



PJM Interconnection, L.L.C.
2750 Monroe Boulevard
Audubon, PA 19403

Chenchao Lu
Counsel
T: (610) 666-2255 | F: (610) 666-8211
Chenchao.Lu@pjm.com

December 11, 2017

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E. Room 1A
Washington, D.C. 20426

*Re: PJM Interconnection L.L.C., Docket No. EL17-1567-001
Compliance Filing Concerning the Offer Cap Rule*

Dear Secretary Bose:

In compliance with the November 9, 2017 Order of the Federal Energy Regulatory Commission (“Commission”) in the above referenced proceeding,¹ PJM Interconnection, L.L.C. (“PJM”) submits modifications to the Amended and Restated Operating Agreement of PJM (“Operating Agreement”). As provided in the November 9 Order, the Commission will establish an effective date for these provisions in a subsequent order.²

I. BACKGROUND

In Order No. 831, the Commission addressed the incremental energy offer component of a resource’s supply offer, which required PJM to amend existing caps on incremental energy offers and implement additional measures. On May 8, 2017, PJM submitted revisions to its

¹ *PJM Interconnection, L.L.C., et al.*, 161 FERC ¶ 61,153 (2017) (“November 9 Order”).

² November 9 Order at P 1.

Operating Agreement and the parallel provisions of the PJM Open Access Transmission Tariff (“Tariff”)³ to comply with the requirements of Order No. 831.⁴ In its November 9 Order, the Commission accepted in part and rejected in part PJM’s compliance filing, and directed additional compliance. In accordance with the Commission’s November 9 Order, PJM submits revisions to the Operating Agreement, Schedule 1, sections 6.4 and 1.10.

II. SATISFACTION OF THE COMPLIANCE REQUIREMENTS OF THE NOVEMBER 9 ORDER

A. Costs included in Maximum Allowable Operating Rate

In the May 8 Filing, PJM proposed to calculate a Maximum Allowable Operating Rate for a resource based on that resource’s heat rate, performance factor, and two adders. The Commission accepted the proposed verification methodology, but directed PJM to submit a further compliance filing and limit the total amount of any adders above cost included in cost-based incremental energy offers above \$1,000/MWh to \$100/MWh.⁵ Consistent with the Commission’s Order, PJM’s revises Operating Agreement, Schedule 1, section 6.4.2(a)(ii) to reflect the changes required by the Commission, as shown in blackline below:

- (ii) For offers of \$2,000/MWh or less, the incremental operating cost of the generation resource as determined in accordance with Schedule 2 of the Operating Agreement and the PJM Manuals (“incremental cost”), plus up to the lesser of 10% of such costs or \$100 MWh, the sum of which shall not exceed \$2,000/MWh; and, for offers greater than \$2,000/MWh, the incremental cost of the generation resource;

³ All references in the text of this transmittal letter to the Operating Agreement, Schedule 1 also are intended to encompass the identical, parallel provisions in Tariff, Attachment K-Appendix.

⁴ *PJM Interconnection, L.L.C.*, Order No. 831 Compliance Filing, Docket No. ER16-1567-000 (May 8, 2017) (“May 8 Filing”).

⁵ November 9 Order at P 54.

B. Formulation of the Maximum Allowable Incremental Cost

In the May 8 Filing, PJM proposed to verify cost-based incremental energy offers above \$1,000/MWh using an automated screen that will compare such offers to the Maximum Allowable Incremental Cost. While the Commission found that the proposed verification process ensures a resource's cost based incremental energy offer reflects the resource's actual or expected short-run marginal costs, the Commission ruled that PJM did not sufficiently explain how the Maximum Allowable Incremental Cost would be calculated for a resource's first energy offer segment. In addition, the Commission found that PJM's proposed Tariff revisions that define the Maximum Allowable Incremental Cost formula contained minor errors in unit specifications. Consequently, the Commission directed PJM to submit a further compliance filing that corrects the units to define Heat Input and explains how the Maximum Allowable Incremental Cost would be calculated for a resource's first incremental energy offer.⁶ In compliance with the Commission's order, PJM proposes to revise the equation for Heat Input in Operating Agreement, Schedule 1, section 6.4.3(a) as shown in blackline below:

Heat Input = a heat ~~rate~~-input curve (in ~~MW/mm~~MW/~~mm~~MMBtu/~~BTU~~hr), determined in accordance with the Market Seller's PJM-approved Fuel Cost Policy, Operating Agreement, Schedule 2, and PJM Manual 15, describing the resource's operational characteristics for converting the applicable fuel input (~~mm~~BTU~~MMBtu~~) into energy (MW) specified in the Incremental Energy Offer, and up to the greater of the resource's Emergency Maximum or the last offer segment in MW;⁷

Further, PJM proposes to clarify the offer screening calculation for the resource's first incremental offer segment, in Operating Agreement, Schedule 1, section 6.4.3(a), as follows:

⁶ November 9 Order at PP 55 and 57.

⁷ Italicized language reflects proposed provisions that have not yet been approved by the Commission and not currently effective.

- (i) For the first incremental segment (i=1), when the MW in the segment is greater than zero, the first segment shall be screened as a block-loaded segment (UBS=0) as if there was a preceding MW_{i-1} of zero. The Maximum Allowable Incremental Cost calculation for the first incremental would use a preceding Bid Production Cost_{i-1} (at zero MW) equal to the energy No-Load Cost.
- (ii) For the first incremental segment (i=1), when the MW in the segment is equal to zero, and is the only bid-in segment to be verified, then the segment shall be deemed not verified and subject to the rules as described above.
- (iii) For the first incremental segment (i=1), when the MW in the segment is equal to zero, and there are additional segments to be verified, then the first segment shall be deemed verified only if the second segment is deemed verified. If the second segment is deemed not verified, then the first segment shall also be deemed not verified and subject to the rules as described above.

C. Resource Neutrality

In the May 8 Filing, PJM proposed to allow Economic Load Response, Pre-Emergency Load Response, and Emergency Load Response resources to submit offers based on incremental costs greater than \$1,000/MWh to set Locational Marginal Price. The Commission rejected PJM's proposal to change the offer strike prices of Pre-Emergency Load Response and Emergency Load Response resources because it was deemed outside the scope of compliance with Order No. 831. As a result, the Commission directed PJM to submit a compliance filing that removes the provisions relating to Pre-Emergency Load Response and Emergency Load Response resources.⁸ Accordingly, PJM submits the following revision to Operating Agreement, Schedule 1, section 6.4.3(b), as shown in blackline below.

(b) If an Economic Load Response Participant ~~an Emergency Load Response participant, or an Pre-Emergency Load Response participant~~ submits a cost-based demand reduction offer that includes incremental costs greater than or equal to \$1,000/megawatt-hour, in order for that offer to be eligible to determine the applicable Locational Marginal Price under section 2.2 of this Schedule, the Economic Load Response Participant must validate the incremental costs with the end use customer(s)

⁸ November 9 Order at P 70.

and, upon request, submit to the Office of the Interconnection supporting documentation demonstrating that the end-use customer's costs in providing such demand reduction are greater than \$1,000/megawatt-hour in accordance with the following provisions:

(i) The supporting documentation must explain and support the quantification of the end-use customer's incremental costs; and

(ii) The end use customer's incremental costs shall include quantifiable cost incurred for not consuming electricity when dispatched by the Office of the Interconnection, such as wages paid without production, lost sales, damaged products that cannot be sold, or other incremental costs as defined in the PJM Manuals or as approved by the Office of the Interconnection, and may not include shutdown costs.

If upon review of the supporting documentation for the Economic Load Response Participant's, ~~Emergency Load Response participants~~, or an ~~Pre-Emergency Load Response participant's~~ cost-based offer by the Office of the Interconnection and the Market Monitoring Unit, the Office of the Interconnection and/or the Market Monitoring Unit determines that the offer was not reasonably supported by incremental costs greater than or equal to \$1,000/megawatt-hour, the Office of the Interconnection and/or the Market Monitoring Unit may refer the matter to the FERC Office of Enforcement for investigation.

Consistent with the aforementioned changes to remove provisions related to Pre-Emergency Load Response and Emergency Load Response resources, PJM also revises Operating Agreement, Schedule 1, section 1.10.1A(d), in blackline, as follows:

- ix) *Shall not exceed a demand reduction offer price of \$1,000/megawatt-hour, except when an Economic Load Response Participant, ~~an Emergency Load Response participant, or a Pre-Emergency Load Response participant~~ submits a cost-based offer that includes an incremental cost component that is above \$1,000/megawatt-hour, then its market-based offer must be less than or equal to the cost-based offer but in no event greater than \$2,000/megawatt-hour; and*

D. External and Virtual Transactions

The Commission explained in its November 9 Order that Order No. 831 allowed import and export transactions, as well as virtual transactions, to offer only up to \$2,000/MWh. Since PJM did not propose to modify the current caps of \$3,700/MWh⁹ on economic external and virtual transactions as part of the May 8 Filing, the Commission directed PJM to revise capping the offers for external and virtual transactions to \$2,000/MWh.¹⁰ In accordance with the Commission's Order, PJM revises Operating Agreement, Schedule 1, section 1.10.1A(c) and creates Operating Agreement, Schedule 1, section 1.10.1A(c-2), in blackline, as follows:

(c) All Market Participants shall submit to the Office of the Interconnection schedules for any energy exports, energy imports, and wheel through transactions involving use of generation or Transmission Facilities as specified below, and shall inform the Office of the Interconnection if the transaction is to be scheduled in the Day-ahead Energy Market. Any Market Participant that elects to schedule an export, import or wheel through transaction in the Day-ahead Energy Market may specify the price (such price not to exceed ~~the maximum price that may be specified in the PJM Manual~~ \$2,000/MWh), if any, at which the export, import or wheel through transaction will be wholly or partially curtailed. The foregoing price specification shall apply to the applicable interface pricing point. Any Market Participant that elects not to schedule its export, import or wheel through transaction in the Day-ahead Energy Market shall inform the Office of the Interconnection if the parties to the transaction are not willing to incur Transmission Congestion and Loss Charges in the Real-time Energy Market in order to complete any such scheduled transaction. Such transactions in the Real-Time Energy Market, other than Coordinated Transaction Scheduling and emergency energy sales and purchases, may specify a price up to \$2,000/MWh. Scheduling of such transactions shall be conducted in accordance with the specifications in the PJM Manuals and the following requirements:

⁹ The Commission stated the current cap for external and virtual transactions as \$2,700; however the current cap for such transactions is, actually, \$3,700. This is based on the increase in the generation energy offer cap from \$1,000 to \$2,000 as filed in Docket No. ER16-814-000 and accepted on March 4, 2016. *PJM Interconnection, L.L.C.*, Letter Order, Docket No. ER16-814-000 (March 4, 2016).

¹⁰ November 9 Order at P 74 and 76.

- i) Market Participants shall submit schedules for all energy purchases for delivery within the PJM Region, whether from resources inside or outside the PJM Region;
- ii) Market Participants shall submit schedules for exports for delivery outside the PJM Region from resources within the PJM Region that are not Dynamic Transfers to such entities pursuant to Section 1.12; and
- iii) In addition to the foregoing schedules for exports, imports and wheel through transactions, Market Participants shall submit confirmations of each scheduled transaction from each other party to the transaction in addition to the party submitting the schedule, or the adjacent Control Area.

(c-2) A Market Participant may elect to submit an Increment Offer and/or Decrement Bid form of Virtual Transaction in the Day-ahead Energy Market and shall specify the price for such transaction which shall be limited to \$2,000/megawatt-hour.

III. EFFECTIVE DATE

Consistent with the November 9 Order, the effective date for the changes herein will be determined by the Commission in a subsequent Order.

IV. DOCUMENTS ENCLOSED

PJM encloses the following:

1. This transmittal letter;
2. Attachment A – Revisions to the Tariff and Operating Agreement, in redlined format; and
3. Attachment B – Revisions to the Tariff and Operating Agreement, in clean format.

V. COMMUNICATIONS

Correspondence and communications with respect to this filing should be sent to the following persons:

Craig Glazer
Vice President – Federal Government Policy
PJM Interconnection, L.L.C.
1200 G Street, N.W.
Suite 600
Washington, D.C. 20005
(202) 202-423-4743
Craig.Glazer@pjm.com

Chenchao Lu
Counsel
PJM Interconnection, L.L.C.
2750 Monroe Boulevard
Audubon, PA 19403
(610) 666-2255
Chenchao.Lu@pjm.com

VI. SERVICE

PJM has served a copy of this filing on all PJM Members and on all state utility regulatory commissions in the PJM Region by posting this filing electronically. In accordance with the Commission's regulations,¹¹ PJM will post a copy of this filing to the FERC filings section of its internet site, located at the following link: <http://www.pjm.com/documents/ferc-manuals.aspx> with a specific link to the newly-filed document, and will send an e-mail on the same date as this filing to all PJM Members and all state utility regulatory commissions in the PJM Region¹² alerting them that this filing has been made by PJM today and is available by following such link.

VII. CONCLUSION

PJM respectfully requests that the Commission accept this compliance filing and establish an effective date as discussed herein.

¹¹ See 18 C.F.R §§ 35.2(e) and 385.2010(f)(3).

¹² PJM already maintains, updates, and regularly uses e-mail lists for all PJM members and affected commissions.

Honorable Kimberly D. Bose, Secretary
December 11, 2017
Page 9

Respectfully submitted,



Craig Glazer
Vice President – Federal Government Policy
PJM Interconnection, L.L.C.
1200 G Street, N.W.
Suite 600
Washington, D.C. 20005
(202) 202-423-4743
Craig.Glazer@pjm.com

Chenchao Lu
Counsel
PJM Interconnection, L.L.C.
2750 Monroe Boulevard
Audubon, PA 19403
(610) 666-2255
Chenchao.Lu@pjm.com

On behalf of
PJM Interconnection, L.L.C.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Audubon, PA, this 11th day of December, 2017.



Chenchao Lu
Attorney for PJM Interconnection, L.L.C.

Attachment A

Revisions to the PJM Open Access Transmission Tariff and PJM Operating Agreement

(Marked / Redline Format)

Section(s) of the
PJM Open Access Transmission Tariff
(Marked / Redline Format)

1.10 Scheduling.

1.10.1 General.

- (a) The Office of the Interconnection shall administer scheduling processes to implement a Day-ahead Energy Market and a Real-time Energy Market. PJMSettlement shall be the Counterparty to the purchases and sales of energy that clear the Day-ahead Energy Market and the Real-time Energy Market; provided that PJMSettlement shall not be a contracting party to bilateral transactions between Market Participants or with respect to a Generating Market Buyer's self-schedule or self-supply of its generation resources up to that Generating Market Buyer's Equivalent Load.
- (b) The Day-ahead Energy Market shall enable Market Participants to purchase and sell energy through the PJM Interchange Energy Market at Day-ahead Prices and enable Transmission Customers to reserve transmission service with Transmission Congestion Charges and Transmission Loss Charges based on locational differences in Day-ahead Prices. Up-to Congestion Transactions submitted in the Day-ahead Energy Market shall not require transmission service and Transmission Customers shall not reserve transmission service for such Up-to Congestion Transactions. Market Participants whose purchases and sales, and Transmission Customers whose transmission uses are scheduled in the Day-ahead Energy Market, shall be obligated to purchase or sell energy, or pay Transmission Congestion Charges and Transmission Loss Charges, at the applicable Day-ahead Prices for the amounts scheduled.
- (c) In the Real-time Energy Market, Market Participants that deviate from the amounts of energy purchases or sales, or Transmission Customers that deviate from the transmission uses, scheduled in the Day-ahead Energy Market shall be obligated to purchase or sell energy, or pay Transmission Congestion Charges and Transmission Loss Charges, for the amount of the deviations at the applicable Real-time Prices or price differences, unless otherwise specified by this Schedule.
- (d) The following scheduling procedures and principles shall govern the commitment of resources to the Day-ahead Energy Market and the Real-time Energy Market over a period extending from one week to one hour prior to the real-time dispatch. Scheduling encompasses the day-ahead and hourly scheduling process, through which the Office of the Interconnection determines the Day-ahead Energy Market and determines, based on changing forecasts of conditions and actions by Market Participants and system constraints, a plan to serve the hourly energy and reserve requirements of the Internal Market Buyers and the purchase requests of the External Market Buyers in the least costly manner, subject to maintaining the reliability of the PJM Region. Scheduling does not encompass Coordinated External Transactions, which are subject to the procedures of Section 1.13 of this Schedule 1 of this Agreement. Scheduling shall be conducted as specified in Section 1.10.1A below, subject to the following condition. If the Office of the Interconnection's forecast for the next seven days projects a likelihood of Emergency conditions, the Office of the Interconnection may commit, for all or part of such seven day period, to the use of generation resources with notification or start-up times greater than one day as necessary in order to alleviate or mitigate such Emergency, in accordance with the Market Sellers' offers for such units for such periods and the specifications in the PJM

Manuals. Such resources committed by the Office of the Interconnection to alleviate or mitigate an Emergency will not receive Operating Reserve Credits nor otherwise be made whole for its hours of operation for the duration of any portion of such commitment that exceeds the maximum start-up and notification times for such resources during Hot Weather Alerts and Cold Weather Alerts, consistent with Sections 3.2.3 and 6.6 hereof.

1.10.1A Day-ahead Energy Market Scheduling.

The following actions shall occur not later than 10:30 a.m. on the day before the Operating Day for which transactions are being scheduled, or such other deadline as may be specified by the Office of the Interconnection in order to comply with the practical requirements and the economic and efficiency objectives of the scheduling process specified in this Schedule.

(a) Each Market Participant may submit to the Office of the Interconnection specifications of the amount and location of its customer loads and/or energy purchases to be included in the Day-ahead Energy Market for each hour of the next Operating Day, such specifications to comply with the requirements set forth in the PJM Manuals. Each Market Buyer shall inform the Office of the Interconnection of the prices, if any, at which it desires not to include its load in the Day-ahead Energy Market rather than pay the Day-ahead Price. PRD Providers that have committed Price Responsive Demand in accordance with the Reliability Assurance Agreement shall submit to the Office of the Interconnection, in accordance with procedures specified in the PJM Manuals, any desired updates to their previously submitted PRD Curves, provided that such updates are consistent with their Price Responsive Demand commitments, and provided further that PRD Providers that are not Load Serving Entities for the Price Responsive Demand at issue may only submit PRD Curves for the Real-time Energy Market. Price Responsive Demand that has been committed in accordance with the Reliability Assurance Agreement shall be presumed available for the next Operating Day in accordance with the most recently submitted PRD Curve unless the PRD Curve is updated to indicate otherwise. PRD Providers may also submit PRD Curves for any Price Responsive Demand that is not committed in accordance with the Reliability Assurance Agreement; provided that PRD Providers that are not Load Serving Entities for the Price Responsive Demand at issue may only submit PRD Curves for the Real-time Energy Market. All PRD Curves shall be on a PRD Substation basis, and shall specify the maximum time period required to implement load reductions.

(b) Each Generating Market Buyer shall submit to the Office of the Interconnection:
(i) hourly schedules for resource increments, including hydropower units, self-scheduled by the Market Buyer to meet its Equivalent Load; and (ii) the Dispatch Rate at which each such self-scheduled resource will disconnect or reduce output, or confirmation of the Market Buyer's intent not to reduce output.

(c) All Market Participants shall submit to the Office of the Interconnection schedules for any energy exports, energy imports, and wheel through transactions involving use of generation or Transmission Facilities as specified below, and shall inform the Office of the Interconnection if the transaction is to be scheduled in the Day-ahead Energy Market. Any Market Participant that elects to schedule an export, import or wheel through transaction in the Day-ahead Energy Market may specify the price (such price not to exceed ~~the maximum price that may be specified~~

~~in the PJM Manuals~~ \$2,000/MWh), if any, at which the export, import or wheel through transaction will be wholly or partially curtailed. The foregoing price specification shall apply to the applicable interface pricing point. Any Market Participant that elects not to schedule its export, import or wheel through transaction in the Day-ahead Energy Market shall inform the Office of the Interconnection if the parties to the transaction are not willing to incur Transmission Congestion and Loss Charges in the Real-time Energy Market in order to complete any such scheduled transaction. Such transactions in the Real-Time Energy Market, other than Coordinated Transaction Schedules and emergency energy sales and purchases, may specify a price up to \$2,000/MWh. Scheduling of such transactions shall be conducted in accordance with the specifications in the PJM Manuals and the following requirements:

- i) Market Participants shall submit schedules for all energy purchases for delivery within the PJM Region, whether from resources inside or outside the PJM Region;
- ii) Market Participants shall submit schedules for exports for delivery outside the PJM Region from resources within the PJM Region that are not Dynamic Transfers to such entities pursuant to Section 1.12; and
- iii) In addition to the foregoing schedules for exports, imports and wheel through transactions, Market Participants shall submit confirmations of each scheduled transaction from each other party to the transaction in addition to the party submitting the schedule, or the adjacent Control Area.

