Buyer's total load (net of operating Behind The Meter Generation, but not to be less than zero) in such Synchronized Reserve Zone, for the hour ("Synchronized Reserve Obligation"), less any amount obtained from condensers associated with provision of Reactive Services as described in section 3.2.3B(i) and any amount obtained from condensers associated with post-contingency operations, as described in section 3.2.3C(b). An Internal Market Buyer that does not meet its hourly Synchronized Reserve Obligation shall be charged for the Synchronized Reserve dispatched by the Office of the Interconnection to meet such obligation at the Synchronized Reserve Market Clearing Price determined in accordance with subsection (d) of this section, plus the amounts if any, described in subsections (g), (h) and (i) of this section.

(b) A Generating Market Buyer supplying Synchronized Reserve at the direction of the Office of the Interconnection, in excess of its hourly Synchronized Reserve Obligation, shall be credited as follows:

- i) Credits for Synchronized Reserve provided by generation units that are then subject to the energy dispatch signals and instructions of the Office of the Interconnection and that increase their current output or Demand Resources that reduce their load in response to a Synchronized Reserve Event ("Tier 1 Synchronized Reserve") shall be at the Synchronized Energy Premium Price.
- ii) Credits for Synchronized Reserve provided by generation resources that are synchronized to the grid but, at the direction of the Office of the Interconnection, are operating at a point that deviates from the Office of the Interconnection energy dispatch signals and instructions ("Tier 2 Synchronized Reserve") shall be the higher of (i) the Synchronized Reserve Market Clearing Price or (ii) the sum of (A) the Synchronized Reserve offer, and (B) the specific opportunity cost of the generation resource supplying the increment of Synchronized Reserve, as determined

by the Office of the Interconnection in accordance with procedures specified in the PJM Manuals.

- iii) Credits for Synchronized Reserve provided by Demand Resources that are synchronized to the grid and accept the obligation to reduce load in response to a Synchronized Reserve Event initiated by the Office of the Interconnection shall be the sum of (i) the higher of (A) the synchronized Reserve offer or (B) the Synchronized Reserve Market Clearing Price and (ii) if a Synchronized Reserve Event is actually initiated by the Office of the Interconnection and the Demand Resource reduced its load in response to the event, the fixed costs associated with achieving the load reduction, as specified in the PJM Manuals.

(c) The Synchronized Reserve Energy Premium Price is the average of the five-minute Locational Marginal Prices calculated during the Synchronized Reserve Event plus an adder in an amount to be determined periodically by the Office of the Interconnection not less than fifty dollars and not to exceed one hundred dollars per megawatt hour.

(d) The Synchronized Reserve Market Clearing Price shall be determined for each Synchronized Reserve Zone by the Office of the Interconnection prior to the operating hour and such market-clearing price shall be equal to, from among the generation resources or Demand Resources selected to provide Synchronized Reserve for such Synchronized Reserve Zone, the highest sum of either (i) a generation resource's Synchronized Reserve offer and opportunity cost or (ii) a demand response resource's Synchronized Reserve offer.

(e) In determining the Synchronized Reserve Market Clearing Price, the estimated unit-specific opportunity cost for a generation resource shall be equal to the sum of (i) the product of (A) the expected Locational Marginal Price at the generation bus for the generation resource times (B) the megawatts of energy used to provide Synchronized Reserve submitted as part of the Synchronized Reserve offer and (ii) the product of (A) the deviation of the set point of the generation resource that is expected to be required in order to provide Synchronized Reserve from the generation resource's expected output level if it had been dispatched in economic merit order times (B) the absolute value of the difference between the expected Locational Marginal Price at the generation bus for the generation resource and the offer price for energy from the generation resource (at the megawatt level of the Synchronized Reserve set point for the resource) in the PJM Interchange Energy Market. The opportunity costs for a Demand Resource shall be zero.

(f) In determining the credit under subsection (b) to a Generating Market Buyer selected to provide Tier 2 Synchronized Reserve and that actively follows the Office of the Interconnection's signals and instructions, the unit-specific opportunity cost of a generation resource shall be determined for each hour that the Office of the Interconnection requires a generation resource to provide Tier 2 Synchronized Reserve and shall be equal to the sum of (i) the product of (A) the megawatts of energy used by the resource to provide Synchronized Reserve as submitted as part of the generation resource's Synchronized Reserve offer times (B) the Locational Marginal Price at the generation bus of the generation resource, and (ii) the

product of (A) the deviation of the generation resource's output necessary to follow the Office of the Interconnection's signals and instructions from the generation resource's expected output level if it had been dispatched in economic merit order, times (B) the absolute value of the difference between the Locational Marginal Price at the generation bus for the generation resource and the offer price for energy from the generation resource (at the megawatt level of the Synchronized Reserve set point for the generation resource) in the PJM Interchange Energy Market. The opportunity costs for a Demand Resource shall be zero.

(g) Charges for Tier 1 Synchronized Reserve will be allocated in proportion to the amount of Tier 1 Synchronized Reserve applied to each Synchronized Reserve Obligation. In the event Tier 1 Synchronized Reserve is provided by a Market Seller in excess of that Market Seller's Synchronized Reserve Obligation, the remainder of the Tier 1 Synchronized Reserve that is not utilized to fulfill the Seller's obligation will be allocated proportionately among all other Synchronized Reserve Obligations.

(h) Any amounts credited for Tier 2 Synchronized Reserve in an hour in excess of the Synchronized Reserve Market Clearing Price in that hour shall be allocated and charged to each Internal Market Buyer that does not meet its hourly Synchronized Reserve Obligation in proportion to its purchases of Synchronized Reserve in megawatt-hours during that hour.

(i) In the event the Office of the Interconnection needs to assign more Tier 2 Synchronized Reserve during an hour than was estimated as needed at the time the Synchronized Reserve Market Clearing Price was calculated for that hour due to a reduction in available Tier 1 Synchronized Reserve, the costs of the excess Tier 2 Synchronized Reserve shall be allocated and charged to those providers of Tier 1 Synchronized Reserve whose available Tier 1 Synchronized Reserve was reduced from the needed amount estimated during the Synchronized Reserve Market Clearing Price calculation, in proportion to the amount of the reduction in Tier 1 Synchronized Reserve availability.

(j) In the event a generation resource or Demand Resource that either has been assigned by the Office of the Interconnection or self-scheduled by the owner to provide Tier 2 Synchronized Reserve fails to provide the assigned or self-scheduled amount of Synchronized Reserve in response to an actual Synchronized Reserve Event, the owner of the resource shall incur an additional Synchronized Reserve Obligation in the amount of the shortfall for a period of three consecutive days with the same peak classification (on-peak or off-peak) as the day of the Synchronized Reserve Event at least three business days following the Synchronized Reserve Event. The overall Synchronized Reserve requirement for each Synchronized Reserve Zone of the PJM Region on which the Synchronized Reserve Obligations, except for the additional obligations set forth in this section, are based shall be reduced by the amount of this shortfall for the applicable three-day period.

(k) The magnitude of response to a Synchronized Reserve Event by a generation resource or a Demand Resource, except for Batch Load Demand Resources covered by section 3.2.3A(1), is the difference between the generation resource's output or the Demand Resource's consumption at the start of the event and its output or consumption ten minutes after the start of the event. In order to allow for small fluctuations and possible telemetry delays, generation resource output or

Demand Resource consumption at the start of the event is defined as the lowest telemetered generator resource output or greatest Demand Resource consumption between one minute prior to and one minute following the start of the event. Similarly, a generation resource's output or a Demand Resource's consumption 10 minutes after the event is defined as the greatest generator resource output or lowest Demand Resource consumption achieved between 9 and 11 minutes after the start of the event. The response actually credited to a generation resource will be reduced by the amount the megawatt output of the generation resource falls below the level achieved after 10 minutes by either the end of the event or after 30 minutes from the start of the event, whichever is shorter. The response actually credited to a Demand Resource will be reduced by the amount the megawatt consumption of the Demand Resource exceeds the level achieved after 10 minutes by either the end of the event or after 30 minutes from the start of the event, whichever is shorter.

