

2.5 Calculation of Real-time Prices.

(a) The Office of the Interconnection shall determine *Locational Marginal Prices* based on the least costly means of obtaining energy to serve the next increment of load and meet reserve requirements (taking account of any applicable and available load reductions indicated on PRD Curves properly submitted by any PRD Provider) at each bus in the PJM Region represented in the *network model* and each Interface Pricing Point between PJM and an adjacent Control Area, based on the *operating conditions and the submitted energy offers as described in Tariff, Attachment K-Appendix, section 2.4*. The process for the determination of Real-time Prices occurs in the Real-time Price software program, and is known as the pricing run for the Real-time Energy Market. The Real-time Price software program uses the input data from a reference real-time security constrained economic dispatch case as described in the PJM Manuals and performs the same optimization as the real-time security constrained economic dispatch program but additionally applies Integer Relaxation to Eligible Fast-Start Resources. The real-time security constrained economic dispatch program, which is considered the dispatch run for the Real-time Energy Market, performs a real-time joint optimization of energy and reserves, given operating conditions, a set of energy offers, a set of reserve offers, a set of Operating Reserve Demand Curves, and any monitored transmission constraints that may exist.

(b) To determine operating conditions on the power grid in the PJM Region (including transmission constraints on external coordinated flowgates to the extent provided by Tariff, Attachment K-Appendix, section 1.7.6), the Office of the Interconnection shall use a computer model of the interconnected grid that uses available metered inputs regarding generator output, loads, and power flows to model remaining flows and conditions, producing a consistent representation of power flows on the network as an input into the real-time security constrained economic dispatch. The computer model employed for this purpose, referred to as the State Estimator program, is a standard industry tool and is described in Tariff, Attachment K-Appendix, section 2.3. The State Estimator solution used by the real-time security constrained economic dispatch will be used to obtain information regarding the output of generation supplying energy to the PJM Region, loads at buses in the PJM Region, transmission losses, and power flows on binding transmission constraints. Additional information used in the calculation, including Dispatch Rates and real time schedules for external transactions between PJM and other Control Areas and dispatch and pricing information from entities with whom PJM has executed a joint operating agreement, will be obtained from the Office of the Interconnection's dispatchers.

(c) Using the prices at which energy is offered by Market Sellers and demand reductions are offered by Economic Load Response Participants, Pre-Emergency Load Response participants and Emergency Load Response participants to the PJM Interchange Energy Market, the Office of the Interconnection shall determine the offers of energy and demand reductions that will be considered in the calculation of Locational Marginal Prices. As described in Tariff, Attachment K-Appendix, section 2.4, every qualified offer for demand reduction and of energy by a Market Seller from resources that are dispatched by the Office of the Interconnection will be utilized in the calculation of Locational Marginal Prices, including, without limitation, qualified Real-time Energy Market offers from Economic Load Response Participants, Emergency Load Response and Pre-Emergency Load Response.

(d) In performing *the Real-time Price* calculation, the Office of the Interconnection shall calculate the cost of serving an increment of load at each bus from each resource associated with an eligible energy offer *as described in Tariff, Attachment K-Appendix, section 2.4* as the sum of the following components of Locational Marginal Price: (1) System Energy Price, which is the price at which the Market Seller has offered to supply an additional increment of energy from a generation resource or decrease an increment of energy being consumed by an Economic Load Response Participant resource, (2) Congestion Price, which is the effect on transmission congestion costs (whether positive or negative) associated with increasing the output of a generation resource or decreasing the consumption by an Economic Load Response Participant resource, based on the effect of increased generation from the resource on transmission line loadings, and (3) Loss Price, which is the effect on transmission loss costs (whether positive or negative) associated with increasing the output of a generation resource or decreasing the consumption by an Economic Load Response Participant resource based on the effect of increased generation from or consumption by the resource on transmission losses. The *Real-time Prices* at a bus shall be determined through the joint optimization program based on the lowest marginal cost to serve the next increment of load at the bus taking into account resource constraints, transmission constraints, marginal loss impact, and the applicable Operating Reserve Demand Curves. When the marginal energy megawatts is provided by converting a megawatts of reserves into a megawatts of energy, the resulting Locational Marginal Price takes into account the opportunity cost of that exchange.