(c-1) A Market Participant may elect to submit in the Day-ahead Energy Market a form of Virtual Transaction that combines an offer to sell energy at a source, with a bid to buy the same megawatt quantity of energy at a sink where such transaction specifies the maximum difference between the Locational Marginal Prices at the source and sink. The Office of Interconnection will schedule these transactions only to the extent this difference in Locational Marginal Prices is within the maximum amount specified by the Market Participant. A Virtual Transaction of this type is referred to as an “Up-to Congestion Transaction.” Such Up-to Congestion Transactions may be wholly or partially scheduled depending on the price difference between the source and sink locations in the Day-ahead Energy Market. The maximum difference between the source and sink prices that a participant may specify shall be limited to +/- \$50/MWh. The foregoing price specification shall apply to the price difference between the specified source and sink in the day-ahead scheduling process only. An accepted Up-to Congestion Transaction results in scheduled injection at a specified source and scheduled withdrawal of the same megawatt quantity at a specified sink in the Day-ahead Energy Market. The source-sink paths on which an Up-to Congestion Transaction may be submitted are limited to those paths posted on the PJM internet site and determined by the Office of the Interconnection using the following criteria:

Step 1: Start with the historic set of eligible nodes that were available as sources and sinks for interchange transactions on the PJM OASIS.

Step 2: Remove from the list of nodes described in Step 1 all load buses below 69 kV.

Step 3: Remove from the resulting set of nodes from Step 2 all generator buses at which no generators of 100 megawatts or more are connected.

Step 4: Remove from the results of Step 3 all electrically equivalent nodes.

(c-2) A Market Participant may elect to submit an Increment Offer and/or Decrement Bid form of Virtual Transaction in the Day-ahead Energy Market and shall specify the price for such transaction which shall be limited to \$2,000/megawatt-hour.

(d) Market Sellers in the Day-ahead Energy Market shall submit offers for the supply of energy, demand reductions, or other services for the following Operating Day for each clock hour for which the Market Seller desires or is required to make its resource available to the Office of the Interconnection. Offers for the supply of energy may be cost-based, market-based, or both, and may vary hourly. Offers shall be submitted to the Office of the Interconnection in the form specified by the Office of the Interconnection and shall contain the information specified in the Office of the Interconnection's Offer Data specification, this Section 1.10.1A(d), Section 1.10.9B, Schedule 2 of the Operating Agreement, and the PJM Manuals, as applicable. Market Sellers owning or controlling the output of a Generation Capacity Resource that was committed in an FRR Capacity Plan, self-supplied, offered and cleared in a Base Residual Auction or Incremental Auction, or designated as replacement capacity, as specified in Attachment DD of the PJM Tariff, and that has not been rendered unavailable by a Generator Planned Outage, a Generator Maintenance Outage, or a Generator Forced Outage shall submit offers for the available capacity of such Generation Capacity Resource, including any portion that is self-scheduled by the Generating Market Buyer. Such offers shall be based on the ICAP equivalent of the Market Seller's cleared UCAP capacity commitment, provided, however, where the underlying resource is a Capacity Storage Resource or an Intermittent Resource, the Market Seller shall satisfy the must offer requirement by either self-scheduling or offering the unit as a dispatchable resource, in accordance with the PJM Manuals, where the hourly day-ahead self-scheduled values for such Capacity Storage Resources and Intermittent Resources may vary hour to hour from the capacity commitment. Any offer not designated as a Maximum Emergency offer shall be considered available for scheduling and dispatch under both Emergency and non-Emergency conditions. Offers may only be designated as Maximum Emergency offers to the extent that the Generation Capacity Resource falls into at least one of the following categories:

- i) Environmental limits. If the resource has a limit on its run hours imposed by a federal, state, or other governmental agency that will significantly limit its availability, on either a temporary or long-term basis. This includes a resource that is limited to operating only during declared PJM capacity emergencies by a governmental authority.
- ii) Fuel limits. If physical events beyond the control of the resource owner result in the temporary interruption of fuel supply and there is limited on-site fuel storage. A fuel supplier's exercise of a contractual right to

interrupt supply or delivery under an interruptible service agreement shall not qualify as an event beyond the control of the resource owner.

- iii) Temporary emergency conditions at the unit. If temporary emergency physical conditions at the resource significantly limit its availability.
- iv) Temporary megawatt additions. If a resource can provide additional megawatts on a temporary basis by oil topping, boiler over-pressure, or similar techniques, and such megawatts are not ordinarily otherwise available.

The submission of offers for resource increments that have not cleared in a Base Residual Auction or an Incremental Auction, were not committed in an FRR Capacity Plan, and were not designated as replacement capacity under Attachment DD of the PJM Tariff shall be optional, but any such offers must contain the information specified in the Office of the Interconnection's Offer Data specification, Operating Agreement, Schedule 1, sections 1.10.1A(d), and 1.10.9B, Operating Agreement, Schedule 2, and the PJM Manuals, as applicable. Energy offered from generation resources that have not cleared a Base Residual Auction or an Incremental Auction, were not committed in an FRR Capacity Plan, and were not designated as replacement capacity under Attachment DD of the PJM Tariff shall not be supplied from resources that are included in or otherwise committed to supply the Operating Reserves of a Control Area outside the PJM Region.

The foregoing offers:

- i) Shall specify the Generation Capacity Resource or Demand Resource and energy or demand reduction amount, respectively, for each clock hour in the offer period;
- ii) Shall specify the amounts and prices for each clock hour during the entire Operating Day for each resource component offered by the Market Seller to the Office of the Interconnection;
- iii) May specify for generation resources offer parameters for each clock hour during the entire Operating Day, as applicable and in accordance with section 1.10.9B below, including: (1) Minimum Run Time; (2) maximum run time; (3) Start-up Costs; (4) No-load Costs; (5) Incremental Energy Offer; (6) notification time; (7) availability; (8) ramp rate; (9) Economic Minimum; (10) Economic Maximum; (11) emergency minimum MW; and (12) emergency maximum MW, and may specify offer parameters for Demand Resources for each clock hour during the entire Operating Day, as applicable and in accordance with section 1.10.9B below, including: (1) minimum down time; (2) shutdown costs; (3) Incremental Energy Offer; (4) notification time; (5) Economic Minimum; and (6) Economic Maximum;

- iv) Shall set forth any special conditions upon which the Market Seller proposes to supply a resource increment, including any curtailment rate specified in a bilateral contract for the output of the resource, or any cancellation fees;
- v) May include a schedule of offers for prices and operating data contingent on acceptance by the deadline specified in this Schedule, with additional schedules applicable if accepted after the foregoing deadline;
- vi) Shall constitute an offer to submit the resource increment to the Office of the Interconnection for scheduling and dispatch in accordance with the terms of the offer for the clock hour, which offer shall remain open through the Operating Day, for which the offer is submitted, unless the Market Seller a) submits a Real-time Offer for the applicable clock hour, or b) updates the availability of its offer for that hour, as further described in the PJM Manuals;
- vii) Shall be final as to the price or prices at which the Market Seller proposes to supply energy or other services to the PJM Interchange Energy Market, such price or prices being guaranteed by the Market Seller for the period extending through the end of the following Operating Day, unless modified after the close of the Day-ahead Energy Market as permitted pursuant to sections 1.10.9A or 1.10.9B below;
- viii) Shall not exceed an energy offer price of \$1,000/megawatt-hour for all generation resources, except (1) when a Market Seller's cost-based offer is above \$1,000/megawatt-hour and less than or equal to \$2,000/megawatt-hour, then its market-based offer must be less than or equal to the cost-based offer; and (2) when a Market Seller's cost-based offer is greater than \$2,000/megawatt-hour, then its market-based offer must be less than or equal to \$2,000/megawatt-hour; and
- ix) Shall not exceed a *demand reduction* offer price of \$1,000/megawatt-hour, *except when an Economic Load Response Participant, ~~an Emergency Load Response participant, or a Pre-Emergency Load Response participant~~ submits a cost-based offer that includes an incremental cost component that is above \$1,000/megawatt-hour, then its market-based offer must be less than or equal to the cost-based offer but in no event greater than \$2,000/megawatt-hour; and*
- x) Shall not exceed an energy offer price of \$0.00/MWh for pumped storage hydropower units scheduled by the Office of the Interconnection pursuant to the hydro optimization tool in the Day-ahead Energy Market.

(e) A Market Seller that wishes to make a resource available to sell Regulation service shall submit an offer for Regulation for each clock hour for which the Market Seller desires to make its resource available to the Office of the Interconnection to provide Regulation that shall specify the megawatts of Regulation being offered, which must equal or exceed 0.1 megawatts, the Regulation Zone for which such Regulation is offered, the price of the capability offer in dollars per MW, the price of the performance offer in Dollars per change in MW, and such other information specified by the Office of the Interconnection as may be necessary to evaluate the offer and the resource's opportunity costs. Such offers may vary hourly, and may be updated each hour, up to 65 minutes before the applicable clock hour during the Operating Day. The total of the performance offer multiplied by the historical average mileage used in the market clearing plus the capability offer shall not exceed \$100/megawatt-hour in the case of Regulation offered for all Regulation Zones. In addition to any market-based offer for Regulation, the Market Seller also shall submit a cost-based offer. A cost-based offer must be in the form specified in the PJM Manuals and consist of the following components as well as any other components specified in the PJM Manuals:

- i. The costs (in \$/MW) of the fuel cost increase due to the steady-state heat rate increase resulting from operating the unit at lower megawatt output incurred from the provision of Regulation shall apply to the capability offer;
- ii. The cost increase (in \$/ΔMW) in costs associated with movement of the regulation resource incurred from the provision of Regulation shall apply to the performance offer; and
- iii. An adder of up to \$12.00 per megawatt of Regulation provided applied to the capability offer.

Qualified Regulation capability must satisfy the measurement and verification tests specified in the PJM Manuals.

(f) Each Market Seller owning or controlling the output of a Generation Capacity Resource committed to service of PJM loads under the Reliability Pricing Model or Fixed Resource Requirement Alternative shall submit a forecast of the availability of each such Generation Capacity Resource for the next seven days. A Market Seller (i) may submit a non-binding forecast of the price at which it expects to offer a generation resource increment to the Office of the Interconnection over the next seven days, and (ii) shall submit a binding offer for energy, along with Start-up Costs and No-load Costs, if any, for the next seven days or part thereof, for any generation resource with minimum notification or start-up requirement greater than 24 hours. Such resources committed by the Office of the Interconnection will not receive Operating Reserve Credits nor otherwise be made whole for its hours of operation for the duration of any portion of such commitment that exceeds the maximum start-up and notification times for such resources during Hot Weather Alerts and Cold Weather Alerts, consistent with Sections 3.2.3 and 6.6 hereof.

(g) Each component of an offer by a Market Seller of a Generation Capacity Resource that is constant for the entire Operating Day and does not vary hour to hour shall remain in effect for subsequent Operating Days until superseded or canceled.

(h) The Office of the Interconnection shall post the total hourly loads scheduled in the Day-ahead Energy Market, as well as, its estimate of the combined hourly load of the Market Buyers for the next four days, and peak load forecasts for an additional three days.

(i) Except for Economic Load Response Participants, all Market Participants may submit Virtual Transactions that apply to the Day-ahead Energy Market only. Such Virtual Transactions must comply with the requirements set forth in the PJM Manuals and must specify amount, location and price, if any, at which the Market Participant desires to purchase or sell energy in the Day-ahead Energy Market. The Office of the Interconnection may require that a market participant shall not submit in excess of a defined number of bid/offer segments in the Day-ahead Energy Market, as specified in the PJM Manuals, when the Office of the Interconnection determines that such limit is required to avoid or mitigate significant system performance problems related to bid/offer volume. Notice of the need to impose such limit shall be provided prior to 10:00 a.m. EPT on the day that the Day-ahead Energy Market will clear. For purposes of this provision, a bid/offer segment is each pairing of price and megawatt quantity submitted as part of an Increment Offer or Decrement Bid. For purposes of applying this provision to an Up-to Congestion Transaction, a bid/offer segment shall refer to the pairing of a source and sink designation, as well as price and megawatt quantity, that comprise each Up-to Congestion Transaction.

(j) A Market Seller that wishes to make a generation resource or Demand Resource available to sell Synchronized Reserve shall submit an offer for Synchronized Reserve for each clock hour for which the Market Seller desires or is required to make its resource available to the Office of the Interconnection to provide Synchronized Reserve that shall specify the megawatts of Synchronized Reserve being offered, which must equal or exceed 0.1 megawatts, the price of the offer in dollars per megawatt hour, and such other information specified by the Office of the Interconnection as may be necessary to evaluate the offer and the energy used by the generation resource to provide the Synchronized Reserve and the generation resource's unit specific opportunity costs. Such offers may vary hourly, and may be updated each hour up to 65 minutes before the applicable clock hour during the Operating Day. The price of the offer shall not exceed the variable operating and maintenance costs for providing Synchronized Reserve plus seven dollars and fifty cents.

(k) An Economic Load Response Participant that wishes to participate in the Day-ahead Energy Market by reducing demand shall submit an offer to reduce demand to the Office of the Interconnection for each clock hour for which the Economic Load Response Participant desires to make its resource available to the Office of the Interconnection to reduce demand. The offer must equal or exceed 0.1 megawatts, may vary hourly, and shall specify: (i) the amount of the offered curtailment in minimum increments of .1 megawatts; (ii) the Day-ahead Locational Marginal Price above which the end-use customer will reduce load, subject to section 1.10.1A(d)(ix); and (iii) at the Economic Load Response Participant's option, start-up costs associated with reducing load, including direct labor and equipment costs, opportunity costs,

and/or a minimum of number of contiguous hours for which the load reduction must be committed. Such offers may be updated each hour, up to 65 minutes before the applicable clock hour during the Operating Day. Economic Load Response Participants submitting offers to reduce demand in the Day-ahead Energy Market may establish an incremental offer curve, provided that such offer curve shall be limited to ten price pairs (in MWs) per hour.

(l) Market Sellers owning or controlling the output of a Demand Resource that was committed in an FRR Capacity Plan, or that was self-supplied or that offered and cleared in a Base Residual Auction or Incremental Auction, may submit demand reduction bids for the available load reduction capability of the Demand Resource. The submission of demand reduction bids for Demand Resource increments that were not committed in an FRR Capacity Plan, or that have not cleared in a Base Residual Auction or Incremental Auction, shall be optional, but any such bids must contain the information required to be included in such bids, as specified in the PJM Economic Load Response Program. A Demand Resource that was committed in an FRR Capacity Plan, or that was self-supplied or offered and cleared in a Base Residual Auction or Incremental Auction, may submit a demand reduction bid in the Day-ahead Energy Market as specified in the Economic Load Response Program; provided, however, that in the event of an Emergency PJM shall require Demand Resources to reduce load, notwithstanding that the Zonal LMP at the time such Emergency is declared is below the price identified in the demand reduction bid.

(m) Market Sellers providing Day-ahead Scheduling Reserves Resources shall submit in the Day-ahead Scheduling Reserves Market: 1) a price offer in dollars per megawatt hour; and 2) such other information specified by the Office of the Interconnection as may be necessary to determine any relevant opportunity costs for the resource(s). The foregoing notwithstanding, to qualify to submit Day-ahead Scheduling Reserves pursuant to this section, the Day-ahead Scheduling Reserves Resources shall submit energy offers in the Day-ahead Energy Market including start-up and shut-down costs for generation resource and Demand Resources, respectively, and all generation resources that are capable of providing Day-ahead Scheduling Reserves that a particular resource can provide that service. The megawatt quantity of Day-ahead Scheduling Reserves that a particular resource can provide in a given hour will be determined based on the energy Offer Data submitted in the Day-ahead Energy Market, as detailed in the PJM Manuals.

1.10.1B Demand Bid Scheduling and Screening

(a) The Office of the Interconnection shall apply Demand Bid Screening to all Demand Bids submitted in the Day-ahead Energy Market for each Load Serving Entity, separately by Zone. Using Demand Bid Screening, the Office of the Interconnection will automatically reject a Load Serving Entity's Demand Bids in any future Operating Day for which the Load Serving Entity submits bids if the total megawatt volume of such bids would exceed the Load Serving Entity's Demand Bid Limit for any hour in such Operating Day, unless the Office of the Interconnection permits an exception pursuant to subsection (d) below.

(b) On a daily basis, PJM will update and post each Load Serving Entity's Demand Bid Limit in each applicable Zone. Such Demand Bid Limit will apply to all Demand Bids

submitted by that Load Serving Entity for each future Operating Day for which it submits bids. The Demand Bid Limit is calculated using the following equation:

Demand Bid Limit = greater of (Zonal Peak Demand Reference Point * 1.3), or (Zonal Peak Demand Reference Point + 10MW)

Where:

1. Zonal Peak Demand Reference Point = for each Zone: the product of (a) LSE Recent Load Share, multiplied by (b) Peak Daily Load Forecast.
2. LSE Recent Load Share is the Load Serving Entity's highest share of Network Load in each Zone for any hour over the most recently available seven Operating Days for which PJM has data.
3. Peak Daily Load Forecast is PJM's highest available peak load forecast for each applicable Zone that is calculated on a daily basis.

(c) A Load Serving Entity whose Demand Bids are rejected as a result of Demand Bid Screening may change its Demand Bids to reduce its total megawatt volume to a level that does not exceed its Demand Bid Limit, and may resubmit them subject to the applicable rules related to bid submission outlined in Tariff, Operating Agreement and PJM Manuals.

(d) PJM may allow a Load Serving Entity to submit bids in excess of its Demand Bid Limit when circumstances exist that will cause, or are reasonably expected to cause, a Load Serving Entity's actual load to exceed its Demand Bid Limit on a given Operating Day. Examples of such circumstances include, but are not limited to, changes in load commitments due to state sponsored auctions, mergers and acquisitions between PJM Members, and sales and divestitures between PJM Members. A Load Serving Entity may submit a written exception request to the Office of Interconnection for a higher Demand Bid Limit for an affected Operating Day. Such request must include a detailed explanation of the circumstances at issue and supporting documentation that justify the Load Serving Entity's expectation that its actual load will exceed its Demand Bid Limit.

1.10.2 Pool-scheduled Resources.

Pool-scheduled resources are those resources for which Market Participants submitted offers to sell energy in the Day-ahead Energy Market and offers to reduce demand in the Day-ahead Energy Market, which the Office of the Interconnection scheduled in the Day-ahead Energy Market as well as generators committed by the Office of the Interconnection subsequent to the Day-ahead Energy Market. Such resources shall be committed to provide energy in the real-time dispatch unless the schedules for such units are revised pursuant to Sections 1.10.9 or 1.11. Pool-scheduled resources shall be governed by the following principles and procedures.

(a) Pool-scheduled resources shall be selected by the Office of the Interconnection on the basis of the prices offered for energy and demand reductions and related services, whether the resource is expected to be needed to maintain system reliability during the Operating Day, Start-up Costs, No-load Costs, and cancellation fees, and the specified operating characteristics, offered by Market Sellers to the Office of the Interconnection by the offer deadline specified in

Section 1.10.1A. Hydropower units can only be pool-scheduled if they are pumped storage units and scheduled by the Office of the Interconnection pursuant to the hydro optimization tool in the Day-ahead Energy Market.

(b) A resource that is scheduled by a Market Participant to support a bilateral sale, or that is self-scheduled by a Generating Market Buyer, shall not be selected by the Office of the Interconnection as a pool-scheduled resource except in an Emergency.

(c) Market Sellers offering energy from hydropower or other facilities with fuel or environmental limitations may submit data to the Office of the Interconnection that is sufficient to enable the Office of the Interconnection to determine the available operating hours of such facilities.

(d) The Market Seller of a resource selected as a pool-scheduled resource shall receive payments or credits for energy, demand reductions or related services, or for Start-up Costs and No-load Costs, from the Office of the Interconnection on behalf of the Market Buyers in accordance with Section 3 of this Schedule 1. Alternatively, the Market Seller shall receive, in lieu of Start-up Costs and No-load Costs, its actual costs incurred, if any, up to a cap of the resource's Start-up Costs, if the Office of the Interconnection cancels its selection of the resource as a pool-scheduled resource and so notifies the Market Seller before the resource is synchronized.

(e) Market Participants shall make available their pool-scheduled resources to the Office of the Interconnection for coordinated operation to supply the Operating Reserves needs of the applicable Control Zone.

(f) Economic Load Response Participants offering to reduce demand shall specify: (i) the amount of the offered curtailment, which offer must equal or exceed 0.1 megawatts, in minimum increments of .1 megawatts; (ii) the real-time Locational Marginal Price above which the end-use customer will reduce load; and (iii) at the Economic Load Response Participant's option, shut-down costs associated with reducing load, including direct labor and equipment costs, opportunity costs, and/or a minimum number of contiguous hours for which the load reduction must be committed. Economic Load Response Participants submitting offers to reduce demand in the Real-time Energy Market may establish an incremental offer curve, provided that such offer curve shall be limited to ten price pairs (in MWs). Economic Load Response Participants offering to reduce demand shall also indicate the hours that the demand reduction is not available.