(l) The magnitude of response by a Batch Load Demand Resource that is at the stage in its production cycle when its energy consumption is less than the level of megawatts in its offer at the start of a Synchronized Reserve Event shall be the difference between (i) the Batch Load Demand Resource's consumption at the end of the Synchronized Reserve Event and (ii) the Batch Load Demand Resource's consumption during the minute within the ten minutes after the end of the Synchronized Reserve Event in which the Batch Load Demand Resource's consumption was highest and for which its consumption in all subsequent minutes within the ten minutes was not less than fifty percent of the consumption in such minute; provided that, the magnitude of the response shall be zero if, when the Synchronized Reserve Event commences, the scheduled off-cycle stage of the production cycle is greater than ten minutes.

### **3.2.3A.01 Day-ahead Scheduling Reserves.**

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

(b) A Day-ahead Scheduling Reserves Resource that receives a Day-ahead Scheduling Reserves schedule pursuant to subsection (a) of this section shall be paid the hourly Day-ahead Scheduling Reserves Market clearing price for the MW obligation in each hour of the schedule, subject to meeting the requirements of subsection (c) of this section.

(c) To be eligible for payment pursuant to subsection (b) of this section, Day-ahead Scheduling Reserves Resources shall comply with the following provisions:

- (i) Generation resources with a start time greater than thirty minutes are required to be synchronized and operating at the direction of the Office of the Interconnection during the resource's Day-ahead Scheduling Reserves schedule and shall have a dispatchable range equal to or greater than the Day-ahead Scheduling Reserves schedule.
- (ii) Generation resources and Demand Resources with start times or shut-down times, respectively, equal to or less than 30 minutes are required to respond to dispatch directives from the Office of the Interconnection during the resource's Day-ahead Scheduling Reserves schedule. To meet this requirement the resource shall be required to start or shut down within the specified notification time plus its start or shut down time, provided that such time shall be less than thirty minutes.
- (iii) Demand Resources with a Day-ahead Scheduling Reserves schedule shall be credited based on the difference between the resource's MW consumption at the time the resource is directed by the Office of the Interconnection to reduce its load (starting MW usage) and the resource's MW consumption at the time when the Demand Resource is no longer dispatched by PJM (ending MW usage). For the purposes of this subsection, a resource's starting MW usage shall be the greatest telemetered consumption between one minute prior to and one minute following the issuance of a dispatch instruction from the Office of the Interconnection, and a resource's ending MW usage shall be the lowest consumption between one minute before and one minute after a dispatch instruction from the Office of the Interconnection that is no longer necessary to reduce.
- (iv) Notwithstanding subsection (iii) above, the credit for a Batch Load Demand Resource that is at the stage in its production cycle when its energy consumption is less than the level of megawatts in its offer at the time the resource is directed by the Office of the Interconnection to reduce its load shall be the difference between (i) the "ending MW usage" (as defined above) and (ii) the Batch Load Demand Resource's consumption during the minute within the ten minutes after the time of the "ending MW usage" in which the Batch Load Demand Resource's consumption was highest and for which its consumption in all subsequent minutes within the ten minutes was not less than fifty percent of the consumption in such minute; provided that, the credit shall be zero if, at the time the resource is directed by the Office of the Interconnection to reduce its load, the scheduled off-cycle stage of the production cycle is greater than the timeframe for which the resource was dispatched by PJM.

Resources that do not comply with the provisions of this subsection (c) shall not be eligible to receive credits pursuant to subsection (b) of this section.

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

(e) If the Day-ahead Scheduling Reserves Requirement is not satisfied through the operation of subsection (a) of this section, any additional Operating Reserves required to meet the requirement shall be scheduled by the Office of the Interconnection pursuant to Section 3.2.3 of Schedule 1 of this Agreement.

### **3.2.3B Reactive Services.**

(a) A Market Seller providing Reactive Services at the direction of the Office of the Interconnection shall be credited as specified below for the operation of its resource. These provisions are intended to provide payments to generating units when the LMP dispatch algorithms would not result in the dispatch needed for the required reactive service. LMP will be used to compensate generators that are subject to redispatch for reactive transfer limits.

(b) At the end of each Operating Day, where the active energy output of a Market Seller's resource is reduced or suspended at the request of the Office of the Interconnection for the purpose of maintaining reactive reliability within the PJM Region, the Market Seller shall be credited according to Sections 3.2.3B(c) & 3.2.3B(d).

(c) A Market Seller providing Reactive Services from either a steam-electric generating unit or combined cycle unit operating in combined cycle mode, where such unit is pool-scheduled (or self-scheduled, if operating according to Section 1.10.3 (c) hereof), and where the hourly integrated, real time LMP at the unit's bus is higher than the price offered by the Market Seller for energy from the unit at the level of output requested by the Office of the Interconnection (as indicated either by the desired MWs of output from the unit determined by PJM's unit dispatch system or as directed by the PJM dispatcher through a manual override) shall be compensated for lost opportunity cost by receiving a credit hourly in an amount equal to  $\{(LMP_{DMW} - AG) \times (URTLMP - UB)\}$

where:

LMPDMW equals the level of output for the unit determined according to the point on the scheduled offer curve on which the unit was operating corresponding to the hourly integrated real time LMP;

AG equals the actual hourly integrated output of the unit;

URLMPP equals the real time LMP at the unit's bus;

UB equals the unit offer for that unit for which output is reduced or suspended determined according to the real time scheduled offer curve on which the unit was operating, unless such schedule was a price-based schedule and the offer associated with that price-based schedule is less than the cost-based offer for the unit, in which case the offer for the unit will be determined based on the cost-based schedule; and

where  $URLMPP - UB$  shall not be negative.

(d) A Market Seller providing Reactive Services from either a combustion turbine unit or combined cycle unit operating in simple cycle mode that is pool scheduled (or self-scheduled, if operating according to Section 1.10.3 (c) hereof), operated as requested by the Office of the Interconnection, shall be compensated for lost opportunity cost if either of the following conditions occur:

(i) if the unit output is reduced at the direction of the Office of the Interconnection and the real time LMP at the unit's bus is higher than the price offered by the Market Seller for energy from the unit at the level of output requested by the Office of the Interconnection as directed by the PJM dispatcher, then the Market Seller shall be credited in a manner consistent with that described above in Section 3.2.3B(c) for a steam unit or a combined cycle unit operating in combined cycle mode.

(ii) if the unit is scheduled to produce energy in the day-ahead market, but the unit is not called on by PJM and does not operate in real time, then the Market Seller shall be credited hourly in an amount equal to the higher of (i)  $\{(URLMPP - UDALMPP) \times DAG\}$ , or (ii)  $\{(URLMPP - UB) \times DAG\}$  where:

URLMPP equals the real time LMP at the unit's bus;

UDALMPP equals the day-ahead LMP at the unit's bus;

DAG equals the day-ahead scheduled unit output for the hour;

UB equals the offer price for the unit determined according to the schedule on which the unit was committed day-ahead, unless such schedule was a price-based schedule and the offer associated with that price-based schedule is less than the

cost-based offer for the unit, in which case the offer for the unit will be determined based on the cost-based schedule; and

where  $URTLMP - UDALMP$  and  $URTLMP - UB$  shall not be negative.

(e) At the end of each Operating Day, where the active energy output of a Market Seller's unit is increased at the request of the Office of the Interconnection for the purpose of maintaining reactive reliability within the PJM Region and the offered price of the energy is above the real-time LMP at the unit's bus, the Market Seller shall be credited according to Section 3.2.3B(f).

(f) A Market Seller providing Reactive Services from either a steam-electric generating unit, combined cycle unit or combustion turbine unit, where such unit is pool scheduled (or self-scheduled, if operating according to Section 1.10.3 (c) hereof), and where the hourly integrated, real time LMP at the unit's bus is lower than the price offered by the Market Seller for energy from the unit at the level of output requested by the Office of the Interconnection (as indicated either by the desired MWs of output from the unit determined by PJM's unit dispatch system or as directed by the PJM dispatcher through a manual override), shall receive a credit hourly in an amount equal to  $\{(AG - LMP_{DMW}) \times (UB - URTLMP)\}$  where:

AG equals the actual hourly integrated output of the unit;

LMP<sub>DMW</sub> equals the level of output for the unit determined according to the point on the scheduled offer curve on which the unit was operating corresponding to the hourly integrated real time LMP;

UB equals the unit offer for that unit for which output is increased, determined according to the real time scheduled offer curve on which the unit was operating;

URTLMP equals the real time LMP at the unit's bus; and

where  $UB - URTLMP$  shall not be negative.