(e) *During the Operating Day, the calculation set forth in Tariff, Attachment K-Appendix, section 2.5 shall be performed every five minutes, using the Office of the Interconnection's Real-time Price software program, producing the Real-time Prices for the current five minute interval based on forecasted system conditions and the latest approved PJM security-constrained economic dispatch solution with a target time during the preceding interval at the end of the current five minute interval. If no security-constrained economic dispatch solution was approved for the target time at the end of the current five minute interval, the Locational Marginal Price program will use the most recently approved security-constrained economic dispatch solution with a target time prior to the end of the Locational Marginal Price program five minute interval. If a technical problem with or malfunction of the security-constrained economic dispatch or Locational Marginal Price software programs exists, including but not limited to program failures or data input failures, the Office of the Interconnection will utilize the best available RT SCED solution to calculate LMPs.*

2.5.1 Declaration of Shortage Pricing

(a) *The Office of the Interconnection shall use its Real-time Price software program, to determine if the Office of the Interconnection is experiencing a Primary Reserve shortage and/or a Synchronized Reserve shortage for the purposes of declaring shortage pricing as further described in the PJM Manuals. Shortage pricing shall exist until the Real-time Price software program is able to meet the specified reserve requirements.*

(b) *If a Primary Reserve shortage and/or Synchronized Reserve shortage exists and cannot be accurately forecasted by the Office of the Interconnection due to a technical problem,*

including but not limited to failures of data input into the Real-time Price software program, the Office of the Interconnection will utilize the best available alternate data sources to determine if a Reserve Zone or Reserve Sub-zone is experiencing a Primary Reserve shortage and/or a Synchronized Reserve shortage.

(c) The Office of the Interconnection shall issue day-ahead alerts to PJM Members of the possible need to use emergency procedures during the following Operating Day. Such emergency procedures may be required to alleviate real-time emergency conditions such as a transmission emergency or potential reserve shortage. The alerts issued by the Office of the Interconnection may include, but are not limited to, the Maximum Generation Emergency Alert, Primary Reserve Alert and/or Voltage Reduction Alert. These alerts shall be issued to keep all affected system personnel informed of the forecasted status of the PJM bulk power system. The Office of the Interconnection shall notify PJM Members of all alerts and the cancellation thereof via the methods described in the PJM Manuals. The alerts shall be issued as soon as practicable to allow PJM Members sufficient time to prepare for such operating conditions. The day-ahead alerts issued by the Office of the Interconnection are for informational purposes only and by themselves will not impact price calculation during the Operating Day.

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

The purpose of the Primary Reserve Warning is to warn members that the available Primary Reserve may be less than the Minimum Primary Reserve Requirement. If the Primary Reserve shortage condition was determined as described above, the applicable Reserve Penalty Factor is incorporated into the Synchronized Reserve Market Clearing Price, Non-Synchronized Reserve Market Clearing Price and Locational Marginal Price as applicable.

The purpose of the Voltage Reduction Warning is to warn PJM Members that the available Synchronized Reserve may be less than the Minimum Synchronized Reserve Requirement and that a voltage reduction may be required. Following the Voltage Reduction Warning, the Office of the Interconnection may issue a Voltage Reduction Action during which it directs PJM Members to initiate a voltage reduction. If the Office of the Interconnection issues a Voltage Reduction Action for the Reserve Zone or Reserve Sub-Zone the Reserve Penalty Factors for the Minimum 30-minute Reserve Requirement, the Minimum Primary Reserve Requirement and the Minimum Synchronized Reserve Requirement are incorporated in the calculation of the Synchronized Reserve Market Clearing Price, Non-Synchronized Reserve Market Clearing Price, Secondary Reserve Market Clearing Price, and Locational Marginal Price as applicable. The Reserve Penalty Factors for the Minimum 30-minute Reserve Requirement, the Minimum Primary Reserve Requirement and the Minimum Synchronized Reserve Requirement will

continue to be used in the Synchronized Reserve Market Clearing Price, Non-Synchronized Reserve Market Clearing Price, Secondary Reserve Market Clearing Price, and Locational Marginal Price calculation, as applicable, until the Voltage Reduction Action has been terminated.

The purpose of the Manual Load Dump Warning is to warn members that dumping load may be necessary to maintain reliability. Following the Manual Load Dump Warning, the Office of the Interconnection may commence a Manual Load Dump Action during which it directs PJM Members to initiate a manual load dump pursuant to the procedures described in the PJM Manuals. If the Office of the Interconnection issues a Manual Load Dump Action for the Reserve Zone or Reserve Sub-Zone the Reserve Penalty Factors for the Minimum 30-minute Reserve Requirement, the Minimum Primary Reserve Requirement and the Minimum Synchronized Reserve Requirement are incorporated in the calculation of the Synchronized Reserve Market Clearing Price, Non-Synchronized Reserve Market Clearing Price, Secondary Reserve Market Clearing Price, and Locational Marginal Price as applicable. The Reserve Penalty Factors for the Minimum 30-minute Reserve Requirement, the Minimum Primary Reserve Requirement and the Minimum Synchronized Reserve Requirement will continue to be used in the Synchronized Reserve Market Clearing Price, Non-Synchronized Reserve Market Clearing Price, Secondary Reserve Market Clearing Price, and Locational Marginal Price calculation, as applicable, until the Manual Load Dump Action has been terminated.

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