1.10.3 Self-scheduled Resources.

Self-scheduled resources shall be governed by the following principles and procedures.

(a) Each Generating Market Buyer shall use all reasonable efforts, consistent with Good Utility Practice, not to self-schedule resources in excess of its Equivalent Load.

(b) The offered prices of resources that are self-scheduled, or otherwise not following the dispatch orders of the Office of the Interconnection, shall not be considered by the Office of the Interconnection in determining Locational Marginal Prices.

(c) Market Participants shall make available their self-scheduled resources to the Office of the Interconnection for coordinated operation to supply the Operating Reserves needs of the applicable Control Zone, by submitting an offer as to such resources.

(d) A Market Participant self-scheduling a resource in the Day-ahead Energy Market that does not deliver the energy in the Real-time Energy Market, shall replace the energy not delivered with energy from the Real-time Energy Market and shall pay for such energy at the applicable Real-time Price.

(e) Hydropower units, excluding pumped storage units, may only be self-scheduled.

1.10.4 Capacity Resources.

(a) A Generation Capacity Resource committed to service of PJM loads under the Reliability Pricing Model or Fixed Resource Requirement Alternative that is selected as a pool-scheduled resource shall be made available for scheduling and dispatch at the direction of the Office of the Interconnection. Such a Generation Capacity Resource that does not deliver energy as scheduled shall be deemed to have experienced a Generator Forced Outage to the extent of such energy not delivered. A Market Participant offering such Generation Capacity Resource in the Day-ahead Energy Market shall replace the energy not delivered with energy from the Real-time Energy Market and shall pay for such energy at the applicable Real-time Price.

(b) Energy from a Generation Capacity Resource committed to service of PJM loads under the Reliability Pricing Model or Fixed Resource Requirement Alternative that has not been scheduled in the Day-ahead Energy Market may be sold on a bilateral basis by the Market Seller, may be self-scheduled, or may be offered for dispatch during the Operating Day in accordance with the procedures specified in this Schedule. Such a Generation Capacity Resource that has not been scheduled in the Day-ahead Energy Market and that has been sold on a bilateral basis must be made available upon request to the Office of the Interconnection for scheduling and dispatch during the Operating Day if the Office of the Interconnection declares a Maximum Generation Emergency. Any such resource so scheduled and dispatched shall receive the applicable Real-time Price for energy delivered.

(c) A resource that has been self-scheduled shall not receive payments or credits for Start-up Costs or No-load Costs.

1.10.5 External Resources.

(a) External Resources may submit offers to the PJM Interchange Energy Market, in accordance with the day-ahead and real-time scheduling processes specified above. An External Resource selected as a pool-scheduled resource shall be made available for scheduling and dispatch at the direction of the Office of the Interconnection, and except as specified below shall

be compensated on the same basis as other pool-scheduled resources. External Resources that are not capable of Dynamic Transfer shall, if selected by the Office of the Interconnection on the basis of the Market Seller's Offer Data, be block loaded on an hourly scheduled basis. Market Sellers shall offer External Resources to the PJM Interchange Energy Market on either a resource-specific or an aggregated resource basis. A Market Participant whose pool-scheduled resource does not deliver the energy scheduled in the Day-ahead Energy Market shall replace such energy not delivered as scheduled in the Day-ahead Energy Market with energy from the PJM Real-time Energy Market and shall pay for such energy at the applicable Real-time Price.

(b) Offers for External Resources from an aggregation of two or more generating units shall so indicate, and shall specify, in accordance with the Offer Data requirements specified by the Office of the Interconnection: (i) energy prices; (ii) hours of energy availability; (iii) a minimum dispatch level; (iv) a maximum dispatch level; and (v) unless such information has previously been made available to the Office of the Interconnection, sufficient information, as specified in the PJM Manuals, to enable the Office of the Interconnection to model the flow into the PJM Region of any energy from the External Resources scheduled in accordance with the Offer Data.

(c) Offers for External Resources on a resource-specific basis shall specify the resource being offered, along with the information specified in the Offer Data as applicable.

1.10.6 External Market Buyers.

(a) Deliveries to an External Market Buyer not subject to Dynamic Transfer by the Office of the Interconnection shall be delivered on a block loaded basis to the bus or buses at the electrical boundaries of the PJM Region, or in such area with respect to an External Market Buyer's load within such area not served by Network Service, at which the energy is delivered to or for the External Market Buyer. External Market Buyers shall be charged (which charge may be positive or negative) at either the Day-ahead Prices or Real-time Prices, whichever is applicable, for energy at the foregoing bus or buses.

(b) An External Market Buyer's hourly schedules for energy purchased from the PJM Interchange Energy Market shall conform to the ramping and other applicable requirements of the interconnection agreement between the PJM Region and the Control Area to which, whether as an intermediate or final point of delivery, the purchased energy will initially be delivered.

(c) The Office of the Interconnection shall curtail deliveries to an External Market Buyer if necessary to maintain appropriate reserve levels for a Control Zone as defined in the PJM Manuals, or to avoid shedding load in such Control Zone.

1.10.6A Transmission Loading Relief Customers.

(a) An entity that desires to elect to pay Transmission Congestion Charges in order to continue its energy schedules during an Operating Day over contract paths outside the PJM Region in the event that PJM initiates Transmission Loading Relief that otherwise would cause PJM to request security coordinators to curtail such Member's energy schedules shall:

- (i) enter its election on OASIS by 10:30 a.m. of the day before the Operating Day, in accordance with procedures established by PJM, which election shall be applicable for the entire Operating Day; and
- (ii) if PJM initiates Transmission Loading Relief, provide to PJM, at such time and in accordance with procedures established by PJM, the hourly integrated energy schedules that impacted the PJM Region (as indicated from the NERC Interchange Distribution Calculator) during the Transmission Loading Relief.

(b) If an entity has made the election specified in Section (a), then PJM shall not request security coordinators to curtail such entity's energy transactions, except as may be necessary to respond to Emergencies.

(c) In order to make elections under this Section 1.10.6A, an entity must (i) have met the creditworthiness standards established by the Office of the Interconnection or provided a letter of credit or other form of security acceptable to the Office of the Interconnection, and (ii) have executed either the Agreement, a Service Agreement under the PJM Tariff, or other agreement committing to pay all Transmission Congestion Charges incurred under this Section.

1.10.7 Bilateral Transactions.

Bilateral transactions as to which the parties have notified the Office of the Interconnection by the deadline specified in Section 1.10.1A that they elect not to be included in the Day-ahead Energy Market and that they are not willing to incur Transmission Congestion Charges in the Real-time Energy Market shall be curtailed by the Office of the Interconnection as necessary to reduce or alleviate transmission congestion. Bilateral transactions that were not included in the Day-ahead Energy Market and that are willing to incur congestion charges and bilateral transactions that were accepted in the Day-ahead Energy Market shall continue to be implemented during periods of congestion, except as may be necessary to respond to Emergencies.

1.10.8 Office of the Interconnection Responsibilities.

(a) The Office of the Interconnection shall use its best efforts to determine (i) the least-cost means of satisfying the projected hourly requirements for energy, Operating Reserves, and other ancillary services of the Market Buyers, including the reliability requirements of the PJM Region, of the Day-ahead Energy Market, and (ii) the least-cost means of satisfying the Operating Reserve and other ancillary service requirements for any portion of the load forecast of the Office of the Interconnection for the Operating Day in excess of that scheduled in the Day-ahead Energy Market. In making these determinations, the Office of the Interconnection shall take into account: (i) the Office of the Interconnection's forecasts of PJM Interchange Energy Market and PJM Region energy requirements, giving due consideration to the energy requirement forecasts and purchase requests submitted by Market Buyers and PRD Curves properly submitted by Load Serving Entities for the Price Responsive Demand loads they serve; (ii) the offers submitted by Market Sellers; (iii) the availability of limited energy resources; (iv)

the capacity, location, and other relevant characteristics of self-scheduled resources; (v) the objectives of each Control Zone for Operating Reserves, as specified in the PJM Manuals; (vi) the requirements of each Regulation Zone for Regulation and other ancillary services, as specified in the PJM Manuals; (vii) the benefits of avoiding or minimizing transmission constraint control operations, as specified in the PJM Manuals; and (viii) such other factors as the Office of the Interconnection reasonably concludes are relevant to the foregoing determination, including, without limitation, transmission constraints on external coordinated flowgates to the extent provided by section 1.7.6. The Office of the Interconnection shall develop a Day-ahead Energy Market based on the foregoing determination, and shall determine the Day-ahead Prices resulting from such schedule. The Office of the Interconnection shall report the planned schedule for a hydropower resource to the operator of that resource as necessary for plant safety and security, and legal limitations on pond elevations.

(b) By 1:30 p.m., or as soon as practicable thereafter, of the day before each Operating Day, or such other deadline as may be specified by the Office of the Interconnection in the PJM Manuals, the Office of the Interconnection shall: (i) post the aggregate Day-ahead Energy Market results; (ii) post the Day-ahead Prices; and (iii) inform the Market Sellers, Market Buyers, and Economic Load Response Participants of their scheduled injections, withdrawals, and demand reductions respectively. The foregoing notwithstanding, the deadlines set forth in this subsection shall not apply if the Office of the Interconnection is unable to obtain Market Participant bid/offer data due to extraordinary circumstances. For purposes of this subsection, extraordinary circumstances shall mean a technical malfunction that limits, prohibits or otherwise interferes with the ability of the Office of the Interconnection to obtain Market Participant bid/offer data prior to 11:59 p.m. on the day before the affected Operating Day. Extraordinary circumstances do not include a Market Participant's inability to submit bid/offer data to the Office of the Interconnection. If the Office of the Interconnection is unable to clear the Day-ahead Energy Market prior to 11:59 p.m. on the day before the affected Operating Day as a result of such extraordinary circumstances, the Office of the Interconnection shall notify Members as soon as practicable.

(c) Following posting of the information specified in Section 1.10.8(b), and absent extraordinary circumstances preventing the clearing of the Day-ahead Energy Market, the Office of the Interconnection shall revise its schedule of generation resources to reflect updated projections of load, conditions affecting electric system operations in the PJM Region, the availability of and constraints on limited energy and other resources, transmission constraints, and other relevant factors.

(d) Market Buyers shall pay PJMSettlement and Market Sellers shall be paid by PJMSettlement for the quantities of energy scheduled in the Day-ahead Energy Market at the Day-ahead Prices when the Day-ahead Price is positive. Market Buyers shall be paid by PJMSettlement and Market Sellers shall pay PJMSettlement for the quantities of energy scheduled in the Day-ahead Energy Market at the Day-ahead Prices when the Day-ahead Price is negative. Economic Load Response Participants shall be paid for scheduled demand reductions pursuant to Section 3.3A of this Schedule. Notwithstanding the foregoing, if the Office of the Interconnection is unable to clear the Day-ahead Energy Market prior to 11:59 p.m. on the day before the affected Operating Day due to extraordinary circumstances as described in subsection

(b) above, no settlements shall be made for the Day-ahead Energy Market, no scheduled megawatt quantities shall be established, and no Day-ahead Prices shall be established for that Operating Day. Rather, for purposes of settlements for such Operating Day, the Office of the Interconnection shall utilize a scheduled megawatt quantity and price of zero and all settlements, including Financial Transmission Right Target Allocations, will be based on the real-time quantities and prices as determined pursuant to Sections 2.4 and 2.5 hereof.

(e) If the Office of the Interconnection discovers an error in prices and/or cleared quantities in the Day-ahead Energy Market, Real-time Energy Market, Ancillary Services Markets or Day Ahead Scheduling Reserve Market after it has posted the results for these markets on its Web site, the Office of the Interconnection shall notify Market Participants of the error as soon as possible after it is found, but in no event later than 12:00 p.m. of the second Business Day following the Operating Day for the Ancillary Services Markets and Real-time Energy Market, and no later than 5:00 p.m. of the second Business Day following the initial publication of the results for the Day-ahead Scheduling Reserve Market and Day-ahead Energy Market. After this initial notification, if the Office of the Interconnection determines it is necessary to post modified results, it shall provide notification of its intent to do so, together with all available supporting documentation, by no later than 5:00 p.m. of the fifth Business Day following the Operating Day for the Ancillary Services Markets and Real-time Energy Market, and no later than 5:00 p.m. of the fifth Business Day following the initial publication of the results in the Day-ahead Scheduling Reserve Market and the Day-ahead Energy Market. Thereafter, the Office of the Interconnection must post on its Web site the corrected results by no later than 5:00 p.m. of the tenth calendar day following the Operating Day for the Ancillary Services Markets, Day-ahead Energy Market and Real-time Energy Market, and no later than 5:00 p.m. of the tenth calendar day following the initial publication of the results in the Day-ahead Scheduling Reserve Market. Should any of the above deadlines pass without the associated action on the part of 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 market results are under publicly noticed review by the FERC.

(f) Consistent with Section 18.17.1 of the PJM Operating Agreement, and notwithstanding anything to the contrary in the Operating Agreement or in the PJM Tariff, to allow the tracking of Market Participants' non-aggregated bids and offers over time as required by FERC Order No. 719, the Office of the Interconnection shall post on its Web site the non-aggregated bid data and Offer Data submitted by Market Participants (for participation in the PJM Interchange Energy Market) approximately four months after the bid or offer was submitted to the Office of the Interconnection.

1.10.9 Hourly Scheduling.

(a) Following the initial posting by the Office of the Interconnection of the Locational Marginal Prices resulting from the Day-ahead Energy Market, and subject to the right of the Office of the Interconnection to schedule and dispatch pool-scheduled resources and to direct that schedules be changed in an Emergency, and absent extraordinary circumstances preventing the clearing of the Day-ahead Energy Market, a generation rebidding period shall exist. Typically the rebidding period shall be from the time the Office of the Interconnection posts the

results of the Day-ahead Energy Market until 2:15 p.m. on the day before each Operating Day. However, should the clearing of the Day-ahead Energy Market be significantly delayed, the Office of the Interconnection may establish a revised rebidding period. During the rebidding period, Market Participants may submit revisions to generation Offer Data for the next Operating Day. Adjustments to the Day-ahead Energy Market shall be settled at the applicable Real-time Prices, and shall not affect the obligation to pay or receive payment for the quantities of energy scheduled in the Day-ahead Energy Market at the applicable Day-ahead Prices.

(b) A Market Participant may adjust the schedule of a resource under its dispatch control on an hour-to-hour basis beginning at 10:00 p.m. of the day before each Operating Day, provided that the Office of the Interconnection is notified not later than 65 minutes prior to the hour in which the adjustment is to take effect, as follows and as specified in section 1.10.9A of this Schedule:

- i) A Generating Market Buyer may self-schedule any of its resource increments, including hydropower resources, not previously designated as self-scheduled and not selected as a pool-scheduled resource in the Day-ahead Energy Market;
- ii) A Market Participant may request the scheduling of a non-firm bilateral transaction; or
- iii) A Market Participant may request the scheduling of deliveries or receipts of Spot Market Energy; or
- iv) A Generating Market Buyer may remove from service a resource increment, including a hydropower resource, that it had previously designated as self-scheduled, provided that the Office of the Interconnection shall have the option to schedule energy from any such resource increment that is a Capacity Resource at the price offered in the scheduling process, with no obligation to pay any Start-Up Costs.

(c) An External Market Buyer may refuse delivery of some or all of the energy it requested to purchase in the Day-ahead Energy Market by notifying the Office of the Interconnection of the adjustment in deliveries not later than 65 minutes prior to the hour in which the adjustment is to take effect, but any such adjustment shall not affect the obligation of the External Market Buyer to pay for energy scheduled on its behalf in the Day-ahead Energy Market at the applicable Day-ahead Prices.

(d) The Office of the Interconnection shall provide External Market Buyers and External Market Sellers and parties to bilateral transactions with any revisions to their schedules resulting from the rebidding period by 6:30 p.m. on the day before each Operating Day. The Office of the Interconnection may also commit additional resources after such time as system conditions require. For each hour in the Operating Day, as soon as practicable after the deadlines specified in the foregoing subsection of this Section 1.10, the Office of the Interconnection shall provide

External Market Buyers and External Market Sellers and parties to bilateral transactions with any revisions to their schedules for the hour.

1.10.9A Updating Offers in Real-time

(a) Each Market Seller may submit Real-time Offers for a resource up to 65 minutes before the applicable clock hour, and such Real-time Offers shall supersede any previous offer for that resource for the clock hour, as further described in the PJM Manuals and subject to the following conditions:

(i) A market-based Real-time Offer shall not exceed the applicable energy offer caps specified in this Schedule. Once a Market Seller's resource is committed for an applicable clock hour, the Market Seller may not increase its Incremental Energy Offer and may only submit a market-based Real-time Offer that is higher than its market-based offer that was in effect at the time of commitment to reflect increases in the resource's cost-based Start-up Costs and cost-based No-load Costs. The Market Seller may elect not to have its market-based offer considered for dispatch and to have only its lowest cost-based offer considered for the remainder of the Operating Day.

(ii) Cost-based Real-time Offers shall be submitted to the Office of the Interconnection in the form specified by the Office of the Interconnection's Offer Data specification, Operating Agreement, Schedule 1, sections 1.10.1A(d) and 1.10.9B, Operating Agreement, Schedule 2 and the PJM Manuals, as applicable. If a Market Seller submits a market-based Real-time Offer for a particular clock hour in accordance with subsection (c) below, or if updates to a cost-based offer are required by the Market Seller's approved Fuel Cost Policy, the Market Seller shall update its previously submitted cost-based Real-time Offer.

(iii) If a Market Seller's available cost-based offer is not compliant with Operating Agreement, Schedule 2 and the PJM Manuals at the time a Market Seller submits a market-based Real-time Offer for an applicable clock hour during the Operating Day, the Market Seller must submit an updated cost-based Real-time Offer consisting of an Incremental Energy Offer, Start-up Cost, and No-load Cost for that clock hour that is compliant with Operating Agreement, Schedule 2 and the PJM Manuals.

(b) *Each Market Seller may submit Real-time Offers for a resource during and through the end of the applicable clock hour to update only the following offer parameters, as further described in the PJM Manuals: (1) Economic Minimum; (2) Economic Maximum; (3) emergency minimum MW; (4) emergency maximum MW; (5) unit availability status; and (6) fixed output indicator. Such Real-time Offers shall supersede any previous offer for that resource for the clock hour.*

1.10.9B Offer Parameter Flexibility

(a) Market Sellers may, in accordance with sections 1.10.1A and 1.10.9A above, this section 1.10.9B, and the PJM Manuals, update offer parameters at any time up to 65 minutes before the applicable clock hour, including prior to the close of the Day-ahead Energy Market and prior to the close of the rebidding period specified in section 1.10.9, except that Market Sellers may not update their offers for the supply of energy or demand reduction: (1) during the period after the close the Day-ahead Energy Market and prior to the posting of the Day-ahead Energy Market results pursuant to section 1.10.8(b); or (2) during the period after close of the rebidding period and prior to PJM announcing the results of the rebidding period pursuant to section 1.10.9(d).

(b) For generation resource offers, Market Sellers may vary for each clock hour during the entire Operating Day the following offer parameters: (1) cost-based Start-up Costs; (2) cost-based No-load Costs; (3) Incremental Energy Offer; (4) Economic Minimum and Economic Maximum; (5) emergency minimum MW and emergency maximum MW; and (6) for Real-time Offers only, (i) notification time and (ii) *for uncommitted hours only*, Minimum Run Time.

(c) For Demand Resource offers, Market Sellers may vary for each clock hour during the entire Operating Day the following offer parameters: (1) shutdown costs, (2) Incremental Energy Offer; (3) Economic Minimum; (4) Economic Maximum; and (5) for Real-time Offers only, (i) notification time and (ii) *for uncommitted hours only*, minimum down time.