(g) A Market Seller providing Reactive Services from a hydroelectric resource where such resource is pool scheduled (or self-scheduled, if operating according to Section 1.10.3 (c) hereof), and where the output of such resource is altered from the schedule submitted by the Market Seller for the purpose of maintaining reactive reliability at the request of the Office of the Interconnection, shall be compensated for lost opportunity cost in the same manner as provided in sections 3.2.2A(d) and 3.2.3A(f) and further detailed in the PJM Manuals.

(h) If a Market Seller believes that, due to specific pre-existing binding commitments to which it is a party, and that properly should be recognized for purposes of this section, the above calculations do not accurately compensate the Market Seller for lost opportunity cost associated with following the Office of the Interconnection's dispatch instructions to reduce or suspend a unit's output for the purpose of maintaining reactive reliability, then the Office of the Interconnection, the Market Monitoring Unit and the individual Market Seller will discuss a mutually acceptable, modified amount of such alternate lost opportunity cost compensation,

taking into account the specific circumstances binding on the Market Seller. Following such discussion, if the Office of the Interconnection accepts a modified amount of alternate lost opportunity cost compensation, the Office of Interconnection shall invoice the Market Seller accordingly. If the Market Monitoring Unit disagrees with the modified amount of alternate lost opportunity cost compensation, as accepted by the Office of the Interconnection, it will exercise its powers to inform the Commission staff of its concerns.

(i) The amount of Synchronized Reserve provided by generating units maintaining reactive reliability shall be counted as Synchronized Reserve satisfying the overall PJM Synchronized Reserve requirements. Operators of these generating units shall be notified of such provision, and to the extent a generating unit's operator indicates that the generation unit is capable of providing Synchronized Reserve, shall be subject to the same requirements contained in Section 3.2.3A regarding provision of Tier 2 Synchronized Reserve. At the end of each Operating Day, to the extent a condenser operated to provide Reactive Services also provided Synchronized Reserve, a Market Seller shall be credited for providing synchronous condensing for the purpose of maintaining reactive reliability at the request of the Office of the Interconnection, in an amount equal to the higher of (i) the hourly Synchronized Reserve Market Clearing Price for each hour a generating unit provided synchronous condensing multiplied by the amount of Synchronized reserve provided by the synchronous condenser or (ii) the sum of (A) the generating unit's hourly cost to provide synchronous condensing, calculated in accordance with the PJM Manuals, (B) the hourly product of MW energy usage for providing synchronous condensing multiplied by the real time LMP at the generation unit's bus, (C) the generation unit's startup-cost of providing synchronous condensing, and (D) the unit-specific lost opportunity cost of the generation resource supplying the increment of Synchronized Reserve as determined by the Office of the Interconnection in accordance with procedures specified in the PJM Manuals. To the extent a condenser operated to provide Reactive Services was not also providing Synchronized Reserve, the Market Seller shall be credited only for the generation unit's cost to condense, as described in (ii) above. The total Synchronized Reserve Obligations of all Load Serving Entities under section 3.2.3A(a) in the zone where these condensers are located shall be reduced by the amount counted as satisfying the PJM Synchronized Reserve requirements. The Synchronized Reserve Obligation of each Load Serving Entity in the zone under section 3.2.3A(a) shall be reduced to the same extent that the costs of such condensers counted as Synchronized Reserve are allocated to such Load Serving Entity pursuant to subsection (l) below.

(j) A Market Seller's pool scheduled steam-electric generating unit or combined cycle unit operating in combined cycle mode, that is not committed to operate in the Day-ahead Market, but that is directed by the Office of Interconnection to operate solely for the purpose of maintaining reactive reliability, at the request of the Office of the Interconnection, shall be credited in the amount of the unit's offered price for start-up and no-load fees. The unit also shall receive, if applicable, compensation in accordance with Sections 3.2.3B(e)-(f).

(k) The sum of the foregoing credits as specified in Sections 3.2.3B(b)-(j) shall be the cost of Reactive Services for the purpose of maintaining reactive reliability for the Operating Day and shall be separately determined for each transmission zone in the PJM Region based on whether

the resource was dispatched for the purpose of maintaining reactive reliability in such transmission zone.

(l) The cost of Reactive Services for the purpose of maintaining reactive reliability in a transmission zone in the PJM Region for each Operating Day shall be allocated and charged to each Market Participant in proportion to its deliveries of energy to load (net of operating Behind The Meter Generation) in such transmission zone, served under Network Transmission Service, in megawatt-hours during that Operating Day, as compared to all such deliveries for all Market Participants in such transmission zone.

(m) Generating units receiving dispatch instructions from the Office of the Interconnection under the expectation of increased actual or reserve reactive shall inform the Office of the Interconnection dispatcher if the requested reactive capability is not achievable. Should the operator of a unit receiving such instructions realize at any time during which said instruction is effective that the unit is not, or likely would not be able to, provide the requested amount of reactive support, the operator shall as soon as practicable inform the Office of the Interconnection dispatcher of the unit's inability, or expected inability, to provide the required reactive support, so that the associated dispatch instruction may be cancelled. PJM Performance Compliance personnel will audit operations after-the-fact to determine whether a unit that has altered its active power output at the request of the Office of the Interconnection has provided the actual reactive support or the reactive reserve capability requested by the Office of the Interconnection. PJM shall utilize data including, but not limited to, historical reactive performance and stated reactive capability curves in order to make this determination, and may withhold such compensation as described above if reactive support as requested by the Office of the Interconnection was not or could not have been provided.

### **3.2.3C Synchronous Condensing for Post-Contingency Operation.**

(a) Under normal circumstances, PJM operates generation out of merit order to control contingency overloads when the flow on the monitored element for loss of the contingent element ("contingency flow") exceeds the long-term emergency rating for that facility, typically a 4-hour or 2-hour rating. At times however, and under certain, specific system conditions, PJM does not operate generation out of merit order for certain contingency overloads until the contingency flow on the monitored element exceeds the 30-minute rating for that facility ("post-contingency operation"). In conjunction with such operation, when the contingency flow on such element exceeds the long-term emergency rating, PJM operates synchronous condensers in the areas affected by such constraints, to the extent they are available, to provide greater certainty that such resources will be capable of producing energy in sufficient time to reduce the flow on the monitored element below the normal rating should such contingency occur.

(b) The amount of Synchronized Reserve provided by synchronous condensers associated with post-contingency operation shall be counted as Synchronized Reserve satisfying the PJM Synchronized Reserve requirements. Operators of these generation units shall be notified of such provision, and to the extent a generation unit's operator indicates that the generation unit is capable of providing Synchronized Reserve, shall be subject to the same requirements contained in Section 3.2.3A regarding provision of Tier 2 Synchronized Reserve. At the end of each

Operating Day, to the extent a condenser operated in conjunction with post-contingency operation also provided Synchronized Reserve, a Market Seller shall be credited for providing synchronous condensing in conjunction with post-contingency operation at the request of the Office of the Interconnection, in an amount equal to the higher of (i) the hourly Synchronized Reserve Market Clearing Price for each hour a generation resource provided synchronous condensing multiplied by the amount of Synchronized Reserve provided by the synchronous condenser or (ii) the sum of (A) the generation resource's hourly cost to provide synchronous condensing, calculated in accordance with the PJM Manuals, (B) the hourly product of the megawatts of energy used to provide synchronous condensing multiplied by the real-time LMP at the generation bus of the generation resource, (C) the generation resource's start-up cost of providing synchronous condensing, and (D) the unit-specific lost opportunity cost of the generation resource supplying the increment of Synchronized Reserve as determined by the Office of the Interconnection in accordance with procedures specified in the PJM Manuals. To the extent a condenser operated in association with post-contingency constraint control was not also providing Synchronized Reserve, the Market Seller shall be credited only for the generation unit's cost to condense, as described in (ii) above. The total Synchronized Reserve Obligations of all Load Serving Entities under section 3.2.3A(a) in the zone where these condensers are located shall be reduced by the amount counted as satisfying the PJM Synchronized Reserve requirements. The Synchronized Reserve Obligation of each Load Serving Entity in the zone under section 3.2.3A(a) shall be reduced to the same extent that the costs of such condensers counted as Synchronized Reserve are allocated to such Load Serving Entity pursuant to subsection (d) below.

(c) The sum of the foregoing credits as specified in section 3.2.3C(b) shall be the cost of synchronous condensers associated with post-contingency operations for the Operating Day and shall be separately determined for each transmission zone in the PJM Region based on whether the resource was dispatched in association with post-contingency operation in such transmission zone.