(d) After the announcement of the results of the rebidding period pursuant to section 1.10.9(d), a Market Seller may submit a Real-time Offer where offer parameters *may differ from the offer originally submitted in the Day-ahead Energy Market, except that a Market Seller may not submit a Real-time Offer that changes, of the offer parameters listed in section 1.10.1A(d), the MW amounts specified in the Incremental Energy Offer, ramp rate, maximum run time, and availability; provided, however, Market Sellers of dual-fueled resources may submit Real-time Offers for such resources that change the availability of a submitted cost-based offer.*

6.4 Offer Price Caps.

6.4.1 Applicability.

- (a) If, at any time, it is determined by the Office of the Interconnection in accordance with Sections 1.10.8 or 6.1 of this Schedule that any generation resource may be dispatched out of economic merit order to maintain system reliability as a result of limits on transmission capability, the offer prices for energy from such resource shall be capped at the levels specified below. If the Office of the Interconnection is able to do so, such offer prices shall be capped only during each hour when the transmission limit affects the schedule of the affected resource, and otherwise shall be capped for the entire Operating Day. The energy offer prices as capped shall be used to determine any Locational Marginal Price affected by the offer price of such resource and as further limited as described in Sections 2.2 and 2.4 of this Schedule.
- (b) The energy offer price by any generation resource requested to be dispatched in accordance with Section 6.3 of this Schedule shall be capped at the levels specified below. If the Office of the Interconnection is able to do so, such offer prices shall be capped only during each hour when the affected resource is so scheduled, and otherwise shall be capped for the entire Operating Day. The energy offer prices as capped shall be used to determine any Locational Marginal Price affected by the price of such resource.
- (c) Generation resources subject to an offer price cap shall be paid for energy at the applicable Locational Marginal Price.
- (d) [Reserved for Future Use]
- (e) Offer price caps under section 6.4 of this Schedule shall be suspended for a generation resource with respect to transmission limit(s) for any hour in which (1) there are not three or fewer generation suppliers available for redispatch under subsection (a) that are jointly pivotal with respect to such transmission limit(s), and (2) the generation resource's owner, when combined with the two largest other generation suppliers, is not pivotal ("three pivotal supplier test").
- (f) For the purposes of conducting the three pivotal supplier test in subsection (e), the following applies:
- (i) All megawatts of available incremental supply for which the power distribution factor ("dfax") has an absolute value equal to or greater than the dfax used by the Office of the Interconnection's system operators when evaluating the impact of generation with respect to the constraint ("effective megawatts") will be included in the available supply analysis at costs equal to the cost-based offers of the available incremental supply adjusted for dfax ("effective costs"). The Office of the Interconnection will post on the PJM website the dfax value used by operators with respect to a constraint when it varies from three percent.

- (ii) The three pivotal supplier test will include in the definition of the relevant market incremental supply up to and including all such supply available at an effective cost equal to 150% of the cost-based clearing price calculated using effective costs and effective megawatts and the need for megawatts to solve the constraint.
- (iii) Offer price caps will apply on a generation supplier basis (i.e. not a generating unit by generating unit basis) and only the generation suppliers that fail the three pivotal supplier test will have their units that are dispatched with respect to the constraint offer capped. A generation supplier for the purposes of this section includes corporate affiliates. Supply controlled by a generation supplier or its affiliates by contract with unaffiliated third parties or otherwise will be included as supply of that generation supplier; supply owned by a generation supplier but controlled by an unaffiliated third party by contract or otherwise will be included as supply of that third party.

A generation supplier's units are offer capped if, when combined with the two largest other generation suppliers, the generation supplier is pivotal.
- (iv) In the Day-ahead Energy Market, the Office of the Interconnection shall include price sensitive demand, Increment Offers and Decrement Bids as demand or supply, as applicable, in the relevant market.

6.4.2 Level.

- (a) The offer price cap shall be one of the amounts specified below, as specified in advance by the Market Seller for the affected unit:
 - (i) The weighted average Locational Marginal Price at the generation bus at which energy from the capped resource was delivered during a specified number of hours during which the resource was dispatched for energy in economic merit order, the specified number of hours to be determined by the Office of the Interconnection and to be a number of hours sufficient to result in an offer price cap that reflects reasonably contemporaneous competitive market conditions for that unit;
 - (ii) For offers of \$2,000/MWh or less, the incremental operating cost of the generation resource as determined in accordance with Schedule 2 of the Operating Agreement and the PJM Manuals ("incremental cost"), plus up to the lesser of 10% of such costs or \$100 MWh, the sum of which shall not exceed \$2,000/MWh; and, for offers greater than \$2,000/MWh, the incremental cost of the generation resource;
 - (iii) For units that are frequently offer capped ("Frequently Mitigated Unit" or "FMU"), and for which the unit's *market*-based offer was greater than its

cost based offer, the following shall apply:

(a) For units that are offer capped for 60% or more of their run hours, but less than 70% of their run hours, the offer price cap will be the greater of either (i) incremental cost plus 10% or (ii) incremental cost plus \$20 per megawatt-hour;

(b) For units that are offer capped for 70% or more of their run hours, but less than 80% of their run hours, the offer price cap will be the greater of either (i) incremental cost plus 10%, or (ii) incremental cost plus \$30 per megawatt-hour;

(c) For units that are offer capped for 80% or more of their run hours, the offer price cap will be the greater of either (i) incremental costs plus 10%; or (ii) incremental cost plus \$40 per megawatt-hour.

(b) For purposes of section 6.4.2(a)(iii), a generating unit shall qualify for the specified offer cap upon issuance of written notice from the Market Monitoring Unit, pursuant to Section II.A of the Attachment M-Appendix, that it is a “Frequently Mitigated Unit” because it meets all of the following criteria:

- (i) The unit was offer capped for the applicable percentage of its run hours, determined on a rolling 12-month basis, effective with a one month lag.
- (ii) The unit’s Projected PJM Market Revenues plus the unit’s PJM capacity market revenues on a rolling 12-month basis, divided by the unit’s MW of installed capacity (in \$/MW-year) are less than its accepted unit specific Avoidable Cost Rate (in \$/MW-year) (excluding APIR and ARPIR), or its default Avoidable Cost Rate (in \$/MW-year) if no unit-specific Avoidable Cost Rate is accepted for the BRAs for the Delivery Years included in the rolling 12-month period, determined pursuant to Sections 6.7 and 6.8 of Attachment DD of the Tariff. (The relevant Avoidable Cost Rate is the weighted average of the Avoidable Cost Rates for each Delivery Year included in the rolling 12-month period, weighted by month.)
- (iii) No portion of the unit is included in a FRR Capacity Plan or receiving compensation under Part V of the Tariff.
- (iv) The unit is internal to the PJM Region and subject only to PJM dispatch.

(c) Any generating unit, without regard to ownership, located at the same site as a Frequently Mitigated Unit qualifying under Sections 6.4.2(a)(iii) shall become an “Associated Unit” upon issuance of written notice from the Market Monitoring Unit pursuant to Section II.A of Attachment M-Appendix, that it meets all of the following criteria:

- 1. The unit has the identical electric impact on the transmission system as the FMU;

2. The unit (i) belongs to the same design class (where a design class includes generation that is the same size and utilizes the same technology, without regard to manufacturer) and uses the identical primary fuel as the FMU or (ii) is regularly dispatched by PJM as a substitute for the FMU based on differences in cost that result from the currently applicable FMU adder;
3. The unit (i) has an average daily cost-based offer, as measured over the preceding 12-month period, that is less than or equal to the FMU's average daily cost-based offer adjusted to include the currently applicable FMU adder or (ii) is regularly dispatched by PJM as a substitute for the FMU based on differences in cost that result from the currently applicable FMU adder.

The offer cap for an associated unit shall be equal to the incremental operating cost of such unit, as determined in accordance with Schedule 2 of the Operating Agreement and the PJM Manuals, plus the applicable percentage adder or dollar per megawatt-hour adder as specified in Section 6.4.2(a)(iii)(a), (b), or (c) for the unit with which it is associated.

(d) Market Participants shall have exclusive responsibility for preparing and submitting their offers on the basis of accurate information and in compliance with the FERC Market Rules, inclusive of the level of any applicable offer cap, and in no event shall PJM be held liable for the consequences of or make any retroactive adjustment to any clearing price on the basis of any offer submitted on the basis of inaccurate or non-compliant information.

6.4.3 Verification of Cost-Based Offers Over \$1,000/Megawatt-hour

(a) If a Market Seller submits a cost-based energy offer for a generation resource that includes an Incremental Energy Offer greater than \$1,000/megawatt-hour, then, in order for that offer to be eligible to set the applicable Locational Marginal Price under section 2.2 of this Schedule, the Office of the Interconnection shall apply a formulaic screen to verify the reasonableness of the Incremental Energy Offer component of such cost-based offer. For each Incremental Energy Offer segment greater than \$1,000/megawatt-hour, the Office of the Interconnection shall evaluate whether such offer segment exceeds the reasonably expected costs for that generation resource by determining the Maximum Allowable Incremental Cost for each

Maximum Allowable Incremental Cost (\$/MWh segment in accordance with the following formula: @ MW) =

$$[(\text{Maximum Allowable Operating Rate}_i) - (\text{Bid Production Cost}_{i-1})] / (\text{MW}_i - \text{MW}_{i-1})$$

where

i = an offer segment within the Incremental Energy Offer, which is comprised of a pairing of price (\$/MWh) and a megawatt quantity

Maximum Allowable Operating Rate (\$/hour @ MW) =

$$[(\text{Heat Input } i @ \text{ MW}_i) x (\text{Performance Factor}) x (\text{Fuel Cost})] x (1 + A)$$

where

Heat Input = a heat ~~rate~~input curve (in ~~MW/mm~~MMBtuTU/hr), determined in accordance with the Market Seller's PJM-approved Fuel Cost Policy, Operating Agreement, Schedule 2, and PJM Manual 15, describing the resource's operational characteristics for converting the applicable fuel input (~~mmBTU~~MMBtu) into energy (MW) specified in the Incremental Energy Offer, and up to the greater of the resource's Emergency Maximum or the last offer segment in MW;

Performance Factor = a scaling factor that is a calculated ratio of actual fuel burn to either theoretical fuel burn (i.e, design Heat Input) or other current tested Heat Input, which is determined annually in accordance with the Market Seller's PJM-approved Fuel Cost Policy, Operating Agreement, Schedule 2, and PJM Manual 15, reflecting the resource's actual ability to convert fuel into energy (normal operation is 1.0);

Fuel Cost = applicable fuel cost as estimated by the Office of the Interconnection at a geographically appropriate commodity trading hub, plus 10 percent; and

A = Up to 10% cost adder, in accordance with section 6.4.2 of this Schedule.

Bid Production Cost (\$/hour @ MW) =

$$[\sum_{i=1}^n (MW_i - MW_{i-1}) x (P_i) - \frac{1}{2} x UBS x (MW_i - MW_{i-1}) x (P_i - P_{i-1})] + \text{No-Load Cost}$$

where

MW = the MW quantity per offer segment within the Incremental Energy Offer;

P = the price (in dollars per megawatt-hour) per offer segment within the Incremental Energy Offer;

UBS = Uses Bid-Slope = 0 for block-offer resources (i.e., a resource with an Incremental Energy Offer that uses a step function curve); and 1 for all other resources (i.e., resources with an Incremental Energy Offer that uses a sloped offer curve); and

If the price submitted for the offer segment is less than or equal to the Maximum Allowable Incremental Cost then that offer segment shall be deemed verified and is eligible to set the applicable Locational Marginal Price. If the price submitted for the offer segment is greater than the Maximum Allowable Incremental Cost, then the Market Seller's cost-based offer for that segment and all segments at an equal or greater price are deemed not verified and are not

eligible to set the applicable Locational Marginal Price and such offer shall be price capped at the greater of \$1,000/megawatt-hour or the offer price of the most expensive verified segment on the Incremental Energy Offer for the purpose of setting Locational Marginal Prices; provided however, such Market Seller shall be allowed to submit a challenge to a non-verification determination, including supporting documentation, to the Office of the Interconnection in accordance with the procedures set forth in the PJM Manuals. Upon review of such documentation, the Office of the Interconnection may determine that the Market Seller's cost-based offer is verified and eligible to set the applicable Locational Marginal Price as described above.

- (i) For the first incremental segment (i=1), when the MW in the segment is greater than zero, the first segment shall be screened as a block-loaded segment (UBS=0) as if there was a preceding MW_{i-1} of zero. The Maximum Allowable Incremental Cost calculation for the first incremental would use a preceding Bid Production Cost_{i-1} (at zero MW) equal to the energy No-Load Cost.
- (ii) For the first incremental segment (i=1), when the MW in the segment is equal to zero, and is the only bid-in segment to be verified, then the segment shall be deemed not verified and subject to the rules as described above.
- (iii) For the first incremental segment (i=1), when the MW in the segment is equal to zero, and there are additional segments to be verified, then the first segment shall be deemed verified only if the second segment is deemed verified. If the second segment is deemed not verified, then the first segment shall also be deemed not verified and subject to the rules as described above.

(b) ~~If an Economic Load Response Participant, an Emergency Load Response participant, or a Pre-Emergency Load Response participant submits~~ a cost-based demand reduction offer that includes incremental costs greater than or equal to \$1,000/megawatt-hour, in order for that offer to be eligible to determine the applicable Locational Marginal Price under section 2.2 of this Schedule, the Economic Load Response Participant, ~~Emergency Load Response participant, or Pre-Emergency Load Response participant~~ must validate the incremental costs with the end use customer(s) and, upon request, submit to the Office of the Interconnection supporting documentation demonstrating that the end-use customer's costs in providing such demand reduction are greater than \$1,000/megawatt-hour in accordance with the following provisions:

(i) The supporting documentation must explain and support the quantification of the end-use customer's incremental costs; and

(ii) The end use customer's incremental costs shall include quantifiable cost incurred for not consuming electricity when dispatched by the Office of the Interconnection, such as wages paid without production, lost sales, damaged products that cannot be sold, or other incremental costs as defined in the PJM Manuals or as approved by the Office of the Interconnection, and may not include shutdown costs.

If upon review of the supporting documentation for the Economic Load Response Participant's, ~~an Emergency Load Response participant's, or an Pre Emergency Load Response participant's~~ cost-based offer by the Office of the Interconnection and the Market Monitoring Unit, the Office of the Interconnection and/or the Market Monitoring Unit determines that the offer was not reasonably supported by incremental costs greater than or equal to \$1,000/megawatt-hour, the Office of the Interconnection and/or the Market Monitoring Unit may refer the matter to the FERC Office of Enforcement for investigation.

Section(s) of the
PJM Operating Agreement
(Marked / Redline Format)

1.10 Scheduling.

1.10.1 General.

- (a) The Office of the Interconnection shall administer scheduling processes to implement a Day-ahead Energy Market and a Real-time Energy Market. PJMSettlement shall be the Counterparty to the purchases and sales of energy that clear the Day-ahead Energy Market and the Real-time Energy Market; provided that PJMSettlement shall not be a contracting party to bilateral transactions between Market Participants or with respect to a Generating Market Buyer's self-schedule or self-supply of its generation resources up to that Generating Market Buyer's Equivalent Load.
- (b) The Day-ahead Energy Market shall enable Market Participants to purchase and sell energy through the PJM Interchange Energy Market at Day-ahead Prices and enable Transmission Customers to reserve transmission service with Transmission Congestion Charges and Transmission Loss Charges based on locational differences in Day-ahead Prices. Up-to Congestion Transactions submitted in the Day-ahead Energy Market shall not require transmission service and Transmission Customers shall not reserve transmission service for such Up-to Congestion Transactions. Market Participants whose purchases and sales, and Transmission Customers whose transmission uses are scheduled in the Day-ahead Energy Market, shall be obligated to purchase or sell energy, or pay Transmission Congestion Charges and Transmission Loss Charges, at the applicable Day-ahead Prices for the amounts scheduled.
- (c) In the Real-time Energy Market, Market Participants that deviate from the amounts of energy purchases or sales, or Transmission Customers that deviate from the transmission uses, scheduled in the Day-ahead Energy Market shall be obligated to purchase or sell energy, or pay Transmission Congestion Charges and Transmission Loss Charges, for the amount of the deviations at the applicable Real-time Prices or price differences, unless otherwise specified by this Schedule.
- (d) The following scheduling procedures and principles shall govern the commitment of resources to the Day-ahead Energy Market and the Real-time Energy Market over a period extending from one week to one hour prior to the real-time dispatch. Scheduling encompasses the day-ahead and hourly scheduling process, through which the Office of the Interconnection determines the Day-ahead Energy Market and determines, based on changing forecasts of conditions and actions by Market Participants and system constraints, a plan to serve the hourly energy and reserve requirements of the Internal Market Buyers and the purchase requests of the External Market Buyers in the least costly manner, subject to maintaining the reliability of the PJM Region. Scheduling does not encompass Coordinated External Transactions, which are subject to the procedures of Section 1.13 of this Schedule 1 of this Agreement. Scheduling shall be conducted as specified in Section 1.10.1A below, subject to the following condition. If the Office of the Interconnection's forecast for the next seven days projects a likelihood of Emergency conditions, the Office of the Interconnection may commit, for all or part of such seven day period, to the use of generation resources with notification or start-up times greater than one day as necessary in order to alleviate or mitigate such Emergency, in accordance with the Market Sellers' offers for such units for such periods and the specifications in the PJM

Manuals. Such resources committed by the Office of the Interconnection to alleviate or mitigate an Emergency will not receive Operating Reserve Credits nor otherwise be made whole for its hours of operation for the duration of any portion of such commitment that exceeds the maximum start-up and notification times for such resources during Hot Weather Alerts and Cold Weather Alerts, consistent with Sections 3.2.3 and 6.6 hereof.

1.10.1A Day-ahead Energy Market Scheduling.

The following actions shall occur not later than 10:30 a.m. on the day before the Operating Day for which transactions are being scheduled, or such other deadline as may be specified by the Office of the Interconnection in order to comply with the practical requirements and the economic and efficiency objectives of the scheduling process specified in this Schedule.

(a) Each Market Participant may submit to the Office of the Interconnection specifications of the amount and location of its customer loads and/or energy purchases to be included in the Day-ahead Energy Market for each hour of the next Operating Day, such specifications to comply with the requirements set forth in the PJM Manuals. Each Market Buyer shall inform the Office of the Interconnection of the prices, if any, at which it desires not to include its load in the Day-ahead Energy Market rather than pay the Day-ahead Price. PRD Providers that have committed Price Responsive Demand in accordance with the Reliability Assurance Agreement shall submit to the Office of the Interconnection, in accordance with procedures specified in the PJM Manuals, any desired updates to their previously submitted PRD Curves, provided that such updates are consistent with their Price Responsive Demand commitments, and provided further that PRD Providers that are not Load Serving Entities for the Price Responsive Demand at issue may only submit PRD Curves for the Real-time Energy Market. Price Responsive Demand that has been committed in accordance with the Reliability Assurance Agreement shall be presumed available for the next Operating Day in accordance with the most recently submitted PRD Curve unless the PRD Curve is updated to indicate otherwise. PRD Providers may also submit PRD Curves for any Price Responsive Demand that is not committed in accordance with the Reliability Assurance Agreement; provided that PRD Providers that are not Load Serving Entities for the Price Responsive Demand at issue may only submit PRD Curves for the Real-time Energy Market. All PRD Curves shall be on a PRD Substation basis, and shall specify the maximum time period required to implement load reductions.

(b) Each Generating Market Buyer shall submit to the Office of the Interconnection:
(i) hourly schedules for resource increments, including hydropower units, self-scheduled by the Market Buyer to meet its Equivalent Load; and (ii) the Dispatch Rate at which each such self-scheduled resource will disconnect or reduce output, or confirmation of the Market Buyer's intent not to reduce output.

(c) All Market Participants shall submit to the Office of the Interconnection schedules for any energy exports, energy imports, and wheel through transactions involving use of generation or Transmission Facilities as specified below, and shall inform the Office of the Interconnection if the transaction is to be scheduled in the Day-ahead Energy Market. Any Market Participant that elects to schedule an export, import or wheel through transaction in the Day-ahead Energy Market may specify the price (such price not to exceed ~~the maximum price that may be specified~~

~~in the PJM Manuals~~ \$2,000/MWh), if any, at which the export, import or wheel through transaction will be wholly or partially curtailed. The foregoing price specification shall apply to the applicable interface pricing point. Any Market Participant that elects not to schedule its export, import or wheel through transaction in the Day-ahead Energy Market shall inform the Office of the Interconnection if the parties to the transaction are not willing to incur Transmission Congestion and Loss Charges in the Real-time Energy Market in order to complete any such scheduled transaction. Such transactions in the Real-Time Energy Market, other than Coordinated Transaction Schedules and emergency energy sales and purchases, may specify a price up to \$2,000/MWh. Scheduling of such transactions shall be conducted in accordance with the specifications in the PJM Manuals and the following requirements:

- i) Market Participants shall submit schedules for all energy purchases for delivery within the PJM Region, whether from resources inside or outside the PJM Region;
- ii) Market Participants shall submit schedules for exports for delivery outside the PJM Region from resources within the PJM Region that are not Dynamic Transfers to such entities pursuant to Section 1.12; and
- iii) In addition to the foregoing schedules for exports, imports and wheel through transactions, Market Participants shall submit confirmations of each scheduled transaction from each other party to the transaction in addition to the party submitting the schedule, or the adjacent Control Area.