(d) The cost of synchronous condensers associated with post-contingency operations in a transmission zone in the PJM Region for each Operating Day shall be allocated and charged to each Market Participant in proportion to its deliveries of energy to load (net of operating Behind The Meter Generation) in such transmission zone, served under Network Transmission Service, in megawatt-hours during that Operating Day, as compared to all such deliveries for all Market Participants in such transmission zone.

#### **3.2.4 Transmission Congestion Charges.**

Each Market Buyer shall be assessed Transmission Congestion Charges as specified in Section 5 of this Schedule.

#### **3.2.5 Transmission Loss Charges.**

Each Market Buyer shall be assessed Transmission Loss Charges as specified in Section 5 of this Schedule.

### **3.2.6 Emergency Energy.**

(a) Market Participants shall be allocated a proportionate share of the net cost of Emergency energy purchased by the Office of the Interconnection. Such allocated share during each hour of such Emergency energy purchase shall be in proportion to the amount of each Market Participant's real-time deviation from its net PJM Interchange in the Day-ahead Energy Market, whenever that deviation increases the Market Participant's spot market purchases or decreases its spot market sales. This deviation shall not include any reduction or suspension of output of pool scheduled resources requested by PJM to manage an Emergency within the PJM Region.

(b) Net revenues in excess of Real-time Prices attributable to sales of energy in connection with Emergencies to other Control Areas shall be credited to Market Participants during each hour of such Emergency energy sale in proportion to the sum of (i) each Market Participant's real-time deviation from its net PJM Interchange in the Day-ahead Energy Market, whenever that deviation increases the Market Participant's spot market purchases or decreases its spot market sales, and (ii) each Market Participant's energy sales from within the PJM Region to entities outside the PJM Region that have been curtailed by PJM.

(c) The net costs or net revenues associated with sales or purchases of hourly energy in connection with a Minimum Generation Emergency in the PJM Region, or in another Control Area, shall be allocated during each hour of such Emergency sale or purchase to each Market Participant in proportion to the amount of each Market Participant's real-time deviation from its net PJM Interchange in the Day-ahead Market, whenever that deviation increases the Market Participant's spot market sales or decreases its spot market purchases.

### **3.2.7 Billing.**

(a) PJMSettlement shall prepare a billing statement each billing cycle for each Market Buyer in accordance with the charges and credits specified in Sections 3.2.1 through 3.2.6 of this Schedule, and showing the net amount to be paid or received by the Market Buyer. Billing statements shall provide sufficient detail, as specified in the PJM Manuals, to allow verification of the billing amounts and completion of the Market Buyer's internal accounting.

(b) If deliveries to a Market Buyer that has PJM Interchange meters in accordance with Section 14 of the Operating Agreement include amounts delivered for a Market Participant that does not have PJM Interchange meters separate from those of the metered Market Buyer, PJMSettlement shall prepare a separate billing statement for the unmetered Market Participant based on the allocation of deliveries agreed upon between the Market Buyer and the unmetered Market Participant specified by them to the Office of the Interconnection.

***OPERATING AGREEMENT - OA SCHEDULE 1 - OA 7. FINANCIAL TRANSMISSION RIGHTS AUCTIONS - OA Schedule 1 - 7.4 Allocation of Auction Revenues***

**7.4 Allocation of Auction Revenues.**

**7.4.1 Eligibility.**

(a) Annual auction revenues, net of payments to entities selling Financial Transmission Rights into the auction, shall be allocated among holders of Auction Revenue Rights in proportion to, but not more than, the Target Allocation of Auction Revenue Rights Credits for the holder.

(b) Auction Revenue Rights Credits will be calculated based upon the clearing price results of the applicable Annual Financial Transmission Rights auction.

(c) Monthly and Balance of Planning Period FTR auction revenues, net of payments to entities selling Financial Transmission Rights into the auction, shall be allocated according to the following priority schedule:

(i) To stage 1 and 2 Auction Revenue Rights holders in accordance with section 7.4.4 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)(ii) of this section;

(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 ARR 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 fourth calendar day following the initial publication. Should any of the above deadlines pass without the associated action on the part of the Office of the Interconnection, 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 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 subsection (f) of this section) may request Auction Revenue Rights based on the megawatts of firm service provided between the receipt and delivery points as to which the Transmission Customer had Point-to-Point Transmission Service during the historical reference year. The historical reference year for all Zones shall be 1998, except that the historical reference year shall be: 2002 for the Allegheny Power and Rockland Electric Zones; 2004 for the AEP East, The Dayton Power & Light Company and Commonwealth Edison Company Zones; 2005 for the Virginia Electric and Power Company and Duquesne Light Company Zones; 2011 for the ATSI Zone; 2012 for the DEOK Zone; and the Office of the Interconnection shall specify a historical reference year for a new PJM zone corresponding to the year that the zone is integrated into the PJM Interchange Energy Market. For stage 1, the Office of the Interconnection shall determine a set of eligible historical generation resources for each Zone based on the historical reference year and assign a pro rata amount of megawatt capability from each historical generation resource to each Network Service User in the Zone based on its proportion of peak load in the Zone. Auction Revenue Rights shall

be allocated to each Network Service User in a Zone from each historical generation resource in a number of megawatts equal to or less than the amount of the historical generation resource that has been assigned to the Network Service User. Each Auction Revenue Right allocated to a Network Service User shall be to the aggregate load buses of such Network Service User in a Zone or, with respect to Non-Zone Network Load, to the border of the PJM Region. In stage 1A of the allocation process, the sum of each Network Service User's allocated Auction Revenue Rights for a Zone must be equal to or less than the Network Service User's pro-rata share of the Zonal Base Load for that Zone. Each Network Service User's pro-rata share of the Zonal Base Load shall be based on its proportion of peak load in the Zone. The sum of each Network Service User's Auction Revenue Rights for Non-Zone Network Load must be equal to or less than fifty percent (50%) of the Network Service User's transmission responsibility for Non-Zone Network Load as determined under Section 34.1 of the Tariff. The sum of each Qualifying Transmission Customer's Auction Revenue Rights must be equal to or less than fifty percent (50%) of the megawatts of firm service provided between the receipt and delivery points as to which the Transmission Customer had Point-to-Point Transmission Service during the historical reference year. If stage 1A Auction Revenue Rights are adversely affected by any new or revised statute, regulation or rule issued by an entity with jurisdiction over the Office of the Interconnection, the Office of the Interconnection shall, to the greatest extent practicable, and consistent with any such statute, regulation or rule change, preserve the priority of the stage 1A Auction Revenue Rights for a minimum period covering the ten (10) consecutive PJM Planning Periods ("Stage 1A Transition Period") immediately following the implementation of any such changes, provided that the terms of all stage 1A Auction Revenue Rights in effect at the time the Office of the Interconnection implements the Stage 1A Transition Period shall be reduced by one PJM Planning Period during each annual stage 1A Auction Revenue Rights allocation performed during the Stage 1A Transition Period so that all stage 1A Auction Revenue Rights that were effective at the start of the Stage 1A Transition Period expire at the end of that period.

(c) In stage 1B of the allocation process each Network Service User may request Auction Revenue Rights from the subset of the historical generation resources determined pursuant to Section 7.4.2(b) that were not allocated in stage 1A of the allocation process, and each Qualifying Transmission Customer may request Auction Revenue Rights based on the megawatts of firm service determined pursuant to Section 7.4.2(b) that were not allocated in stage 1A of the allocation process. In stage 1B of the allocation process, the sum of each Network Service User's allocation Auction Revenue Rights request for a Zone must be equal to or less than the difference between the Network Service User's peak load for that Zone as determined pursuant to Section 34.1 of the Tariff and the sum of its Auction Revenue Rights Allocation from stage 1A of the allocation process for that Zone. The sum of each Network Service User's Auction Revenue Rights for Non-Zone Network Load must be equal to or less than the difference between one hundred percent (100%) of the Network Service User's transmission responsibility for Non-Zone Network Load as determined pursuant to Section 7.4.2(b) and the sum of its Auction Revenue Rights Allocation from stage 1A of the allocation process for that Zone. The sum of each Qualifying Transmission Customer's Auction Revenue Rights must be equal to or less than the difference between one hundred percent (100%) of the megawatts of firm service as determined pursuant to Section 7.4.2(b) and the sum of its Auction Revenue Rights Allocation from stage 1A of the allocation process for that Zone.

(d) In stage 2 of the allocation process, the Office of the Interconnection shall conduct an iterative allocation process that consists of three rounds with up to one third of the remaining system Auction Revenue Rights capability allocated in each round. Each round of this allocation process will be conducted sequentially with Network Service Users and Transmission Customers being given the opportunity to view results of each allocation round prior to submission of Auction Revenue Right requests into the subsequent round. In each round, each Network Service User shall designate a subset of buses from which Auction Revenue Rights will be sourced. Valid Auction Revenue Rights source buses include only Zones, generators, hubs and external Interface Pricing Points. The Network Service User shall specify the amount of Auction Revenue Rights requested from each source bus. Each Auction Revenue Right shall be sunk to the aggregate load buses of the Network Service User in a Zone or, with respect to Non-Zone Network Load, to the border of the PJM Region. The sum of each Network Service User's Auction Revenue Rights requests in each stage 2 allocation round for each Zone must be equal to or less than one third of the difference between the Network Service User's peak load for that Zone as determined pursuant to Section 7.4.2(b) and the sum of its Auction Revenue Right Allocation from stages 1A and 1B of the allocation process for that Zone. The stage 2 allocation to Transmission Customers shall be as set forth in subsection (f).

(e) On a daily basis within the annual Financial Transmission Rights auction period, a proportionate share of Network Service User's Auction Revenue Rights for each Zone are reallocated as Network Load changes from one Network Service User to another within that Zone.

(f) A Qualifying Transmission Customer shall be any customer with an agreement for Long-Term Point-to-Point Transmission Service, as defined in the PJM Tariff, used to deliver energy from a designated Network Resource located either outside or within the PJM Region to load located either outside or within the PJM Region, and that was confirmed and in effect during the historical reference year for the Zone in which the resource is located. Such an agreement shall allow the Qualifying Transmission Customer to participate in the first stage of the allocation, but only if such agreement has remained in effect continuously following the historical reference year and is to continue in effect for the period addressed by the allocation, either by its term or by renewal or rollover. The megawatts of Auction Revenue Rights the Qualifying Transmission Customer may request in the first stage of the allocation may not exceed the lesser of: (i) the megawatts of firm service between the designated Network Resource and the load delivery point (or applicable point at the border of the PJM Region for load located outside such region) under contract during the historical reference year; and (ii) the megawatts of firm service presently under contract between such historical reference year receipt and delivery points. A Qualifying Transmission Customer may request Auction Revenue Rights in either or both of stage 1 or 2 of the allocation without regard to whether such customer is subject to a charge for Firm Point-to-Point Transmission Service under Section 1 of Schedule 7 of the PJM Tariff ("Base Transmission Charge"). A Transmission Customer that is not a Qualifying Transmission Customer may request Auction Revenue Rights in stage 2 of the allocation process, but only if it is subject to a Base Transmission Charge. The Auction Revenue Rights that such a Transmission Customer may request in each round of stage 2 of the allocation process must be equal to or less than one third of the number of megawatts equal to the megawatts of firm service being provided between the receipt and delivery points as to which the Transmission Customer currently has

Firm Point-to-Point Transmission Service. The source point of the Auction Revenue Rights must be the designated source point that is specified in the Transmission Service request and the sink point of the Auction Revenue Rights must be the designated sink point that is specified in the Transmission Service request. A Qualifying Transmission Customer may request Auction Revenue Rights in each round of stage 2 of the allocation process in a number of megawatts equal to or less than one third of the difference between the number of megawatts of firm service being provided between the receipt and delivery points as to which the Transmission Customer currently has Firm Point-to-Point Transmission Service and its Auction Revenue Right Allocation from stage 1 of the allocation process.

(g) PJM Transmission Customers that serve load in the Midwest ISO may participate in stage 1 of the allocation to the extent permitted by, and in accordance with, this Section 7.4.2 and other applicable provisions of this Schedule 1. For service from non-historic sources, these customers may participate in stage 2, but in no event can they receive an allocation of ARRs/FTRs from PJM greater than their firm service to loads in MISO.

(h) Subject to subsection (i) of this section, all Auction Revenue Rights must be simultaneously feasible. If all Auction Revenue Right requests made during the annual allocation process are not feasible then Auction Revenue Rights are prorated and allocated in proportion to the megawatt level requested and in inverse proportion to the effect on the binding constraints.

(i) If any Auction Revenue Right requests made during stage 1A of the annual allocation process are not feasible, then PJM shall increase the capability limits of the binding constraints that would have rendered the Auction Revenue Rights infeasible to the extent necessary in order to allocate such Auction Revenue Rights without their being infeasible, and such increased limits shall be included in all modeling used for subsequent Auction Revenue Rights and Financial Transmission Rights allocations and auctions for the Planning Year; provided that, the foregoing notwithstanding, this subsection (i) shall not apply if the infeasibility is caused by extraordinary circumstances. For the purposes of this subsection, extraordinary circumstances shall mean an event of force majeure that reduces the capability of existing or planned transmission facilities and such reduction in capability is the cause of the infeasibility of such Auction Revenue Rights. Extraordinary circumstances do not include those system conditions and assumptions modeled in simultaneous feasibility analyses conducted pursuant to section 7.5 of Schedule 1 of this Agreement. If PJM allocates stage 1A Auction Revenue Rights as a result of this subsection (i) that would not otherwise have been feasible, then PJM shall notify Members and post on its web site (a) the aggregate megawatt quantities, by sources and sinks, of such Auction Revenue Rights and (b) any increases in capability limits used to allocate such Auction Revenue Rights.

(j) Long-Term Firm Point-to-Point Transmission Service customers that are not Qualifying Transmission Customers and Network Service Users serving Non-Zone Network Load may participate in stage 1 of the annual allocation of Auction Revenue Rights pursuant to Section 7.4.2(a)-(c) of Schedule 1 of this Agreement, subject to the following conditions:

- i. The relevant Transmission Service shall be used to deliver energy from a designated Network Resource located either outside or within the PJM Region to load located outside the PJM Region.

- ii. To be eligible to participate in stage 1A of the annual Auction Revenue Rights allocation: 1) the relevant Transmission Service shall remain in effect for the stage 1A period addressed by the allocation; and 2) the control area in which the external load is located has similar rules for load external to the relevant control area.
- iii. Source points for stage 1 requests authorized pursuant to this subsection 7.4.2(j) shall be limited to: 1) generation resources owned by the LSE serving the load located outside the PJM Region; or 2) generation resources subject to a bona fide firm energy and capacity supply contract executed by the LSE to meet its load obligations, provided that such contract remains in force and effect for a minimum term of ten (10) years from the first effective Planning Period that follows the initial stage 1 request.
- iv. For Long-Term Firm Point-to-Point Transmission Customers requesting stage 1 Auction Revenue Rights pursuant to this subsection 7.4.2(j) , the generation resource(s) designated as source points may include any portion of the generating capacity of such resource(s) that is not, at the time of the request, already identified as a Capacity Resource.
- v. For Network Service Users requesting stage 1 Auction Revenue Rights pursuant to this subsection 7.4.2(j), at the time of the request, the generation resource(s) designated as source points must either be committed into PJM's RPM market or be designated as part of the entity's FRR Capacity Plan for the purpose of serving the capacity requirement of the external load.
- vi. All stage 1 source point requests made pursuant to this subsection 7.4.2(j) shall not increase the megawatt flow on facilities binding in the relevant annual Auction Revenue Rights allocation or in future stage 1A allocations and shall not cause megawatt flow to exceed applicable ratings on any other facilities in either set of conditions in the simultaneous feasibility test prescribed in subsection (vii) of this subsection 7.4.2(j).
- vii. To ensure the conditions of subsection (vi) of this subsection 7.4.2(j) are met, a simultaneous feasibility test shall be conducted: 1) based on next allocation year with all existing stage 1 and stage 2 Auction Revenue Rights modeled as fixed injection-withdrawal pairs; and 2) based on 10 year allocation model with all eligible stage 1A Auction Revenue Rights for each year including base load growth for each year.
- viii. Requests for stage 1 Auction Revenue Rights made pursuant to this subsection 7.4.2(j) that are received by PJM by November 1st of a Planning Period shall be processed for the next annual Auction Revenue

Rights allocation. Requests received after November 1st shall not be considered for the upcoming annual Auction Revenue Rights allocation. If all requests are not simultaneously feasible then requests will be awarded on a pro-rata basis.