(c-1) A Market Participant may elect to submit in the Day-ahead Energy Market a form of Virtual Transaction that combines an offer to sell energy at a source, with a bid to buy the same megawatt quantity of energy at a sink where such transaction specifies the maximum difference between the Locational Marginal Prices at the source and sink. The Office of Interconnection will schedule these transactions only to the extent this difference in Locational Marginal Prices is within the maximum amount specified by the Market Participant. A Virtual Transaction of this type is referred to as an “Up-to Congestion Transaction.” Such Up-to Congestion Transactions may be wholly or partially scheduled depending on the price difference between the source and sink locations in the Day-ahead Energy Market. The maximum difference between the source and sink prices that a participant may specify shall be limited to +/- \$50/MWh. The foregoing price specification shall apply to the price difference between the specified source and sink in the day-ahead scheduling process only. An accepted Up-to Congestion Transaction results in scheduled injection at a specified source and scheduled withdrawal of the same megawatt quantity at a specified sink in the Day-ahead Energy Market. The source-sink paths on which an Up-to Congestion Transaction may be submitted are limited to those paths posted on the PJM internet site and determined by the Office of the Interconnection using the following criteria:

Step 1: Start with the historic set of eligible nodes that were available as sources and sinks for interchange transactions on the PJM OASIS.

Step 2: Remove from the list of nodes described in Step 1 all load buses below 69 kV.

Step 3: Remove from the resulting set of nodes from Step 2 all generator buses at which no generators of 100 megawatts or more are connected.

Step 4: Remove from the results of Step 3 all electrically equivalent nodes.

(c-2) A Market Participant may elect to submit an Increment Offer and/or Decrement Bid form of Virtual Transaction in the Day-ahead Energy Market and shall specify the price for such transaction which shall be limited to \$2,000/megawatt-hour.

(d) Market Sellers in the Day-ahead Energy Market shall submit offers for the supply of energy, demand reductions, or other services for the following Operating Day for each clock hour for which the Market Seller desires or is required to make its resource available to the Office of the Interconnection. Offers for the supply of energy may be cost-based, market-based, or both, and may vary hourly. Offers shall be submitted to the Office of the Interconnection in the form specified by the Office of the Interconnection and shall contain the information specified in the Office of the Interconnection's Offer Data specification, this Section 1.10.1A(d), Section 1.10.9B, Schedule 2 of the Operating Agreement, and the PJM Manuals, as applicable. Market Sellers owning or controlling the output of a Generation Capacity Resource that was committed in an FRR Capacity Plan, self-supplied, offered and cleared in a Base Residual Auction or Incremental Auction, or designated as replacement capacity, as specified in Attachment DD of the PJM Tariff, and that has not been rendered unavailable by a Generator Planned Outage, a Generator Maintenance Outage, or a Generator Forced Outage shall submit offers for the available capacity of such Generation Capacity Resource, including any portion that is self-scheduled by the Generating Market Buyer. Such offers shall be based on the ICAP equivalent of the Market Seller's cleared UCAP capacity commitment, provided, however, where the underlying resource is a Capacity Storage Resource or an Intermittent Resource, the Market Seller shall satisfy the must offer requirement by either self-scheduling or offering the unit as a dispatchable resource, in accordance with the PJM Manuals, where the hourly day-ahead self-scheduled values for such Capacity Storage Resources and Intermittent Resources may vary hour to hour from the capacity commitment. Any offer not designated as a Maximum Emergency offer shall be considered available for scheduling and dispatch under both Emergency and non-Emergency conditions. Offers may only be designated as Maximum Emergency offers to the extent that the Generation Capacity Resource falls into at least one of the following categories:

- i) Environmental limits. If the resource has a limit on its run hours imposed by a federal, state, or other governmental agency that will significantly limit its availability, on either a temporary or long-term basis. This includes a resource that is limited to operating only during declared PJM capacity emergencies by a governmental authority.
- ii) Fuel limits. If physical events beyond the control of the resource owner result in the temporary interruption of fuel supply and there is limited on-site fuel storage. A fuel supplier's exercise of a contractual right to

interrupt supply or delivery under an interruptible service agreement shall not qualify as an event beyond the control of the resource owner.

- iii) Temporary emergency conditions at the unit. If temporary emergency physical conditions at the resource significantly limit its availability.
- iv) Temporary megawatt additions. If a resource can provide additional megawatts on a temporary basis by oil topping, boiler over-pressure, or similar techniques, and such megawatts are not ordinarily otherwise available.

The submission of offers for resource increments that have not cleared in a Base Residual Auction or an Incremental Auction, were not committed in an FRR Capacity Plan, and were not designated as replacement capacity under Attachment DD of the PJM Tariff shall be optional, but any such offers must contain the information specified in the Office of the Interconnection's Offer Data specification, Operating Agreement, Schedule 1, sections 1.10.1A(d), and 1.10.9B, Operating Agreement, Schedule 2, and the PJM Manuals, as applicable. Energy offered from generation resources that have not cleared a Base Residual Auction or an Incremental Auction, were not committed in an FRR Capacity Plan, and were not designated as replacement capacity under Attachment DD of the PJM Tariff shall not be supplied from resources that are included in or otherwise committed to supply the Operating Reserves of a Control Area outside the PJM Region.

The foregoing offers:

- i) Shall specify the Generation Capacity Resource or Demand Resource and energy or demand reduction amount, respectively, for each clock hour in the offer period;
- ii) Shall specify the amounts and prices for each clock hour during the entire Operating Day for each resource component offered by the Market Seller to the Office of the Interconnection;
- iii) May specify for generation resources offer parameters for each clock hour during the entire Operating Day, as applicable and in accordance with section 1.10.9B below, including: (1) Minimum Run Time; (2) maximum run time; (3) Start-up Costs; (4) No-load Costs; (5) Incremental Energy Offer; (6) notification time; (7) availability; (8) ramp rate; (9) Economic Minimum; (10) Economic Maximum; (11) emergency minimum MW; and (12) emergency maximum MW, and may specify offer parameters for Demand Resources for each clock hour during the entire Operating Day, as applicable and in accordance with section 1.10.9B below, including: (1) minimum down time; (2) shutdown costs; (3) Incremental Energy Offer; (4) notification time; (5) Economic Minimum; and (6) Economic Maximum;

- iv) Shall set forth any special conditions upon which the Market Seller proposes to supply a resource increment, including any curtailment rate specified in a bilateral contract for the output of the resource, or any cancellation fees;
- v) May include a schedule of offers for prices and operating data contingent on acceptance by the deadline specified in this Schedule, with additional schedules applicable if accepted after the foregoing deadline;
- vi) Shall constitute an offer to submit the resource increment to the Office of the Interconnection for scheduling and dispatch in accordance with the terms of the offer for the clock hour, which offer shall remain open through the Operating Day, for which the offer is submitted, unless the Market Seller a) submits a Real-time Offer for the applicable clock hour, or b) updates the availability of its offer for that hour, as further described in the PJM Manuals;
- vii) Shall be final as to the price or prices at which the Market Seller proposes to supply energy or other services to the PJM Interchange Energy Market, such price or prices being guaranteed by the Market Seller for the period extending through the end of the following Operating Day, unless modified after the close of the Day-ahead Energy Market as permitted pursuant to sections 1.10.9A or 1.10.9B below;
- viii) Shall not exceed an energy offer price of \$1,000/megawatt-hour for all generation resources, except (1) when a Market Seller's cost-based offer is above \$1,000/megawatt-hour and less than or equal to \$2,000/megawatt-hour, then its market-based offer must be less than or equal to the cost-based offer; and (2) when a Market Seller's cost-based offer is greater than \$2,000/megawatt-hour, then its market-based offer must be less than or equal to \$2,000/megawatt-hour; and
- ix) Shall not exceed a *demand reduction* offer price of \$1,000/megawatt-hour, *except when an Economic Load Response Participant, ~~an Emergency Load Response participant, or a Pre-Emergency Load Response participant~~ submits a cost-based offer that includes an incremental cost component that is above \$1,000/megawatt-hour, then its market-based offer must be less than or equal to the cost-based offer but in no event greater than \$2,000/megawatt-hour; and*
- x) Shall not exceed an energy offer price of \$0.00/MWh for pumped storage hydropower units scheduled by the Office of the Interconnection pursuant to the hydro optimization tool in the Day-ahead Energy Market.

(e) A Market Seller that wishes to make a resource available to sell Regulation service shall submit an offer for Regulation for each clock hour for which the Market Seller desires to make its resource available to the Office of the Interconnection to provide Regulation that shall specify the megawatts of Regulation being offered, which must equal or exceed 0.1 megawatts, the Regulation Zone for which such Regulation is offered, the price of the capability offer in dollars per MW, the price of the performance offer in Dollars per change in MW, and such other information specified by the Office of the Interconnection as may be necessary to evaluate the offer and the resource's opportunity costs. Such offers may vary hourly, and may be updated each hour, up to 65 minutes before the applicable clock hour during the Operating Day. The total of the performance offer multiplied by the historical average mileage used in the market clearing plus the capability offer shall not exceed \$100/megawatt-hour in the case of Regulation offered for all Regulation Zones. In addition to any market-based offer for Regulation, the Market Seller also shall submit a cost-based offer. A cost-based offer must be in the form specified in the PJM Manuals and consist of the following components as well as any other components specified in the PJM Manuals:

- i. The costs (in \$/MW) of the fuel cost increase due to the steady-state heat rate increase resulting from operating the unit at lower megawatt output incurred from the provision of Regulation shall apply to the capability offer;
- ii. The cost increase (in \$/ΔMW) in costs associated with movement of the regulation resource incurred from the provision of Regulation shall apply to the performance offer; and
- iii. An adder of up to \$12.00 per megawatt of Regulation provided applied to the capability offer.

Qualified Regulation capability must satisfy the measurement and verification tests specified in the PJM Manuals.

(f) Each Market Seller owning or controlling the output of a Generation Capacity Resource committed to service of PJM loads under the Reliability Pricing Model or Fixed Resource Requirement Alternative shall submit a forecast of the availability of each such Generation Capacity Resource for the next seven days. A Market Seller (i) may submit a non-binding forecast of the price at which it expects to offer a generation resource increment to the Office of the Interconnection over the next seven days, and (ii) shall submit a binding offer for energy, along with Start-up Costs and No-load Costs, if any, for the next seven days or part thereof, for any generation resource with minimum notification or start-up requirement greater than 24 hours. Such resources committed by the Office of the Interconnection will not receive Operating Reserve Credits nor otherwise be made whole for its hours of operation for the duration of any portion of such commitment that exceeds the maximum start-up and notification times for such resources during Hot Weather Alerts and Cold Weather Alerts, consistent with Sections 3.2.3 and 6.6 hereof.

(g) Each component of an offer by a Market Seller of a Generation Capacity Resource that is constant for the entire Operating Day and does not vary hour to hour shall remain in effect for subsequent Operating Days until superseded or canceled.

(h) The Office of the Interconnection shall post the total hourly loads scheduled in the Day-ahead Energy Market, as well as, its estimate of the combined hourly load of the Market Buyers for the next four days, and peak load forecasts for an additional three days.

(i) Except for Economic Load Response Participants, all Market Participants may submit Virtual Transactions that apply to the Day-ahead Energy Market only. Such Virtual Transactions must comply with the requirements set forth in the PJM Manuals and must specify amount, location and price, if any, at which the Market Participant desires to purchase or sell energy in the Day-ahead Energy Market. The Office of the Interconnection may require that a market participant shall not submit in excess of a defined number of bid/offer segments in the Day-ahead Energy Market, as specified in the PJM Manuals, when the Office of the Interconnection determines that such limit is required to avoid or mitigate significant system performance problems related to bid/offer volume. Notice of the need to impose such limit shall be provided prior to 10:00 a.m. EPT on the day that the Day-ahead Energy Market will clear. For purposes of this provision, a bid/offer segment is each pairing of price and megawatt quantity submitted as part of an Increment Offer or Decrement Bid. For purposes of applying this provision to an Up-to Congestion Transaction, a bid/offer segment shall refer to the pairing of a source and sink designation, as well as price and megawatt quantity, that comprise each Up-to Congestion Transaction.

(j) A Market Seller that wishes to make a generation resource or Demand Resource available to sell Synchronized Reserve shall submit an offer for Synchronized Reserve for each clock hour for which the Market Seller desires or is required to make its resource available to the Office of the Interconnection to provide Synchronized Reserve that shall specify the megawatts of Synchronized Reserve being offered, which must equal or exceed 0.1 megawatts, the price of the offer in dollars per megawatt hour, and such other information specified by the Office of the Interconnection as may be necessary to evaluate the offer and the energy used by the generation resource to provide the Synchronized Reserve and the generation resource's unit specific opportunity costs. Such offers may vary hourly, and may be updated each hour up to 65 minutes before the applicable clock hour during the Operating Day. The price of the offer shall not exceed the variable operating and maintenance costs for providing Synchronized Reserve plus seven dollars and fifty cents.

(k) An Economic Load Response Participant that wishes to participate in the Day-ahead Energy Market by reducing demand shall submit an offer to reduce demand to the Office of the Interconnection for each clock hour for which the Economic Load Response Participant desires to make its resource available to the Office of the Interconnection to reduce demand. The offer must equal or exceed 0.1 megawatts, may vary hourly, and shall specify: (i) the amount of the offered curtailment in minimum increments of .1 megawatts; (ii) the Day-ahead Locational Marginal Price above which the end-use customer will reduce load, subject to section 1.10.1A(d)(ix); and (iii) at the Economic Load Response Participant's option, start-up costs associated with reducing load, including direct labor and equipment costs, opportunity costs,

and/or a minimum of number of contiguous hours for which the load reduction must be committed. Such offers may be updated each hour, up to 65 minutes before the applicable clock hour during the Operating Day. Economic Load Response Participants submitting offers to reduce demand in the Day-ahead Energy Market may establish an incremental offer curve, provided that such offer curve shall be limited to ten price pairs (in MWs) per hour.

(l) Market Sellers owning or controlling the output of a Demand Resource that was committed in an FRR Capacity Plan, or that was self-supplied or that offered and cleared in a Base Residual Auction or Incremental Auction, may submit demand reduction bids for the available load reduction capability of the Demand Resource. The submission of demand reduction bids for Demand Resource increments that were not committed in an FRR Capacity Plan, or that have not cleared in a Base Residual Auction or Incremental Auction, shall be optional, but any such bids must contain the information required to be included in such bids, as specified in the PJM Economic Load Response Program. A Demand Resource that was committed in an FRR Capacity Plan, or that was self-supplied or offered and cleared in a Base Residual Auction or Incremental Auction, may submit a demand reduction bid in the Day-ahead Energy Market as specified in the Economic Load Response Program; provided, however, that in the event of an Emergency PJM shall require Demand Resources to reduce load, notwithstanding that the Zonal LMP at the time such Emergency is declared is below the price identified in the demand reduction bid.

(m) Market Sellers providing Day-ahead Scheduling Reserves Resources shall submit in the Day-ahead Scheduling Reserves Market: 1) a price offer in dollars per megawatt hour; and 2) such other information specified by the Office of the Interconnection as may be necessary to determine any relevant opportunity costs for the resource(s). The foregoing notwithstanding, to qualify to submit Day-ahead Scheduling Reserves pursuant to this section, the Day-ahead Scheduling Reserves Resources shall submit energy offers in the Day-ahead Energy Market including start-up and shut-down costs for generation resource and Demand Resources, respectively, and all generation resources that are capable of providing Day-ahead Scheduling Reserves that a particular resource can provide that service. The megawatt quantity of Day-ahead Scheduling Reserves that a particular resource can provide in a given hour will be determined based on the energy Offer Data submitted in the Day-ahead Energy Market, as detailed in the PJM Manuals.

1.10.1B Demand Bid Scheduling and Screening

(a) The Office of the Interconnection shall apply Demand Bid Screening to all Demand Bids submitted in the Day-ahead Energy Market for each Load Serving Entity, separately by Zone. Using Demand Bid Screening, the Office of the Interconnection will automatically reject a Load Serving Entity's Demand Bids in any future Operating Day for which the Load Serving Entity submits bids if the total megawatt volume of such bids would exceed the Load Serving Entity's Demand Bid Limit for any hour in such Operating Day, unless the Office of the Interconnection permits an exception pursuant to subsection (d) below.

(b) On a daily basis, PJM will update and post each Load Serving Entity's Demand Bid Limit in each applicable Zone. Such Demand Bid Limit will apply to all Demand Bids

submitted by that Load Serving Entity for each future Operating Day for which it submits bids. The Demand Bid Limit is calculated using the following equation:

Demand Bid Limit = greater of (Zonal Peak Demand Reference Point * 1.3), or (Zonal Peak Demand Reference Point + 10MW)

Where:

1. Zonal Peak Demand Reference Point = for each Zone: the product of (a) LSE Recent Load Share, multiplied by (b) Peak Daily Load Forecast.
2. LSE Recent Load Share is the Load Serving Entity's highest share of Network Load in each Zone for any hour over the most recently available seven Operating Days for which PJM has data.
3. Peak Daily Load Forecast is PJM's highest available peak load forecast for each applicable Zone that is calculated on a daily basis.

(c) A Load Serving Entity whose Demand Bids are rejected as a result of Demand Bid Screening may change its Demand Bids to reduce its total megawatt volume to a level that does not exceed its Demand Bid Limit, and may resubmit them subject to the applicable rules related to bid submission outlined in Tariff, Operating Agreement and PJM Manuals.

(d) PJM may allow a Load Serving Entity to submit bids in excess of its Demand Bid Limit when circumstances exist that will cause, or are reasonably expected to cause, a Load Serving Entity's actual load to exceed its Demand Bid Limit on a given Operating Day. Examples of such circumstances include, but are not limited to, changes in load commitments due to state sponsored auctions, mergers and acquisitions between PJM Members, and sales and divestitures between PJM Members. A Load Serving Entity may submit a written exception request to the Office of Interconnection for a higher Demand Bid Limit for an affected Operating Day. Such request must include a detailed explanation of the circumstances at issue and supporting documentation that justify the Load Serving Entity's expectation that its actual load will exceed its Demand Bid Limit.

1.10.2 Pool-scheduled Resources.

Pool-scheduled resources are those resources for which Market Participants submitted offers to sell energy in the Day-ahead Energy Market and offers to reduce demand in the Day-ahead Energy Market, which the Office of the Interconnection scheduled in the Day-ahead Energy Market as well as generators committed by the Office of the Interconnection subsequent to the Day-ahead Energy Market. Such resources shall be committed to provide energy in the real-time dispatch unless the schedules for such units are revised pursuant to Sections 1.10.9 or 1.11. Pool-scheduled resources shall be governed by the following principles and procedures.

(a) Pool-scheduled resources shall be selected by the Office of the Interconnection on the basis of the prices offered for energy and demand reductions and related services, whether the resource is expected to be needed to maintain system reliability during the Operating Day, Start-up Costs, No-load Costs, and cancellation fees, and the specified operating characteristics, offered by Market Sellers to the Office of the Interconnection by the offer deadline specified in

Section 1.10.1A. Hydropower units can only be pool-scheduled if they are pumped storage units and scheduled by the Office of the Interconnection pursuant to the hydro optimization tool in the Day-ahead Energy Market.

(b) A resource that is scheduled by a Market Participant to support a bilateral sale, or that is self-scheduled by a Generating Market Buyer, shall not be selected by the Office of the Interconnection as a pool-scheduled resource except in an Emergency.

(c) Market Sellers offering energy from hydropower or other facilities with fuel or environmental limitations may submit data to the Office of the Interconnection that is sufficient to enable the Office of the Interconnection to determine the available operating hours of such facilities.

(d) The Market Seller of a resource selected as a pool-scheduled resource shall receive payments or credits for energy, demand reductions or related services, or for Start-up Costs and No-load Costs, from the Office of the Interconnection on behalf of the Market Buyers in accordance with Section 3 of this Schedule 1. Alternatively, the Market Seller shall receive, in lieu of Start-up Costs and No-load Costs, its actual costs incurred, if any, up to a cap of the resource's Start-up Costs, if the Office of the Interconnection cancels its selection of the resource as a pool-scheduled resource and so notifies the Market Seller before the resource is synchronized.

(e) Market Participants shall make available their pool-scheduled resources to the Office of the Interconnection for coordinated operation to supply the Operating Reserves needs of the applicable Control Zone.

(f) Economic Load Response Participants offering to reduce demand shall specify: (i) the amount of the offered curtailment, which offer must equal or exceed 0.1 megawatts, in minimum increments of .1 megawatts; (ii) the real-time Locational Marginal Price above which the end-use customer will reduce load; and (iii) at the Economic Load Response Participant's option, shut-down costs associated with reducing load, including direct labor and equipment costs, opportunity costs, and/or a minimum number of contiguous hours for which the load reduction must be committed. Economic Load Response Participants submitting offers to reduce demand in the Real-time Energy Market may establish an incremental offer curve, provided that such offer curve shall be limited to ten price pairs (in MWs). Economic Load Response Participants offering to reduce demand shall also indicate the hours that the demand reduction is not available.

1.10.3 Self-scheduled Resources.

Self-scheduled resources shall be governed by the following principles and procedures.

(a) Each Generating Market Buyer shall use all reasonable efforts, consistent with Good Utility Practice, not to self-schedule resources in excess of its Equivalent Load.