- ix. Requests for new or alternate stage 1 resources made by Network Service Users and external LSEs that are received by November 1st shall be evaluated at the same time. If all requests are not simultaneously feasible then requests will be awarded on a pro-rata basis.
- x. Stage 1 Auction Revenue Rights source points that qualify pursuant to this subsection 7.4.2(j) shall be eligible as stage 1 Auction Revenue Rights source points in subsequent annual Auction Revenue Rights allocations.
- xi. Long-Term Firm Point-to-Point Transmission Customers requesting stage 1 Auction Revenue Rights pursuant to this subsection 7.4.2(j) may request Auction Revenue Rights megawatts up to the lesser of: 1) the customer's Long-Term Firm Point-to-Point Transmission service contract megawatt amount; or 2) the customer's Firm Transmission Withdrawal Rights.
- xii. Network Service Users requesting stage 1 Auction Revenue Rights pursuant to this subsection 7.4.2(j) may request Auction Revenue Rights megawatts up to the lesser of: 1) the customer's network service peak load; or 2) the customer's Firm Transmission Withdrawal Rights.
- xiii. Stage 1A Auction Revenue Rights requests made pursuant to this subsection 7.4.2(j) shall not exceed 50% of the maximum allowed megawatts authorized by subsections (xi) and (xii) of this subsection 7.4.2(j).
- xiv. Stage 1B Auction Revenue Rights requests made pursuant to this subsection 7.4.2(j) shall not exceed the difference between the maximum allowed megawatts authorized by subsections (xi) and (xii) of this subsection 7.4.2(j) and the Auction Revenue Rights megawatts granted in stage 1A.
- xv. In each round of Stage 2 of an annual allocation of Auction Revenue Rights, megawatt requests made pursuant to this subsection 7.4.2(j) shall be equal to or less than one third of the difference between the maximum allowed megawatts authorized by paragraphs (xi) and (xii) of this subsection 7.4.2(j) and the Auction Revenue Rights megawatt amount allocated in stage 1.
- xvi. Stage 1 Auction Revenue Rights sources established pursuant to this subsection 7.4.2(j) and the associated Auction Revenue Rights megawatt

amount may be replaced with an alternate resource pursuant to the process established in Section 7.7 of Schedule 1 of this Agreement.

#### **7.4.2a Bilateral Transfers of Auction Revenue Rights**

(a) Market Participants may enter into bilateral agreements to transfer Auction Revenue Rights or the right to receive an allocation of Auction Revenue Rights to a third party. Such bilateral transfers shall be reported to the Office of the Interconnection in accordance with this Schedule and pursuant to the LLC's rules related to its eFTR tools.

(b) For purposes of clarity, with respect to all bilateral transfers of Auction Revenue Rights or the right to receive an allocation of Auction Revenue Rights, the rights and obligations to the Auction Revenue Rights or the right to receive an allocation of Auction Revenue Rights that are the subject of such a bilateral transfer shall pass to the buyer under the bilateral contract subject to the provisions of this Schedule. In no event, shall the purchase and sale of an Auction Revenue Right or the right to receive an allocation of Auction Revenue Rights pursuant to a bilateral transfer constitute a transaction with PJMSettlement or a transaction in any auction under this Schedule.

(c) Consent of the Office of the Interconnection shall be required for a seller to transfer to a buyer any obligations associated with the Auction Revenue Rights or the right to receive an allocation of Auction Revenue Rights. Such consent shall be based upon the Office of the Interconnection's assessment of the buyer's ability to perform the obligations transferred in the bilateral contract. If consent for a transfer is not provided by the Office of the Interconnection, the title to the Auction Revenue Rights or the right to receive an allocation of Auction Revenue Rights shall not transfer to the third party and the holder of the Auction Revenue Rights or the right to receive an allocation of Auction Revenue Rights shall continue to receive all rights attributable to the Auction Revenue Rights or the right to receive an allocation of Auction Revenue Rights and remain subject to all credit requirements and obligations associated with the Auction Revenue Rights or the right to receive an allocation of Auction Revenue Rights.

(d) A seller under such a bilateral contract shall guarantee and indemnify the Office of the Interconnection, PJMSettlement, and the Members for the buyer's obligation to pay any charges associated with the Auction Revenue Right and for which payment is not made to PJMSettlement by the buyer under such a bilateral transfer.

(e) All payments and related charges associated with such a bilateral contract shall be arranged between the parties to such bilateral contract and shall not be billed or settled by PJMSettlement or the Office of the Interconnection. 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 such a bilateral contract reported to the Office of the Interconnection under this Schedule.

(f) All claims regarding a default of a buyer to a seller under such a bilateral contract shall be resolved solely between the buyer and the seller.

### **7.4.3 Target Allocation of Auction Revenue Right Credits.**

(a) A Target Allocation of Auction Revenue Right Credits for each entity holding an Auction Revenue Right shall be determined for each Auction Revenue Right. After each round of the annual Financial Transmission Right auction, each Auction Revenue Right shall be divided by four and multiplied by the price differences for the receipt and delivery points associated with the Auction Revenue Right, calculated as the Locational Marginal Price at the delivery point(s) minus the Locational Marginal Price at the receipt point(s), where the price for the receipt and delivery point is determined by the clearing prices of each round of the annual Financial Transmission Right auction. The daily total Target Allocation for an entity holding the Auction Revenue Rights shall be the sum of the daily Target Allocations associated with all of the entity's Auction Revenue Rights.

(b) A Target Allocation of residual Auction Revenue Rights Credits for each entity allocated Residual Auction Revenue Rights pursuant to section 7.9 of Schedule 1 of this Agreement shall be determined on a monthly basis for each month in a Planning Period beginning with the month the Residual Auction Revenue Right(s) becomes effective through the end of the relevant Planning Period. The Target Allocation for Residual Auction Revenue Rights Credits shall be equal to megawatt amount of the Residual Auction Revenue Rights multiplied by the LMP differential between the source and sink nodes of the corresponding FTR obligation in each prompt-month FTR auction that occurs from the effective date of the Residual Auction Revenue Rights through the end of the relevant Planning Period.

### **7.4.4 Calculation of Auction Revenue Right Credits.**

(a) Each day, the total of all the daily Target Allocations determined as specified above in Section 7.4.3 plus any additional Auction Revenue Rights Target Allocations applicable for that day shall be compared to the total revenues of all applicable monthly Financial Transmission Rights auction(s) (divided by the number of days in the month) plus the total revenues of the annual Financial Transmission Rights auction (divided by the number of days in the Planning Period). If the total of the Target Allocations is less than the total auction revenues, the Auction Revenue Right Credit for each entity holding an Auction Revenue Right shall be equal to its Target Allocation. All remaining funds shall be distributed as Excess Congestion Charges pursuant to Section 5.2.5.

(b) If the total of the Target Allocations is greater than the total auction revenues, each holder of Auction Revenue Rights shall be assigned a share of the total auction revenues in proportion to its Auction Revenue Rights Target Allocations for Auction Revenue Rights which have a positive Target Allocation value. Auction Revenue Rights which have a negative Target Allocation value are assigned the full Target Allocation value as a negative Auction Revenue Right Credit.

(c) At the end of a Planning Period, if all Auction Revenue Right holders did not receive Auction Revenue Right Credits equal to their Target Allocations, PJMSettlement shall assess a charge equal to the difference between the Auction Revenue Right Credit Target Allocations for all revenue deficient Auction Revenue Rights and the actual Auction Revenue Right Credits

allocated to those Auction Revenue Right holders. The aggregate charge for a Planning Period assessed pursuant to this section, if any, shall be added to the aggregate charge for a Planning Period assessed pursuant to section 5.2.5(c) of Schedule 1 of this Agreement and collected pursuant to section 5.2.5(c) of Schedule 1 of this Agreement and distributed to the Auction Revenue Right holders that did not receive Auction Revenue Right Credits equal to their Target Allocation.

SCHEDULE 10.1

**LOCATIONAL DELIVERABILITY AREAS AND REQUIREMENTS**

The capacity obligations imposed under this Agreement recognize the locational value of Capacity Resources. To ensure that such locational value is properly recognized and quantified, the Office of the Interconnection shall follow the procedures in this Schedule.

A. Following the Transition Period, as such term is defined in Attachment DD to the Tariff, the Locational Deliverability Areas for the purposes of determining locational capacity obligations hereunder, but not necessarily for the purposes of the Regional Transmission Expansion Planning Protocol, shall consist of the following Zones (as defined in Schedule 15), combinations of such Zones, and portions of such Zones:

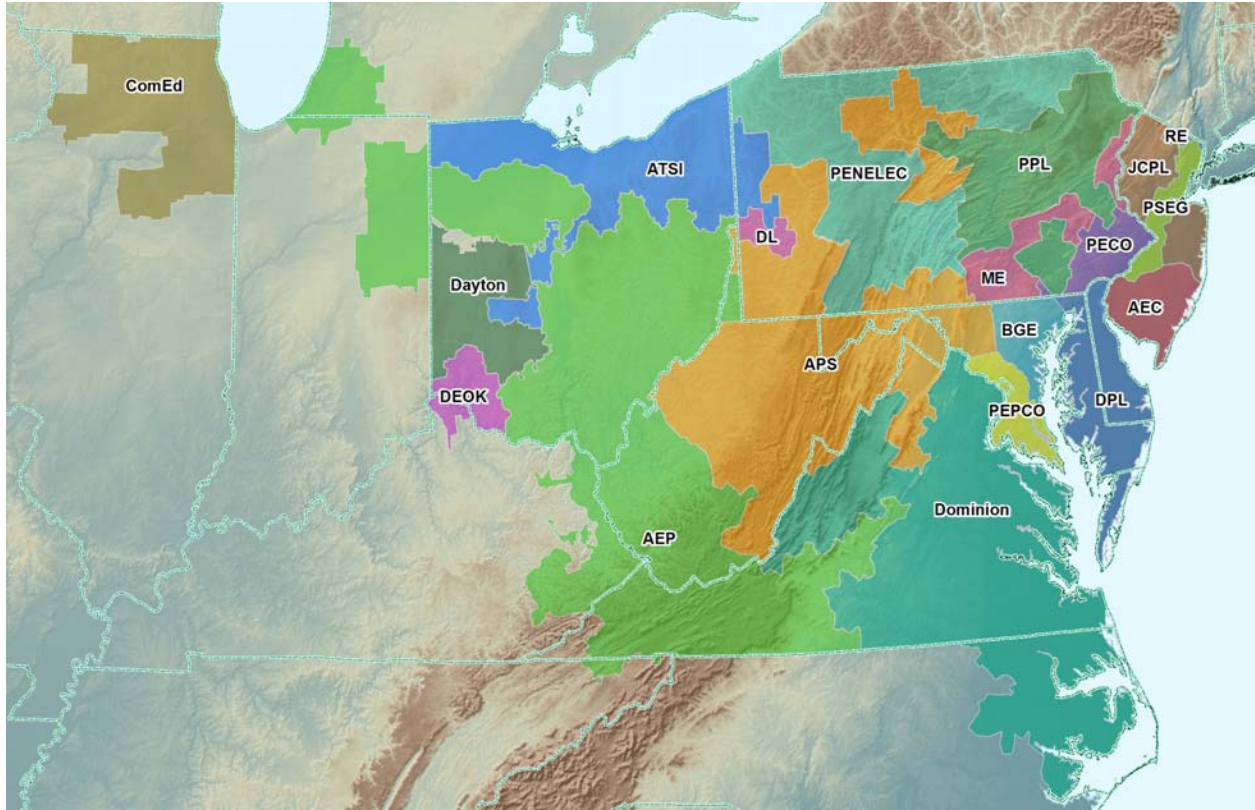
- ATSI
- DEOK
- Dominion
- Penelec
- ComEd
- AEP
- Dayton
- Duquesne
- APS
- AE
- BGE
- DPL
- PECO
- PEPCO
- PSEG
- JCPL
- MetEd
- PPL
- Mid-Atlantic Area Council (MAAC) Region (consisting of all the zones listed below for Eastern MAAC, Western MAAC, and Southwestern MAAC)
- ComEd, AEP, Dayton, APS, Duquesne, ~~and~~ ATSI, and DEOK
- Eastern MAAC (PSE&G, JCP&L, PECO, AE, DPL & RE)
- Southwestern MAAC (PEPCO & BG&E)
- Western MAAC (Penelec, MetEd, PPL)
- PSEG northern region (north of Linden substation); and
- DPL southern region (south of Chesapeake and Delaware Canal)

B. For purposes of evaluating the need for any changes to the foregoing list, Locational Deliverability Areas shall be those areas, identified by the load deliverability analyses conducted pursuant to the Regional Transmission Expansion Planning Protocol and the PJM Manuals that have a limited ability to import capacity due to physical limitations of the transmission system, voltage limitations or stability limitations. Such limits on import capability shall not reflect the effect of Qualifying Transmission Upgrades offered in the Base Residual Auction. The Locational Deliverability Areas identified in Paragraph A above (as it may be amended from time to time) for a Delivery Year shall be modeled in the Base Residual Auction and any Incremental Auction conducted for such Delivery Year. If the Office of the Interconnection includes a new Locational Deliverability Area in the Regional Transmission Expansion Planning Protocol, it shall make a filing with FERC to amend this Schedule to add a new Locational Deliverability Area (including a new aggregate LDA), if such new Locational Deliverability Area is projected to have a capacity emergency transfer limit less than 1.15 times the capacity emergency transfer objective of such area, or if warranted by other reliability concerns consistent with the Reliability Principles and Standards. In addition, any Party may propose, and the Office of the Interconnection shall evaluate, consistent with the same CETO/CETO comparison or other reliability concerns, possible new Locational Deliverability Areas (including aggregate LDAs) for inclusion under the Regional Transmission Expansion Planning Protocol and for purposes of determining locational capacity obligations hereunder.

C. For each Locational Deliverability Area for which a separate VRR Curve was established for a Delivery Year, the Office of the Interconnection shall determine, pursuant to procedures set forth in the PJM Manuals, the Percentage of Internal Resources Required, that must be committed during such Delivery Year from Capacity Resources physically located in such Locational Deliverability Area.

**RAA Reliability Assurance Agreement (RAA) Cover On - RAA SCHEDULE 15  
SCHEDULE 15**

**ZONES WITHIN THE PJM REGION**



<b>FULL NAME</b>	<b>SHORT NAME</b>
Pennsylvania Electric Company .....	Penelec
Allegheny Power .....	APS
PPL Group .....	PPL
Metropolitan Edison Company .....	MetEd
Jersey Central Power and Light Company .....	JCPL
Public Service Electric and Gas Company .....	PSEG
Atlantic City Electric Company .....	AEC
PECO Energy Company .....	PECO
Baltimore Gas and Electric Company .....	BGE
Delmarva Power and Light Company .....	DPL
Potomac Electric Power Company .....	PEPCO
Rockland Electric Company .....	RE
Commonwealth Edison Company .....	ComEd
AEP East Zone .....	AEP
The Dayton Power and Light Company .....	Dayton
Virginia Electric and Power Company .....	Dominion
Duquesne Light Company .....	DL
American Transmission Systems, Incorporated .....	ATSI
<u>Duke Energy Ohio, Inc. and Duke Energy Kentucky, Inc. ....</u>	<u>DEOK</u>

*RAA Reliability Assurance Agreement (RAA) Cover On - RAA SCHEDULE 17*  
**SCHEDULE 17**

**PARTIES TO THE RELIABILITY ASSURANCE AGREEMENT**

This Schedule sets forth the Parties to the Agreement:

AEP Retail Energy Partners LLC  
AES Red Oak, LLC  
Algonquin Energy Services Inc.  
Allegheny Electric Cooperative, Inc.  
Allegheny Energy Supply Company, L.L.C.  
Ally Energy LLC.  
Alpha Gas and Electric LLC  
Ambit Maryland, LLC  
Ameren Energy Marketing Company  
American Electric Power Service Corporation on behalf of its affiliates:  
    Appalachian Power Company  
    Columbus Southern Power Company  
    Indiana Michigan Power Company  
    Kentucky Power Company  
    Kingsport Power Company  
    Ohio Power Company  
    Wheeling Power Company.  
American Municipal Power, Inc.  
American Power Partners LLC  
American PowerNet Management, L.P.  
American Transmission Systems, Inc.  
AP Gas and Electric (PA), LLC  
APN Starfirst, LP  
ArcelorMittal USA LLC  
Asset and Energy Cost Saving Cooperative, LLC  
Atlantic City Electric Company  
Baltimore Gas and Electric Company  
Bank of America, N.A.  
Barclays Bank PLC  
Batavia, IL (City of)  
Blackstone Wind Farm, LLC  
Blue Ridge Power Agency, Inc.  
Blue Star Energy Services, Inc.  
Border Energy Electric Services, Inc.  
Borough of Chambersburg  
Borough of Lavallette, New Jersey  
Borough of Mont Alto, PA  
Borough of Park Ridge, New Jersey