(b) The offered prices of resources that are self-scheduled, or otherwise not following the dispatch orders of the Office of the Interconnection, shall not be considered by the Office of the Interconnection in determining Locational Marginal Prices.

(c) Market Participants shall make available their self-scheduled resources to the Office of the Interconnection for coordinated operation to supply the Operating Reserves needs of the applicable Control Zone, by submitting an offer as to such resources.

(d) A Market Participant self-scheduling a resource in the Day-ahead Energy Market that does not deliver the energy in the Real-time Energy Market, shall replace the energy not delivered with energy from the Real-time Energy Market and shall pay for such energy at the applicable Real-time Price.

(e) Hydropower units, excluding pumped storage units, may only be self-scheduled.

1.10.4 Capacity Resources.

(a) A Generation Capacity Resource committed to service of PJM loads under the Reliability Pricing Model or Fixed Resource Requirement Alternative that is selected as a pool-scheduled resource shall be made available for scheduling and dispatch at the direction of the Office of the Interconnection. Such a Generation Capacity Resource that does not deliver energy as scheduled shall be deemed to have experienced a Generator Forced Outage to the extent of such energy not delivered. A Market Participant offering such Generation Capacity Resource in the Day-ahead Energy Market shall replace the energy not delivered with energy from the Real-time Energy Market and shall pay for such energy at the applicable Real-time Price.

(b) Energy from a Generation Capacity Resource committed to service of PJM loads under the Reliability Pricing Model or Fixed Resource Requirement Alternative that has not been scheduled in the Day-ahead Energy Market may be sold on a bilateral basis by the Market Seller, may be self-scheduled, or may be offered for dispatch during the Operating Day in accordance with the procedures specified in this Schedule. Such a Generation Capacity Resource that has not been scheduled in the Day-ahead Energy Market and that has been sold on a bilateral basis must be made available upon request to the Office of the Interconnection for scheduling and dispatch during the Operating Day if the Office of the Interconnection declares a Maximum Generation Emergency. Any such resource so scheduled and dispatched shall receive the applicable Real-time Price for energy delivered.

(c) A resource that has been self-scheduled shall not receive payments or credits for Start-up Costs or No-load Costs.

1.10.5 External Resources.

(a) External Resources may submit offers to the PJM Interchange Energy Market, in accordance with the day-ahead and real-time scheduling processes specified above. An External Resource selected as a pool-scheduled resource shall be made available for scheduling and dispatch at the direction of the Office of the Interconnection, and except as specified below shall

be compensated on the same basis as other pool-scheduled resources. External Resources that are not capable of Dynamic Transfer shall, if selected by the Office of the Interconnection on the basis of the Market Seller's Offer Data, be block loaded on an hourly scheduled basis. Market Sellers shall offer External Resources to the PJM Interchange Energy Market on either a resource-specific or an aggregated resource basis. A Market Participant whose pool-scheduled resource does not deliver the energy scheduled in the Day-ahead Energy Market shall replace such energy not delivered as scheduled in the Day-ahead Energy Market with energy from the PJM Real-time Energy Market and shall pay for such energy at the applicable Real-time Price.

(b) Offers for External Resources from an aggregation of two or more generating units shall so indicate, and shall specify, in accordance with the Offer Data requirements specified by the Office of the Interconnection: (i) energy prices; (ii) hours of energy availability; (iii) a minimum dispatch level; (iv) a maximum dispatch level; and (v) unless such information has previously been made available to the Office of the Interconnection, sufficient information, as specified in the PJM Manuals, to enable the Office of the Interconnection to model the flow into the PJM Region of any energy from the External Resources scheduled in accordance with the Offer Data.

(c) Offers for External Resources on a resource-specific basis shall specify the resource being offered, along with the information specified in the Offer Data as applicable.

1.10.6 External Market Buyers.

(a) Deliveries to an External Market Buyer not subject to Dynamic Transfer by the Office of the Interconnection shall be delivered on a block loaded basis to the bus or buses at the electrical boundaries of the PJM Region, or in such area with respect to an External Market Buyer's load within such area not served by Network Service, at which the energy is delivered to or for the External Market Buyer. External Market Buyers shall be charged (which charge may be positive or negative) at either the Day-ahead Prices or Real-time Prices, whichever is applicable, for energy at the foregoing bus or buses.

(b) An External Market Buyer's hourly schedules for energy purchased from the PJM Interchange Energy Market shall conform to the ramping and other applicable requirements of the interconnection agreement between the PJM Region and the Control Area to which, whether as an intermediate or final point of delivery, the purchased energy will initially be delivered.

(c) The Office of the Interconnection shall curtail deliveries to an External Market Buyer if necessary to maintain appropriate reserve levels for a Control Zone as defined in the PJM Manuals, or to avoid shedding load in such Control Zone.

1.10.6A Transmission Loading Relief Customers.

(a) An entity that desires to elect to pay Transmission Congestion Charges in order to continue its energy schedules during an Operating Day over contract paths outside the PJM Region in the event that PJM initiates Transmission Loading Relief that otherwise would cause PJM to request security coordinators to curtail such Member's energy schedules shall:

- (i) enter its election on OASIS by 10:30 a.m. of the day before the Operating Day, in accordance with procedures established by PJM, which election shall be applicable for the entire Operating Day; and
- (ii) if PJM initiates Transmission Loading Relief, provide to PJM, at such time and in accordance with procedures established by PJM, the hourly integrated energy schedules that impacted the PJM Region (as indicated from the NERC Interchange Distribution Calculator) during the Transmission Loading Relief.

(b) If an entity has made the election specified in Section (a), then PJM shall not request security coordinators to curtail such entity's energy transactions, except as may be necessary to respond to Emergencies.

(c) In order to make elections under this Section 1.10.6A, an entity must (i) have met the creditworthiness standards established by the Office of the Interconnection or provided a letter of credit or other form of security acceptable to the Office of the Interconnection, and (ii) have executed either the Agreement, a Service Agreement under the PJM Tariff, or other agreement committing to pay all Transmission Congestion Charges incurred under this Section.

1.10.7 Bilateral Transactions.

Bilateral transactions as to which the parties have notified the Office of the Interconnection by the deadline specified in Section 1.10.1A that they elect not to be included in the Day-ahead Energy Market and that they are not willing to incur Transmission Congestion Charges in the Real-time Energy Market shall be curtailed by the Office of the Interconnection as necessary to reduce or alleviate transmission congestion. Bilateral transactions that were not included in the Day-ahead Energy Market and that are willing to incur congestion charges and bilateral transactions that were accepted in the Day-ahead Energy Market shall continue to be implemented during periods of congestion, except as may be necessary to respond to Emergencies.

1.10.8 Office of the Interconnection Responsibilities.

(a) The Office of the Interconnection shall use its best efforts to determine (i) the least-cost means of satisfying the projected hourly requirements for energy, Operating Reserves, and other ancillary services of the Market Buyers, including the reliability requirements of the PJM Region, of the Day-ahead Energy Market, and (ii) the least-cost means of satisfying the Operating Reserve and other ancillary service requirements for any portion of the load forecast of the Office of the Interconnection for the Operating Day in excess of that scheduled in the Day-ahead Energy Market. In making these determinations, the Office of the Interconnection shall take into account: (i) the Office of the Interconnection's forecasts of PJM Interchange Energy Market and PJM Region energy requirements, giving due consideration to the energy requirement forecasts and purchase requests submitted by Market Buyers and PRD Curves properly submitted by Load Serving Entities for the Price Responsive Demand loads they serve; (ii) the offers submitted by Market Sellers; (iii) the availability of limited energy resources; (iv)

the capacity, location, and other relevant characteristics of self-scheduled resources; (v) the objectives of each Control Zone for Operating Reserves, as specified in the PJM Manuals; (vi) the requirements of each Regulation Zone for Regulation and other ancillary services, as specified in the PJM Manuals; (vii) the benefits of avoiding or minimizing transmission constraint control operations, as specified in the PJM Manuals; and (viii) such other factors as the Office of the Interconnection reasonably concludes are relevant to the foregoing determination, including, without limitation, transmission constraints on external coordinated flowgates to the extent provided by section 1.7.6. The Office of the Interconnection shall develop a Day-ahead Energy Market based on the foregoing determination, and shall determine the Day-ahead Prices resulting from such schedule. The Office of the Interconnection shall report the planned schedule for a hydropower resource to the operator of that resource as necessary for plant safety and security, and legal limitations on pond elevations.

(b) By 1:30 p.m., or as soon as practicable thereafter, of the day before each Operating Day, or such other deadline as may be specified by the Office of the Interconnection in the PJM Manuals, the Office of the Interconnection shall: (i) post the aggregate Day-ahead Energy Market results; (ii) post the Day-ahead Prices; and (iii) inform the Market Sellers, Market Buyers, and Economic Load Response Participants of their scheduled injections, withdrawals, and demand reductions respectively. The foregoing notwithstanding, the deadlines set forth in this subsection shall not apply if the Office of the Interconnection is unable to obtain Market Participant bid/offer data due to extraordinary circumstances. For purposes of this subsection, extraordinary circumstances shall mean a technical malfunction that limits, prohibits or otherwise interferes with the ability of the Office of the Interconnection to obtain Market Participant bid/offer data prior to 11:59 p.m. on the day before the affected Operating Day. Extraordinary circumstances do not include a Market Participant's inability to submit bid/offer data to the Office of the Interconnection. If the Office of the Interconnection is unable to clear the Day-ahead Energy Market prior to 11:59 p.m. on the day before the affected Operating Day as a result of such extraordinary circumstances, the Office of the Interconnection shall notify Members as soon as practicable.

(c) Following posting of the information specified in Section 1.10.8(b), and absent extraordinary circumstances preventing the clearing of the Day-ahead Energy Market, the Office of the Interconnection shall revise its schedule of generation resources to reflect updated projections of load, conditions affecting electric system operations in the PJM Region, the availability of and constraints on limited energy and other resources, transmission constraints, and other relevant factors.

(d) Market Buyers shall pay PJMSettlement and Market Sellers shall be paid by PJMSettlement for the quantities of energy scheduled in the Day-ahead Energy Market at the Day-ahead Prices when the Day-ahead Price is positive. Market Buyers shall be paid by PJMSettlement and Market Sellers shall pay PJMSettlement for the quantities of energy scheduled in the Day-ahead Energy Market at the Day-ahead Prices when the Day-ahead Price is negative. Economic Load Response Participants shall be paid for scheduled demand reductions pursuant to Section 3.3A of this Schedule. Notwithstanding the foregoing, if the Office of the Interconnection is unable to clear the Day-ahead Energy Market prior to 11:59 p.m. on the day before the affected Operating Day due to extraordinary circumstances as described in subsection

(b) above, no settlements shall be made for the Day-ahead Energy Market, no scheduled megawatt quantities shall be established, and no Day-ahead Prices shall be established for that Operating Day. Rather, for purposes of settlements for such Operating Day, the Office of the Interconnection shall utilize a scheduled megawatt quantity and price of zero and all settlements, including Financial Transmission Right Target Allocations, will be based on the real-time quantities and prices as determined pursuant to Sections 2.4 and 2.5 hereof.

(e) If the Office of the Interconnection discovers an error in prices and/or cleared quantities in the Day-ahead Energy Market, Real-time Energy Market, Ancillary Services Markets or Day Ahead Scheduling Reserve Market after it has posted the results for these markets on its Web site, the Office of the Interconnection shall notify Market Participants of the error as soon as possible after it is found, but in no event later than 12:00 p.m. of the second Business Day following the Operating Day for the Ancillary Services Markets and Real-time Energy Market, and no later than 5:00 p.m. of the second Business Day following the initial publication of the results for the Day-ahead Scheduling Reserve Market and Day-ahead Energy Market. After this initial notification, if the Office of the Interconnection determines it is necessary to post modified results, it shall provide notification of its intent to do so, together with all available supporting documentation, by no later than 5:00 p.m. of the fifth Business Day following the Operating Day for the Ancillary Services Markets and Real-time Energy Market, and no later than 5:00 p.m. of the fifth Business Day following the initial publication of the results in the Day-ahead Scheduling Reserve Market and the Day-ahead Energy Market. Thereafter, the Office of the Interconnection must post on its Web site the corrected results by no later than 5:00 p.m. of the tenth calendar day following the Operating Day for the Ancillary Services Markets, Day-ahead Energy Market and Real-time Energy Market, and no later than 5:00 p.m. of the tenth calendar day following the initial publication of the results in the Day-ahead Scheduling Reserve Market. Should any of the above deadlines pass without the associated action on the part of 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 market results are under publicly noticed review by the FERC.

(f) Consistent with Section 18.17.1 of the PJM Operating Agreement, and notwithstanding anything to the contrary in the Operating Agreement or in the PJM Tariff, to allow the tracking of Market Participants' non-aggregated bids and offers over time as required by FERC Order No. 719, the Office of the Interconnection shall post on its Web site the non-aggregated bid data and Offer Data submitted by Market Participants (for participation in the PJM Interchange Energy Market) approximately four months after the bid or offer was submitted to the Office of the Interconnection.

1.10.9 Hourly Scheduling.

(a) Following the initial posting by the Office of the Interconnection of the Locational Marginal Prices resulting from the Day-ahead Energy Market, and subject to the right of the Office of the Interconnection to schedule and dispatch pool-scheduled resources and to direct that schedules be changed in an Emergency, and absent extraordinary circumstances preventing the clearing of the Day-ahead Energy Market, a generation rebidding period shall exist. Typically the rebidding period shall be from the time the Office of the Interconnection posts the

results of the Day-ahead Energy Market until 2:15 p.m. on the day before each Operating Day. However, should the clearing of the Day-ahead Energy Market be significantly delayed, the Office of the Interconnection may establish a revised rebidding period. During the rebidding period, Market Participants may submit revisions to generation Offer Data for the next Operating Day. Adjustments to the Day-ahead Energy Market shall be settled at the applicable Real-time Prices, and shall not affect the obligation to pay or receive payment for the quantities of energy scheduled in the Day-ahead Energy Market at the applicable Day-ahead Prices.

(b) A Market Participant may adjust the schedule of a resource under its dispatch control on an hour-to-hour basis beginning at 10:00 p.m. of the day before each Operating Day, provided that the Office of the Interconnection is notified not later than 65 minutes prior to the hour in which the adjustment is to take effect, as follows and as specified in section 1.10.9A of this Schedule:

- i) A Generating Market Buyer may self-schedule any of its resource increments, including hydropower resources, not previously designated as self-scheduled and not selected as a pool-scheduled resource in the Day-ahead Energy Market;
- ii) A Market Participant may request the scheduling of a non-firm bilateral transaction; or
- iii) A Market Participant may request the scheduling of deliveries or receipts of Spot Market Energy; or
- iv) A Generating Market Buyer may remove from service a resource increment, including a hydropower resource, that it had previously designated as self-scheduled, provided that the Office of the Interconnection shall have the option to schedule energy from any such resource increment that is a Capacity Resource at the price offered in the scheduling process, with no obligation to pay any Start-Up Costs.

(c) An External Market Buyer may refuse delivery of some or all of the energy it requested to purchase in the Day-ahead Energy Market by notifying the Office of the Interconnection of the adjustment in deliveries not later than 65 minutes prior to the hour in which the adjustment is to take effect, but any such adjustment shall not affect the obligation of the External Market Buyer to pay for energy scheduled on its behalf in the Day-ahead Energy Market at the applicable Day-ahead Prices.

(d) The Office of the Interconnection shall provide External Market Buyers and External Market Sellers and parties to bilateral transactions with any revisions to their schedules resulting from the rebidding period by 6:30 p.m. on the day before each Operating Day. The Office of the Interconnection may also commit additional resources after such time as system conditions require. For each hour in the Operating Day, as soon as practicable after the deadlines specified in the foregoing subsection of this Section 1.10, the Office of the Interconnection shall provide

External Market Buyers and External Market Sellers and parties to bilateral transactions with any revisions to their schedules for the hour.

1.10.9A Updating Offers in Real-time

(a) Each Market Seller may submit Real-time Offers for a resource up to 65 minutes before the applicable clock hour, and such Real-time Offers shall supersede any previous offer for that resource for the clock hour, as further described in the PJM Manuals and subject to the following conditions:

(i) A market-based Real-time Offer shall not exceed the applicable energy offer caps specified in this Schedule. Once a Market Seller's resource is committed for an applicable clock hour, the Market Seller may not increase its Incremental Energy Offer and may only submit a market-based Real-time Offer that is higher than its market-based offer that was in effect at the time of commitment to reflect increases in the resource's cost-based Start-up Costs and cost-based No-load Costs. The Market Seller may elect not to have its market-based offer considered for dispatch and to have only its lowest cost-based offer considered for the remainder of the Operating Day.

(ii) Cost-based Real-time Offers shall be submitted to the Office of the Interconnection in the form specified by the Office of the Interconnection's Offer Data specification, Operating Agreement, Schedule 1, sections 1.10.1A(d) and 1.10.9B, Operating Agreement, Schedule 2 and the PJM Manuals, as applicable. If a Market Seller submits a market-based Real-time Offer for a particular clock hour in accordance with subsection (c) below, or if updates to a cost-based offer are required by the Market Seller's approved Fuel Cost Policy, the Market Seller shall update its previously submitted cost-based Real-time Offer.

(iii) If a Market Seller's available cost-based offer is not compliant with Operating Agreement, Schedule 2 and the PJM Manuals at the time a Market Seller submits a market-based Real-time Offer for an applicable clock hour during the Operating Day, the Market Seller must submit an updated cost-based Real-time Offer consisting of an Incremental Energy Offer, Start-up Cost, and No-load Cost for that clock hour that is compliant with Operating Agreement, Schedule 2 and the PJM Manuals.

(b) *Each Market Seller may submit Real-time Offers for a resource during and through the end of the applicable clock hour to update only the following offer parameters, as further described in the PJM Manuals: (1) Economic Minimum; (2) Economic Maximum; (3) emergency minimum MW; (4) emergency maximum MW; (5) unit availability status; and (6) fixed output indicator. Such Real-time Offers shall supersede any previous offer for that resource for the clock hour.*

1.10.9B Offer Parameter Flexibility

(a) Market Sellers may, in accordance with sections 1.10.1A and 1.10.9A above, this section 1.10.9B, and the PJM Manuals, update offer parameters at any time up to 65 minutes before the applicable clock hour, including prior to the close of the Day-ahead Energy Market and prior to the close of the rebidding period specified in section 1.10.9, except that Market Sellers may not update their offers for the supply of energy or demand reduction: (1) during the period after the close the Day-ahead Energy Market and prior to the posting of the Day-ahead Energy Market results pursuant to section 1.10.8(b); or (2) during the period after close of the rebidding period and prior to PJM announcing the results of the rebidding period pursuant to section 1.10.9(d).

(b) For generation resource offers, Market Sellers may vary for each clock hour during the entire Operating Day the following offer parameters: (1) cost-based Start-up Costs; (2) cost-based No-load Costs; (3) Incremental Energy Offer; (4) Economic Minimum and Economic Maximum; (5) emergency minimum MW and emergency maximum MW; and (6) for Real-time Offers only, (i) notification time and (ii) *for uncommitted hours only*, Minimum Run Time.

(c) For Demand Resource offers, Market Sellers may vary for each clock hour during the entire Operating Day the following offer parameters: (1) shutdown costs, (2) Incremental Energy Offer; (3) Economic Minimum; (4) Economic Maximum; and (5) for Real-time Offers only, (i) notification time and (ii) *for uncommitted hours only*, minimum down time.

(d) After the announcement of the results of the rebidding period pursuant to section 1.10.9(d), a Market Seller may submit a Real-time Offer where offer parameters *may differ from the offer originally submitted in the Day-ahead Energy Market, except that a Market Seller may not submit a Real-time Offer that changes, of the offer parameters listed in section 1.10.1A(d), the MW amounts specified in the Incremental Energy Offer, ramp rate, maximum run time, and availability; provided, however, Market Sellers of dual-fueled resources may submit Real-time Offers for such resources that change the availability of a submitted cost-based offer.*

6.4 Offer Price Caps.

6.4.1 Applicability.

- (a) If, at any time, it is determined by the Office of the Interconnection in accordance with Sections 1.10.8 or 6.1 of this Schedule that any generation resource may be dispatched out of economic merit order to maintain system reliability as a result of limits on transmission capability, the offer prices for energy from such resource shall be capped at the levels specified below. If the Office of the Interconnection is able to do so, such offer prices shall be capped only during each hour when the transmission limit affects the schedule of the affected resource, and otherwise shall be capped for the entire Operating Day. The energy offer prices as capped shall be used to determine any Locational Marginal Price affected by the offer price of such resource and as further limited as described in Sections 2.2 and 2.4 of this Schedule.
- (b) The energy offer price by any generation resource requested to be dispatched in accordance with Section 6.3 of this Schedule shall be capped at the levels specified below. If the Office of the Interconnection is able to do so, such offer prices shall be capped only during each hour when the affected resource is so scheduled, and otherwise shall be capped for the entire Operating Day. The energy offer prices as capped shall be used to determine any Locational Marginal Price affected by the price of such resource.
- (c) Generation resources subject to an offer price cap shall be paid for energy at the applicable Locational Marginal Price.
- (d) [Reserved for Future Use]
- (e) Offer price caps under section 6.4 of this Schedule shall be suspended for a generation resource with respect to transmission limit(s) for any hour in which (1) there are not three or fewer generation suppliers available for redispatch under subsection (a) that are jointly pivotal with respect to such transmission limit(s), and (2) the generation resource's owner, when combined with the two largest other generation suppliers, is not pivotal ("three pivotal supplier test").
- (f) For the purposes of conducting the three pivotal supplier test in subsection (e), the following applies:
- (i) All megawatts of available incremental supply for which the power distribution factor ("dfax") has an absolute value equal to or greater than the dfax used by the Office of the Interconnection's system operators when evaluating the impact of generation with respect to the constraint ("effective megawatts") will be included in the available supply analysis at costs equal to the cost-based offers of the available incremental supply adjusted for dfax ("effective costs"). The Office of the Interconnection will post on the PJM website the dfax value used by operators with respect to a constraint when it varies from three percent.

- (ii) The three pivotal supplier test will include in the definition of the relevant market incremental supply up to and including all such supply available at an effective cost equal to 150% of the cost-based clearing price calculated using effective costs and effective megawatts and the need for megawatts to solve the constraint.
- (iii) Offer price caps will apply on a generation supplier basis (i.e. not a generating unit by generating unit basis) and only the generation suppliers that fail the three pivotal supplier test will have their units that are dispatched with respect to the constraint offer capped. A generation supplier for the purposes of this section includes corporate affiliates. Supply controlled by a generation supplier or its affiliates by contract with unaffiliated third parties or otherwise will be included as supply of that generation supplier; supply owned by a generation supplier but controlled by an unaffiliated third party by contract or otherwise will be included as supply of that third party.

A generation supplier's units are offer capped if, when combined with the two largest other generation suppliers, the generation supplier is pivotal.
- (iv) In the Day-ahead Energy Market, the Office of the Interconnection shall include price sensitive demand, Increment Offers and Decrement Bids as demand or supply, as applicable, in the relevant market.

6.4.2 Level.

- (a) The offer price cap shall be one of the amounts specified below, as specified in advance by the Market Seller for the affected unit:
 - (i) The weighted average Locational Marginal Price at the generation bus at which energy from the capped resource was delivered during a specified number of hours during which the resource was dispatched for energy in economic merit order, the specified number of hours to be determined by the Office of the Interconnection and to be a number of hours sufficient to result in an offer price cap that reflects reasonably contemporaneous competitive market conditions for that unit;
 - (ii) For offers of \$2,000/MWh or less, the incremental operating cost of the generation resource as determined in accordance with Schedule 2 of the Operating Agreement and the PJM Manuals ("incremental cost"), plus up to the lesser of 10% of such costs or \$100 MWh, the sum of which shall not exceed \$2,000/MWh; and, for offers greater than \$2,000/MWh, the incremental cost of the generation resource;
 - (iii) For units that are frequently offer capped ("Frequently Mitigated Unit" or "FMU"), and for which the unit's *market*-based offer was greater than its

cost based offer, the following shall apply:

(a) For units that are offer capped for 60% or more of their run hours, but less than 70% of their run hours, the offer price cap will be the greater of either (i) incremental cost plus 10% or (ii) incremental cost plus \$20 per megawatt-hour;

(b) For units that are offer capped for 70% or more of their run hours, but less than 80% of their run hours, the offer price cap will be the greater of either (i) incremental cost plus 10%, or (ii) incremental cost plus \$30 per megawatt-hour;

(c) For units that are offer capped for 80% or more of their run hours, the offer price cap will be the greater of either (i) incremental costs plus 10%; or (ii) incremental cost plus \$40 per megawatt-hour.

(b) For purposes of section 6.4.2(a)(iii), a generating unit shall qualify for the specified offer cap upon issuance of written notice from the Market Monitoring Unit, pursuant to Section II.A of the Attachment M-Appendix, that it is a “Frequently Mitigated Unit” because it meets all of the following criteria:

- (i) The unit was offer capped for the applicable percentage of its run hours, determined on a rolling 12-month basis, effective with a one month lag.
- (ii) The unit’s Projected PJM Market Revenues plus the unit’s PJM capacity market revenues on a rolling 12-month basis, divided by the unit’s MW of installed capacity (in \$/MW-year) are less than its accepted unit specific Avoidable Cost Rate (in \$/MW-year) (excluding APIR and ARPIR), or its default Avoidable Cost Rate (in \$/MW-year) if no unit-specific Avoidable Cost Rate is accepted for the BRAs for the Delivery Years included in the rolling 12-month period, determined pursuant to Sections 6.7 and 6.8 of Attachment DD of the Tariff. (The relevant Avoidable Cost Rate is the weighted average of the Avoidable Cost Rates for each Delivery Year included in the rolling 12-month period, weighted by month.)
- (iii) No portion of the unit is included in a FRR Capacity Plan or receiving compensation under Part V of the Tariff.
- (iv) The unit is internal to the PJM Region and subject only to PJM dispatch.

(c) Any generating unit, without regard to ownership, located at the same site as a Frequently Mitigated Unit qualifying under Sections 6.4.2(a)(iii) shall become an “Associated Unit” upon issuance of written notice from the Market Monitoring Unit pursuant to Section II.A of Attachment M-Appendix, that it meets all of the following criteria:

- 1. The unit has the identical electric impact on the transmission system as the FMU;

2. The unit (i) belongs to the same design class (where a design class includes generation that is the same size and utilizes the same technology, without regard to manufacturer) and uses the identical primary fuel as the FMU or (ii) is regularly dispatched by PJM as a substitute for the FMU based on differences in cost that result from the currently applicable FMU adder;
3. The unit (i) has an average daily cost-based offer, as measured over the preceding 12-month period, that is less than or equal to the FMU's average daily cost-based offer adjusted to include the currently applicable FMU adder or (ii) is regularly dispatched by PJM as a substitute for the FMU based on differences in cost that result from the currently applicable FMU adder.

The offer cap for an associated unit shall be equal to the incremental operating cost of such unit, as determined in accordance with Schedule 2 of the Operating Agreement and the PJM Manuals, plus the applicable percentage adder or dollar per megawatt-hour adder as specified in Section 6.4.2(a)(iii)(a), (b), or (c) for the unit with which it is associated.

(d) Market Participants shall have exclusive responsibility for preparing and submitting their offers on the basis of accurate information and in compliance with the FERC Market Rules, inclusive of the level of any applicable offer cap, and in no event shall PJM be held liable for the consequences of or make any retroactive adjustment to any clearing price on the basis of any offer submitted on the basis of inaccurate or non-compliant information.

6.4.3 Verification of Cost-Based Offers Over \$1,000/Megawatt-hour

(a) If a Market Seller submits a cost-based energy offer for a generation resource that includes an Incremental Energy Offer greater than \$1,000/megawatt-hour, then, in order for that offer to be eligible to set the applicable Locational Marginal Price under section 2.2 of this Schedule, the Office of the Interconnection shall apply a formulaic screen to verify the reasonableness of the Incremental Energy Offer component of such cost-based offer. For each Incremental Energy Offer segment greater than \$1,000/megawatt-hour, the Office of the Interconnection shall evaluate whether such offer segment exceeds the reasonably expected costs for that generation resource by determining the Maximum Allowable Incremental Cost for each

Maximum Allowable Incremental Cost (\$/MWh segment in accordance with the following formula: @ MW) =

$$[(\text{Maximum Allowable Operating Rate}_i) - (\text{Bid Production Cost}_{i-1})] / (\text{MW}_i - \text{MW}_{i-1})$$

where

i = an offer segment within the Incremental Energy Offer, which is comprised of a pairing of price (\$/MWh) and a megawatt quantity

Maximum Allowable Operating Rate (\$/hour @ MW) =

$$[(\text{Heat Input } i @ \text{ MW}_i) x (\text{Performance Factor}) x (\text{Fuel Cost})] x (1 + A)$$

where

Heat Input = a heat ~~rate~~input curve (in ~~MW/mm~~MMBtuTU/hr), determined in accordance with the Market Seller's PJM-approved Fuel Cost Policy, Operating Agreement, Schedule 2, and PJM Manual 15, describing the resource's operational characteristics for converting the applicable fuel input (~~mmBTUMMBtu~~) into energy (MW) specified in the Incremental Energy Offer, and up to the greater of the resource's Emergency Maximum or the last offer segment in MW;

Performance Factor = a scaling factor that is a calculated ratio of actual fuel burn to either theoretical fuel burn (i.e, design Heat Input) or other current tested Heat Input, which is determined annually in accordance with the Market Seller's PJM-approved Fuel Cost Policy, Operating Agreement, Schedule 2, and PJM Manual 15, reflecting the resource's actual ability to convert fuel into energy (normal operation is 1.0);

Fuel Cost = applicable fuel cost as estimated by the Office of the Interconnection at a geographically appropriate commodity trading hub, plus 10 percent; and

A = Up to 10% cost adder, in accordance with section 6.4.2 of this Schedule.

Bid Production Cost (\$/hour @ MW) =

$$[\sum_{i=1}^n (MW_i - MW_{i-1}) x (P_i) - \frac{1}{2} x UBS x (MW_i - MW_{i-1}) x (P_i - P_{i-1})] + \text{No-Load Cost}$$

where

MW = the MW quantity per offer segment within the Incremental Energy Offer;

P = the price (in dollars per megawatt-hour) per offer segment within the Incremental Energy Offer;

UBS = Uses Bid-Slope = 0 for block-offer resources (i.e., a resource with an Incremental Energy Offer that uses a step function curve); and 1 for all other resources (i.e., resources with an Incremental Energy Offer that uses a sloped offer curve); and

If the price submitted for the offer segment is less than or equal to the Maximum Allowable Incremental Cost then that offer segment shall be deemed verified and is eligible to set the applicable Locational Marginal Price. If the price submitted for the offer segment is greater than the Maximum Allowable Incremental Cost, then the Market Seller's cost-based offer for that segment and all segments at an equal or greater price are deemed not verified and are not

eligible to set the applicable Locational Marginal Price and such offer shall be price capped at the greater of \$1,000/megawatt-hour or the offer price of the most expensive verified segment on the Incremental Energy Offer for the purpose of setting Locational Marginal Prices; provided however, such Market Seller shall be allowed to submit a challenge to a non-verification determination, including supporting documentation, to the Office of the Interconnection in accordance with the procedures set forth in the PJM Manuals. Upon review of such documentation, the Office of the Interconnection may determine that the Market Seller's cost-based offer is verified and eligible to set the applicable Locational Marginal Price as described above.

- (i) For the first incremental segment (i=1), when the MW in the segment is greater than zero, the first segment shall be screened as a block-loaded segment (UBS=0) as if there was a preceding MW_{i-1} of zero. The Maximum Allowable Incremental Cost calculation for the first incremental would use a preceding Bid Production Cost_{i-1} (at zero MW) equal to the energy No-Load Cost.
- (ii) For the first incremental segment (i=1), when the MW in the segment is equal to zero, and is the only bid-in segment to be verified, then the segment shall be deemed not verified and subject to the rules as described above.
- (iii) For the first incremental segment (i=1), when the MW in the segment is equal to zero, and there are additional segments to be verified, then the first segment shall be deemed verified only if the second segment is deemed verified. If the second segment is deemed not verified, then the first segment shall also be deemed not verified and subject to the rules as described above.

(b) ~~If an Economic Load Response Participant, an Emergency Load Response participant, or a Pre-Emergency Load Response participant submits~~ a cost-based demand reduction offer that includes incremental costs greater than or equal to \$1,000/megawatt-hour, in order for that offer to be eligible to determine the applicable Locational Marginal Price under section 2.2 of this Schedule, the Economic Load Response Participant, ~~Emergency Load Response participant, or Pre-Emergency Load Response participant~~ must validate the incremental costs with the end use customer(s) and, upon request, submit to the Office of the Interconnection supporting documentation demonstrating that the end-use customer's costs in providing such demand reduction are greater than \$1,000/megawatt-hour in accordance with the following provisions:

(i) The supporting documentation must explain and support the quantification of the end-use customer's incremental costs; and

(ii) The end use customer's incremental costs shall include quantifiable cost incurred for not consuming electricity when dispatched by the Office of the Interconnection, such as wages paid without production, lost sales, damaged products that cannot be sold, or other incremental costs as defined in the PJM Manuals or as approved by the Office of the Interconnection, and may not include shutdown costs.

If upon review of the supporting documentation for the Economic Load Response Participant's, ~~an Emergency Load Response participant's, or an Pre Emergency Load Response participant's~~ cost-based offer by the Office of the Interconnection and the Market Monitoring Unit, the Office of the Interconnection and/or the Market Monitoring Unit determines that the offer was not reasonably supported by incremental costs greater than or equal to \$1,000/megawatt-hour, the Office of the Interconnection and/or the Market Monitoring Unit may refer the matter to the FERC Office of Enforcement for investigation.

Attachment B

PJM Open Access Transmission Tariff and PJM Operating Agreement

(Clean Format)

Section(s) of the
PJM Open Access Transmission Tariff
(Clean Format)

1.10 Scheduling.

1.10.1 General.

- (a) The Office of the Interconnection shall administer scheduling processes to implement a Day-ahead Energy Market and a Real-time Energy Market. PJMSettlement shall be the Counterparty to the purchases and sales of energy that clear the Day-ahead Energy Market and the Real-time Energy Market; provided that PJMSettlement shall not be a contracting party to bilateral transactions between Market Participants or with respect to a Generating Market Buyer's self-schedule or self-supply of its generation resources up to that Generating Market Buyer's Equivalent Load.
- (b) The Day-ahead Energy Market shall enable Market Participants to purchase and sell energy through the PJM Interchange Energy Market at Day-ahead Prices and enable Transmission Customers to reserve transmission service with Transmission Congestion Charges and Transmission Loss Charges based on locational differences in Day-ahead Prices. Up-to Congestion Transactions submitted in the Day-ahead Energy Market shall not require transmission service and Transmission Customers shall not reserve transmission service for such Up-to Congestion Transactions. Market Participants whose purchases and sales, and Transmission Customers whose transmission uses are scheduled in the Day-ahead Energy Market, shall be obligated to purchase or sell energy, or pay Transmission Congestion Charges and Transmission Loss Charges, at the applicable Day-ahead Prices for the amounts scheduled.
- (c) In the Real-time Energy Market, Market Participants that deviate from the amounts of energy purchases or sales, or Transmission Customers that deviate from the transmission uses, scheduled in the Day-ahead Energy Market shall be obligated to purchase or sell energy, or pay Transmission Congestion Charges and Transmission Loss Charges, for the amount of the deviations at the applicable Real-time Prices or price differences, unless otherwise specified by this Schedule.
- (d) The following scheduling procedures and principles shall govern the commitment of resources to the Day-ahead Energy Market and the Real-time Energy Market over a period extending from one week to one hour prior to the real-time dispatch. Scheduling encompasses the day-ahead and hourly scheduling process, through which the Office of the Interconnection determines the Day-ahead Energy Market and determines, based on changing forecasts of conditions and actions by Market Participants and system constraints, a plan to serve the hourly energy and reserve requirements of the Internal Market Buyers and the purchase requests of the External Market Buyers in the least costly manner, subject to maintaining the reliability of the PJM Region. Scheduling does not encompass Coordinated External Transactions, which are subject to the procedures of Section 1.13 of this Schedule 1 of this Agreement. Scheduling shall be conducted as specified in Section 1.10.1A below, subject to the following condition. If the Office of the Interconnection's forecast for the next seven days projects a likelihood of Emergency conditions, the Office of the Interconnection may commit, for all or part of such seven day period, to the use of generation resources with notification or start-up times greater than one day as necessary in order to alleviate or mitigate such Emergency, in accordance with the Market Sellers' offers for such units for such periods and the specifications in the PJM

Manuals. Such resources committed by the Office of the Interconnection to alleviate or mitigate an Emergency will not receive Operating Reserve Credits nor otherwise be made whole for its hours of operation for the duration of any portion of such commitment that exceeds the maximum start-up and notification times for such resources during Hot Weather Alerts and Cold Weather Alerts, consistent with Sections 3.2.3 and 6.6 hereof.

1.10.1A Day-ahead Energy Market Scheduling.

The following actions shall occur not later than 10:30 a.m. on the day before the Operating Day for which transactions are being scheduled, or such other deadline as may be specified by the Office of the Interconnection in order to comply with the practical requirements and the economic and efficiency objectives of the scheduling process specified in this Schedule.

(a) Each Market Participant may submit to the Office of the Interconnection specifications of the amount and location of its customer loads and/or energy purchases to be included in the Day-ahead Energy Market for each hour of the next Operating Day, such specifications to comply with the requirements set forth in the PJM Manuals. Each Market Buyer shall inform the Office of the Interconnection of the prices, if any, at which it desires not to include its load in the Day-ahead Energy Market rather than pay the Day-ahead Price. PRD Providers that have committed Price Responsive Demand in accordance with the Reliability Assurance Agreement shall submit to the Office of the Interconnection, in accordance with procedures specified in the PJM Manuals, any desired updates to their previously submitted PRD Curves, provided that such updates are consistent with their Price Responsive Demand commitments, and provided further that PRD Providers that are not Load Serving Entities for the Price Responsive Demand at issue may only submit PRD Curves for the Real-time Energy Market. Price Responsive Demand that has been committed in accordance with the Reliability Assurance Agreement shall be presumed available for the next Operating Day in accordance with the most recently submitted PRD Curve unless the PRD Curve is updated to indicate otherwise. PRD Providers may also submit PRD Curves for any Price Responsive Demand that is not committed in accordance with the Reliability Assurance Agreement; provided that PRD Providers that are not Load Serving Entities for the Price Responsive Demand at issue may only submit PRD Curves for the Real-time Energy Market. All PRD Curves shall be on a PRD Substation basis, and shall specify the maximum time period required to implement load reductions.

(b) Each Generating Market Buyer shall submit to the Office of the Interconnection:
(i) hourly schedules for resource increments, including hydropower units, self-scheduled by the Market Buyer to meet its Equivalent Load; and (ii) the Dispatch Rate at which each such self-scheduled resource will disconnect or reduce output, or confirmation of the Market Buyer's intent not to reduce output.

(c) All Market Participants shall submit to the Office of the Interconnection schedules for any energy exports, energy imports, and wheel through transactions involving use of generation or Transmission Facilities as specified below, and shall inform the Office of the Interconnection if the transaction is to be scheduled in the Day-ahead Energy Market. Any Market Participant that elects to schedule an export, import or wheel through transaction in the Day-ahead Energy Market may specify the price (such price not to exceed \$2,000/MWh), if any, at which the

export, import or wheel through transaction will be wholly or partially curtailed. The foregoing price specification shall apply to the applicable interface pricing point. Any Market Participant that elects not to schedule its export, import or wheel through transaction in the Day-ahead Energy Market shall inform the Office of the Interconnection if the parties to the transaction are not willing to incur Transmission Congestion and Loss Charges in the Real-time Energy Market in order to complete any such scheduled transaction. Such transactions in the Real-Time Energy Market, other than Coordinated Transaction Schedules and emergency energy sales and purchases, may specify a price up to \$2,000/MWh. Scheduling of such transactions shall be conducted in accordance with the specifications in the PJM Manuals and the following requirements:

- i) Market Participants shall submit schedules for all energy purchases for delivery within the PJM Region, whether from resources inside or outside the PJM Region;
- ii) Market Participants shall submit schedules for exports for delivery outside the PJM Region from resources within the PJM Region that are not Dynamic Transfers to such entities pursuant to Section 1.12; and
- iii) In addition to the foregoing schedules for exports, imports and wheel through transactions, Market Participants shall submit confirmations of each scheduled transaction from each other party to the transaction in addition to the party submitting the schedule, or the adjacent Control Area.

(c-1) A Market Participant may elect to submit in the Day-ahead Energy Market a form of Virtual Transaction that combines an offer to sell energy at a source, with a bid to buy the same megawatt quantity of energy at a sink where such transaction specifies the maximum difference between the Locational Marginal Prices at the source and sink. The Office of Interconnection will schedule these transactions only to the extent this difference in Locational Marginal Prices is within the maximum amount specified by the Market Participant. A Virtual Transaction of this type is referred to as an “Up-to Congestion Transaction.” Such Up-to Congestion Transactions may be wholly or partially scheduled depending on the price difference between the source and sink locations in the Day-ahead Energy Market. The maximum difference between the source and sink prices that a participant may specify shall be limited to +/- \$50/MWh. The foregoing price specification shall apply to the price difference between the specified source and sink in the day-ahead scheduling process only. An accepted Up-to Congestion Transaction results in scheduled injection at a specified source and scheduled withdrawal of the same megawatt quantity at a specified sink in the Day-ahead Energy Market. The source-sink paths on which an Up-to Congestion Transaction may be submitted are limited to those paths posted on the PJM internet site and determined by the Office of the Interconnection using the following criteria:

Step 1: Start with the historic set of eligible nodes that were available as sources and sinks for interchange transactions on the PJM OASIS.