Borough of Pitcairn, Pennsylvania  
Borough of Seaside Heights, New Jersey  
Borough of South River, New Jersey  
BP Energy Company  
Brighten Energy LLC  
Cargill Power Markets LLC  
Castlebridge Energy Group, LLC  
CCES LLC  
Central Virginia Electric Cooperative  
Centre Lane Trading Limited  
Champion Energy Marketing LLC  
Champion Energy, LLC  
Citizens' Electric Company of Lewisburg, PA  
City of Cleveland, Department of Public Utilities, Division of  
Cleveland Public Power  
City of Dover, Delaware  
City of Naperville  
City of New Martinsville - WV  
City of Philippi - West VA  
City of Rochelle  
Clearview Electric, Inc.  
Cleveland Electric Illuminating Company (The)  
Commerce Energy, Inc.  
Commonwealth Edison Company  
Conectiv Energy Supply, Inc.  
ConEdison Energy, Inc.  
ConocoPhillips Company  
Consolidated Edison Solutions, Inc.  
Constellation Energy Commodities Group, Inc.  
Constellation NewEnergy, Inc.  
Constellation Power Source Generation, Inc.  
Corporate Services Support Corp  
Credit Suisse (USA), Inc.  
Dayton Power & Light Company (The)  
DC Energy LLC  
Delaware Municipal Electric Corporation  
Delmarva Power & Light Company  
Denver Energy, LLC  
Devonshire Energy LLC  
Direct Energy Business, LLC  
Direct Energy Services, LLC  
Discount Energy Group, LLC  
Discount Energy, LLC  
Dominion Retail, Inc.  
Downes Associates, Inc.  
DPL Energy Resources, Inc.

Driftwood LLC  
DTE Energy Supply, Inc.  
DTE Energy Trading, Inc.  
Duke Energy Commercial Asset Management, Inc.  
Duke Energy Kentucky, Inc.  
Duke Energy Ohio, Inc.  
Duke Energy Retail Sales, LLC  
Duquesne Light Company  
Duquesne Light Energy, LLC  
Dynergy Energy Services, Inc.  
Dynergy Kendall Energy, LLC  
E Minus LLC  
Easton Utilities Commission  
EDF Industrial Power Services (IL), LLC  
EDF Trading North America, LLC  
Edison Mission Marketing and Trading, Inc.  
Employers' Energy Alliance of Pennsylvania, Inc.  
Energetix, Inc.  
Energy America, LLC  
Energy Cooperative Association of Pennsylvania (The)  
Energy Cooperative of America, Inc.  
Energy International Power Marketing Corporation  
Energy Plus Holdings LLC  
Energy Services Providers, Inc.  
ERA MA, LLC  
Evraz Claymont Steel  
Exelon Energy Company  
Exelon Generation Co., LLC  
FirstEnergy Solutions Corp.  
Front Royal (Town of)  
Galt Power Inc.  
Gateway Energy Services Corporation  
GenOn Power Midwest, LP  
Gerdau Ameristeel Energy, Inc.  
Glacial Energy of New Jersey, Inc.  
Great American Power, LLC  
Green Mountain Energy Company  
Hagerstown Light Department  
Harrison REA, Inc. - Clarksburg, WV  
Hess Corporation  
HIKO Energy, LLC  
Hoosier Energy REC, Inc.  
HOP Energy, LLC  
HSBC Technology & Services (USA), Inc.  
Hudson Energy Services, LLC  
IDT Energy, Inc.

Illinois Municipal Electric Agency  
J. Aron & Company  
J.P. Morgan Ventures Energy Corporation  
Jack Rich, Inc. d/b/a Anthracite Power & Light Company  
Jersey Central Power & Light Company  
Kuehne Chemical Company, Inc.  
L & P Electric Inc., d/b/a Leggett & Platt Electric Inc.  
Liberty Power Corp., L.L.C.  
Liberty Power Delaware LLC  
Liberty Power Holdings LLC  
Linde Energy Services, Inc.  
Lower Electric, LLC  
Macquarie Cook Energy LLC  
Major Energy Electric Services LLC  
Manitou Energy Fund, LP  
MC Squared Energy Services, LLC  
Meadow Lake Wind Farm II LLC  
Meadow Lake Wind Farm III LLC  
Meadow Lake Wind Farm IV LLC  
Meadow Lake Wind Farm LLC  
MeadWestvaco Corporation  
Metropolitan Edison Company  
MidAmerican Energy Company  
Mint Energy, LLC  
Morgan Stanley Capital Group, Inc.  
MP2 Energy NE, LLC  
MXenergy Electric, Inc.  
Nexgen Management and Consulting Inc  
Nextera Energy Services New Jersey, LLC  
Nextera Energy Services, Illinois, LLC  
Noble Americas Energy Solutions LLC  
Noble Americas Gas & Power Corp.  
Nordic Energy Services LLC  
North American Power and Gas LLC.  
North Carolina Electric Membership Corporation  
North Carolina Municipal Power Agency Number 1  
Northern Virginia Electric Cooperative - NOVEC  
NRG Power Marketing, L.L.C.  
NYSEG Solutions, Inc.  
Oasis Power, LLC dba Oasis Energy  
Occidental Power Services, Inc.  
Ohio Edison Company  
Ohms Energy Company, LLC  
Old Dominion Electric Cooperative  
Palmco Power MD, LLC  
Palmco Power NJ, LLC

Palmco Power OH, LLC  
Palmco Power PA, LLC  
Panda Power Corporation  
Parma Energy, LLC  
PBF Power Marketing LLC  
PECO Energy Company  
Pennsylvania Electric Company  
Pennsylvania Power Company  
People's Power & Gas, LLC  
PEPCO Energy Services, Inc.  
Planet Energy (Maryland) Corp.  
Planet Energy (Pennsylvania) Corp.  
Planet Energy (USA) Corp.  
Plymouth Rock Energy, LLC  
Potomac Electric Power Company  
Powhatan Energy Fund LLC  
PPL Electric Utilities Corporation d/b/a PPL Utilities  
PPL Energy Plus, LLC  
Prairieland Energy, Inc.  
PSEG Energy Resources and Trade LLC  
Public Power, LLC  
Public Service Electric & Gas Company  
Realgy, LLC  
ResCom Energy, LLC  
Respond Power LLC  
Riverside Generating, LLC  
Rolling Hills Generating, LLC  
S.J. Energy Partners, Inc.  
Santanna Energy Services  
SeverStal Sparrows Point LLC  
Solios Power Mid-Atlantic Trading LLC  
South Jersey Energy Company  
South Jersey Energy Solutions, L.L.C.  
Southeastern Power Administration  
Southern Indiana Gas & Electric  
Southern Maryland Electric Cooperative, Inc.  
Spark Energy, L.P.  
Starion Energy PA Inc.  
Stream Energy Maryland, LLC  
Stream Energy Pennsylvania, LLC  
Superior Plus Energy Services Inc.  
TC Energy Trading, LLC  
Tenaska Power Services Co.  
Texas Retail Energy, LLC  
The Trustees of the University of Pennsylvania  
Thurmont Municipal Light Company

Toledo Edison Company (The)  
Town of Berlin, Maryland  
Town of Williamsport  
TransAlta Energy Marketing (U.S.) Inc.  
TransCanada Power Marketing Ltd.  
Tri-County Rural Electric Cooperative, Inc.  
TriEagle Energy, LP  
Trinity Powerworks, Inc.  
U.S. Energy Partners dba PAETEC Energy Marketing  
UBS AG, acting through its London Branch  
UGI Energy Services, Inc.  
UGI Utilities, Inc. - Electric Division  
Valero Power Marketing, LLC  
Verde Energy USA, Inc.  
Vineland Municipal Electric Utility (City of Vineland)  
Virginia Electric & Power Company  
Viridian Energy PA LLC  
Wabash Valley Power Association, Inc.  
Washington Gas Energy Services, Inc.  
Wellsboro Electric Company  
West Penn Power Company d/b/a Allegheny Power  
York Generation Company, LLC