Step 2: Remove from the list of nodes described in Step 1 all load buses below 69 kV.

Step 3: Remove from the resulting set of nodes from Step 2 all generator buses at which no generators of 100 megawatts or more are connected.

Step 4: Remove from the results of Step 3 all electrically equivalent nodes.

(c-2) A Market Participant may elect to submit an Increment Offer and/or Decrement Bid form of Virtual Transaction in the Day-ahead Energy Market and shall specify the price for such transaction which shall be limited to \$2,000/megawatt-hour.

(d) Market Sellers in the Day-ahead Energy Market shall submit offers for the supply of energy, demand reductions, or other services for the following Operating Day for each clock hour for which the Market Seller desires or is required to make its resource available to the Office of the Interconnection. Offers for the supply of energy may be cost-based, market-based, or both, and may vary hourly. Offers shall be submitted to the Office of the Interconnection in the form specified by the Office of the Interconnection and shall contain the information specified in the Office of the Interconnection's Offer Data specification, this Section 1.10.1A(d), Section 1.10.9B, Schedule 2 of the Operating Agreement, and the PJM Manuals, as applicable. Market Sellers owning or controlling the output of a Generation Capacity Resource that was committed in an FRR Capacity Plan, self-supplied, offered and cleared in a Base Residual Auction or Incremental Auction, or designated as replacement capacity, as specified in Attachment DD of the PJM Tariff, and that has not been rendered unavailable by a Generator Planned Outage, a Generator Maintenance Outage, or a Generator Forced Outage shall submit offers for the available capacity of such Generation Capacity Resource, including any portion that is self-scheduled by the Generating Market Buyer. Such offers shall be based on the ICAP equivalent of the Market Seller's cleared UCAP capacity commitment, provided, however, where the underlying resource is a Capacity Storage Resource or an Intermittent Resource, the Market Seller shall satisfy the must offer requirement by either self-scheduling or offering the unit as a dispatchable resource, in accordance with the PJM Manuals, where the hourly day-ahead self-scheduled values for such Capacity Storage Resources and Intermittent Resources may vary hour to hour from the capacity commitment. Any offer not designated as a Maximum Emergency offer shall be considered available for scheduling and dispatch under both Emergency and non-Emergency conditions. Offers may only be designated as Maximum Emergency offers to the extent that the Generation Capacity Resource falls into at least one of the following categories:

- i) Environmental limits. If the resource has a limit on its run hours imposed by a federal, state, or other governmental agency that will significantly limit its availability, on either a temporary or long-term basis. This includes a resource that is limited to operating only during declared PJM capacity emergencies by a governmental authority.
- ii) Fuel limits. If physical events beyond the control of the resource owner result in the temporary interruption of fuel supply and there is limited on-site fuel storage. A fuel supplier's exercise of a contractual right to

interrupt supply or delivery under an interruptible service agreement shall not qualify as an event beyond the control of the resource owner.

- iii) Temporary emergency conditions at the unit. If temporary emergency physical conditions at the resource significantly limit its availability.
- iv) Temporary megawatt additions. If a resource can provide additional megawatts on a temporary basis by oil topping, boiler over-pressure, or similar techniques, and such megawatts are not ordinarily otherwise available.

The submission of offers for resource increments that have not cleared in a Base Residual Auction or an Incremental Auction, were not committed in an FRR Capacity Plan, and were not designated as replacement capacity under Attachment DD of the PJM Tariff shall be optional, but any such offers must contain the information specified in the Office of the Interconnection's Offer Data specification, Operating Agreement, Schedule 1, sections 1.10.1A(d), and 1.10.9B, Operating Agreement, Schedule 2, and the PJM Manuals, as applicable. Energy offered from generation resources that have not cleared a Base Residual Auction or an Incremental Auction, were not committed in an FRR Capacity Plan, and were not designated as replacement capacity under Attachment DD of the PJM Tariff shall not be supplied from resources that are included in or otherwise committed to supply the Operating Reserves of a Control Area outside the PJM Region.

The foregoing offers:

- i) Shall specify the Generation Capacity Resource or Demand Resource and energy or demand reduction amount, respectively, for each clock hour in the offer period;
- ii) Shall specify the amounts and prices for each clock hour during the entire Operating Day for each resource component offered by the Market Seller to the Office of the Interconnection;
- iii) May specify for generation resources offer parameters for each clock hour during the entire Operating Day, as applicable and in accordance with section 1.10.9B below, including: (1) Minimum Run Time; (2) maximum run time; (3) Start-up Costs; (4) No-load Costs; (5) Incremental Energy Offer; (6) notification time; (7) availability; (8) ramp rate; (9) Economic Minimum; (10) Economic Maximum; (11) emergency minimum MW; and (12) emergency maximum MW, and may specify offer parameters for Demand Resources for each clock hour during the entire Operating Day, as applicable and in accordance with section 1.10.9B below, including: (1) minimum down time; (2) shutdown costs; (3) Incremental Energy Offer; (4) notification time; (5) Economic Minimum; and (6) Economic Maximum;

- iv) Shall set forth any special conditions upon which the Market Seller proposes to supply a resource increment, including any curtailment rate specified in a bilateral contract for the output of the resource, or any cancellation fees;
- v) May include a schedule of offers for prices and operating data contingent on acceptance by the deadline specified in this Schedule, with additional schedules applicable if accepted after the foregoing deadline;
- vi) Shall constitute an offer to submit the resource increment to the Office of the Interconnection for scheduling and dispatch in accordance with the terms of the offer for the clock hour, which offer shall remain open through the Operating Day, for which the offer is submitted, unless the Market Seller a) submits a Real-time Offer for the applicable clock hour, or b) updates the availability of its offer for that hour, as further described in the PJM Manuals;
- vii) Shall be final as to the price or prices at which the Market Seller proposes to supply energy or other services to the PJM Interchange Energy Market, such price or prices being guaranteed by the Market Seller for the period extending through the end of the following Operating Day, unless modified after the close of the Day-ahead Energy Market as permitted pursuant to sections 1.10.9A or 1.10.9B below;
- viii) Shall not exceed an energy offer price of \$1,000/megawatt-hour for all generation resources, except (1) when a Market Seller's cost-based offer is above \$1,000/megawatt-hour and less than or equal to \$2,000/megawatt-hour, then its market-based offer must be less than or equal to the cost-based offer; and (2) when a Market Seller's cost-based offer is greater than \$2,000/megawatt-hour, then its market-based offer must be less than or equal to \$2,000/megawatt-hour; and
- ix) Shall not exceed a *demand reduction* offer price of \$1,000/megawatt-hour, *except when an Economic Load Response Participant submits a cost-based offer that includes an incremental cost component that is above \$1,000/megawatt-hour, then its market-based offer must be less than or equal to the cost-based offer but in no event greater than \$2,000/megawatt-hour; and*
- x) Shall not exceed an energy offer price of \$0.00/MWh for pumped storage hydropower units scheduled by the Office of the Interconnection pursuant to the hydro optimization tool in the Day-ahead Energy Market.

(e) A Market Seller that wishes to make a resource available to sell Regulation service shall submit an offer for Regulation for each clock hour for which the Market Seller desires to make

its resource available to the Office of the Interconnection to provide Regulation that shall specify the megawatts of Regulation being offered, which must equal or exceed 0.1 megawatts, the Regulation Zone for which such Regulation is offered, the price of the capability offer in dollars per MW, the price of the performance offer in Dollars per change in MW, and such other information specified by the Office of the Interconnection as may be necessary to evaluate the offer and the resource's opportunity costs. Such offers may vary hourly, and may be updated each hour, up to 65 minutes before the applicable clock hour during the Operating Day. The total of the performance offer multiplied by the historical average mileage used in the market clearing plus the capability offer shall not exceed \$100/megawatt-hour in the case of Regulation offered for all Regulation Zones. In addition to any market-based offer for Regulation, the Market Seller also shall submit a cost-based offer. A cost-based offer must be in the form specified in the PJM Manuals and consist of the following components as well as any other components specified in the PJM Manuals:

- i. The costs (in \$/MW) of the fuel cost increase due to the steady-state heat rate increase resulting from operating the unit at lower megawatt output incurred from the provision of Regulation shall apply to the capability offer;
- ii. The cost increase (in $\$/\Delta\text{MW}$) in costs associated with movement of the regulation resource incurred from the provision of Regulation shall apply to the performance offer; and
- iii. An adder of up to \$12.00 per megawatt of Regulation provided applied to the capability offer.

Qualified Regulation capability must satisfy the measurement and verification tests specified in the PJM Manuals.

(f) Each Market Seller owning or controlling the output of a Generation Capacity Resource committed to service of PJM loads under the Reliability Pricing Model or Fixed Resource Requirement Alternative shall submit a forecast of the availability of each such Generation Capacity Resource for the next seven days. A Market Seller (i) may submit a non-binding forecast of the price at which it expects to offer a generation resource increment to the Office of the Interconnection over the next seven days, and (ii) shall submit a binding offer for energy, along with Start-up Costs and No-load Costs, if any, for the next seven days or part thereof, for any generation resource with minimum notification or start-up requirement greater than 24 hours. Such resources committed by the Office of the Interconnection will not receive Operating Reserve Credits nor otherwise be made whole for its hours of operation for the duration of any portion of such commitment that exceeds the maximum start-up and notification times for such resources during Hot Weather Alerts and Cold Weather Alerts, consistent with Sections 3.2.3 and 6.6 hereof.

(g) Each component of an offer by a Market Seller of a Generation Capacity Resource that is constant for the entire Operating Day and does not vary hour to hour shall remain in effect for subsequent Operating Days until superseded or canceled.

(h) The Office of the Interconnection shall post the total hourly loads scheduled in the Day-ahead Energy Market, as well as, its estimate of the combined hourly load of the Market Buyers for the next four days, and peak load forecasts for an additional three days.

(i) Except for Economic Load Response Participants, all Market Participants may submit Virtual Transactions that apply to the Day-ahead Energy Market only. Such Virtual Transactions must comply with the requirements set forth in the PJM Manuals and must specify amount, location and price, if any, at which the Market Participant desires to purchase or sell energy in the Day-ahead Energy Market. The Office of the Interconnection may require that a market participant shall not submit in excess of a defined number of bid/offer segments in the Day-ahead Energy Market, as specified in the PJM Manuals, when the Office of the Interconnection determines that such limit is required to avoid or mitigate significant system performance problems related to bid/offer volume. Notice of the need to impose such limit shall be provided prior to 10:00 a.m. EPT on the day that the Day-ahead Energy Market will clear. For purposes of this provision, a bid/offer segment is each pairing of price and megawatt quantity submitted as part of an Increment Offer or Decrement Bid. For purposes of applying this provision to an Up-to Congestion Transaction, a bid/offer segment shall refer to the pairing of a source and sink designation, as well as price and megawatt quantity, that comprise each Up-to Congestion Transaction.

(j) A Market Seller that wishes to make a generation resource or Demand Resource available to sell Synchronized Reserve shall submit an offer for Synchronized Reserve for each clock hour for which the Market Seller desires or is required to make its resource available to the Office of the Interconnection to provide Synchronized Reserve that shall specify the megawatts of Synchronized Reserve being offered, which must equal or exceed 0.1 megawatts, the price of the offer in dollars per megawatt hour, and such other information specified by the Office of the Interconnection as may be necessary to evaluate the offer and the energy used by the generation resource to provide the Synchronized Reserve and the generation resource's unit specific opportunity costs. Such offers may vary hourly, and may be updated each hour up to 65 minutes before the applicable clock hour during the Operating Day. The price of the offer shall not exceed the variable operating and maintenance costs for providing Synchronized Reserve plus seven dollars and fifty cents.

(k) An Economic Load Response Participant that wishes to participate in the Day-ahead Energy Market by reducing demand shall submit an offer to reduce demand to the Office of the Interconnection for each clock hour for which the Economic Load Response Participant desires to make its resource available to the Office of the Interconnection to reduce demand. The offer must equal or exceed 0.1 megawatts, may vary hourly, and shall specify: (i) the amount of the offered curtailment in minimum increments of .1 megawatts; (ii) the Day-ahead Locational Marginal Price above which the end-use customer will reduce load, subject to section 1.10.1A(d)(ix); and (iii) at the Economic Load Response Participant's option, start-up costs associated with reducing load, including direct labor and equipment costs, opportunity costs, and/or a minimum of number of contiguous hours for which the load reduction must be committed. Such offers may be updated each hour, up to 65 minutes before the applicable clock hour during the Operating Day. Economic Load Response Participants submitting offers to

reduce demand in the Day-ahead Energy Market may establish an incremental offer curve, provided that such offer curve shall be limited to ten price pairs (in MWs) per hour.

(l) Market Sellers owning or controlling the output of a Demand Resource that was committed in an FRR Capacity Plan, or that was self-supplied or that offered and cleared in a Base Residual Auction or Incremental Auction, may submit demand reduction bids for the available load reduction capability of the Demand Resource. The submission of demand reduction bids for Demand Resource increments that were not committed in an FRR Capacity Plan, or that have not cleared in a Base Residual Auction or Incremental Auction, shall be optional, but any such bids must contain the information required to be included in such bids, as specified in the PJM Economic Load Response Program. A Demand Resource that was committed in an FRR Capacity Plan, or that was self-supplied or offered and cleared in a Base Residual Auction or Incremental Auction, may submit a demand reduction bid in the Day-ahead Energy Market as specified in the Economic Load Response Program; provided, however, that in the event of an Emergency PJM shall require Demand Resources to reduce load, notwithstanding that the Zonal LMP at the time such Emergency is declared is below the price identified in the demand reduction bid.

(m) Market Sellers providing Day-ahead Scheduling Reserves Resources shall submit in the Day-ahead Scheduling Reserves Market: 1) a price offer in dollars per megawatt hour; and 2) such other information specified by the Office of the Interconnection as may be necessary to determine any relevant opportunity costs for the resource(s). The foregoing notwithstanding, to qualify to submit Day-ahead Scheduling Reserves pursuant to this section, the Day-ahead Scheduling Reserves Resources shall submit energy offers in the Day-ahead Energy Market including start-up and shut-down costs for generation resource and Demand Resources, respectively, and all generation resources that are capable of providing Day-ahead Scheduling Reserves that a particular resource can provide that service. The megawatt quantity of Day-ahead Scheduling Reserves that a particular resource can provide in a given hour will be determined based on the energy Offer Data submitted in the Day-ahead Energy Market, as detailed in the PJM Manuals.

1.10.1B Demand Bid Scheduling and Screening

(a) The Office of the Interconnection shall apply Demand Bid Screening to all Demand Bids submitted in the Day-ahead Energy Market for each Load Serving Entity, separately by Zone. Using Demand Bid Screening, the Office of the Interconnection will automatically reject a Load Serving Entity's Demand Bids in any future Operating Day for which the Load Serving Entity submits bids if the total megawatt volume of such bids would exceed the Load Serving Entity's Demand Bid Limit for any hour in such Operating Day, unless the Office of the Interconnection permits an exception pursuant to subsection (d) below.

(b) On a daily basis, PJM will update and post each Load Serving Entity's Demand Bid Limit in each applicable Zone. Such Demand Bid Limit will apply to all Demand Bids submitted by that Load Serving Entity for each future Operating Day for which it submits bids. The Demand Bid Limit is calculated using the following equation:

Demand Bid Limit = greater of (Zonal Peak Demand Reference Point * 1.3), or (Zonal Peak Demand Reference Point + 10MW)

Where:

1. Zonal Peak Demand Reference Point = for each Zone: the product of (a) LSE Recent Load Share, multiplied by (b) Peak Daily Load Forecast.
2. LSE Recent Load Share is the Load Serving Entity's highest share of Network Load in each Zone for any hour over the most recently available seven Operating Days for which PJM has data.
3. Peak Daily Load Forecast is PJM's highest available peak load forecast for each applicable Zone that is calculated on a daily basis.

(c) A Load Serving Entity whose Demand Bids are rejected as a result of Demand Bid Screening may change its Demand Bids to reduce its total megawatt volume to a level that does not exceed its Demand Bid Limit, and may resubmit them subject to the applicable rules related to bid submission outlined in Tariff, Operating Agreement and PJM Manuals.

(d) PJM may allow a Load Serving Entity to submit bids in excess of its Demand Bid Limit when circumstances exist that will cause, or are reasonably expected to cause, a Load Serving Entity's actual load to exceed its Demand Bid Limit on a given Operating Day. Examples of such circumstances include, but are not limited to, changes in load commitments due to state sponsored auctions, mergers and acquisitions between PJM Members, and sales and divestitures between PJM Members. A Load Serving Entity may submit a written exception request to the Office of Interconnection for a higher Demand Bid Limit for an affected Operating Day. Such request must include a detailed explanation of the circumstances at issue and supporting documentation that justify the Load Serving Entity's expectation that its actual load will exceed its Demand Bid Limit.

1.10.2 Pool-scheduled Resources.

Pool-scheduled resources are those resources for which Market Participants submitted offers to sell energy in the Day-ahead Energy Market and offers to reduce demand in the Day-ahead Energy Market, which the Office of the Interconnection scheduled in the Day-ahead Energy Market as well as generators committed by the Office of the Interconnection subsequent to the Day-ahead Energy Market. Such resources shall be committed to provide energy in the real-time dispatch unless the schedules for such units are revised pursuant to Sections 1.10.9 or 1.11. Pool-scheduled resources shall be governed by the following principles and procedures.

(a) Pool-scheduled resources shall be selected by the Office of the Interconnection on the basis of the prices offered for energy and demand reductions and related services, whether the resource is expected to be needed to maintain system reliability during the Operating Day, Start-up Costs, No-load Costs, and cancellation fees, and the specified operating characteristics, offered by Market Sellers to the Office of the Interconnection by the offer deadline specified in Section 1.10.1A. Hydropower units can only be pool-scheduled if they are pumped storage units and scheduled by the Office of the Interconnection pursuant to the hydro optimization tool in the Day-ahead Energy Market.

(b) A resource that is scheduled by a Market Participant to support a bilateral sale, or that is self-scheduled by a Generating Market Buyer, shall not be selected by the Office of the Interconnection as a pool-scheduled resource except in an Emergency.

(c) Market Sellers offering energy from hydropower or other facilities with fuel or environmental limitations may submit data to the Office of the Interconnection that is sufficient to enable the Office of the Interconnection to determine the available operating hours of such facilities.

(d) The Market Seller of a resource selected as a pool-scheduled resource shall receive payments or credits for energy, demand reductions or related services, or for Start-up Costs and No-load Costs, from the Office of the Interconnection on behalf of the Market Buyers in accordance with Section 3 of this Schedule 1. Alternatively, the Market Seller shall receive, in lieu of Start-up Costs and No-load Costs, its actual costs incurred, if any, up to a cap of the resource's Start-up Costs, if the Office of the Interconnection cancels its selection of the resource as a pool-scheduled resource and so notifies the Market Seller before the resource is synchronized.

(e) Market Participants shall make available their pool-scheduled resources to the Office of the Interconnection for coordinated operation to supply the Operating Reserves needs of the applicable Control Zone.

(f) Economic Load Response Participants offering to reduce demand shall specify: (i) the amount of the offered curtailment, which offer must equal or exceed 0.1 megawatts, in minimum increments of .1 megawatts; (ii) the real-time Locational Marginal Price above which the end-use customer will reduce load; and (iii) at the Economic Load Response Participant's option, shut-down costs associated with reducing load, including direct labor and equipment costs, opportunity costs, and/or a minimum number of contiguous hours for which the load reduction must be committed. Economic Load Response Participants submitting offers to reduce demand in the Real-time Energy Market may establish an incremental offer curve, provided that such offer curve shall be limited to ten price pairs (in MWs). Economic Load Response Participants offering to reduce demand shall also indicate the hours that the demand reduction is not available.

1.10.3 Self-scheduled Resources.

Self-scheduled resources shall be governed by the following principles and procedures.

(a) Each Generating Market Buyer shall use all reasonable efforts, consistent with Good Utility Practice, not to self-schedule resources in excess of its Equivalent Load.

(b) The offered prices of resources that are self-scheduled, or otherwise not following the dispatch orders of the Office of the Interconnection, shall not be considered by the Office of the Interconnection in determining Locational Marginal Prices.

(c) Market Participants shall make available their self-scheduled resources to the Office of the Interconnection for coordinated operation to supply the Operating Reserves needs of the applicable Control Zone, by submitting an offer as to such resources.

(d) A Market Participant self-scheduling a resource in the Day-ahead Energy Market that does not deliver the energy in the Real-time Energy Market, shall replace the energy not delivered with energy from the Real-time Energy Market and shall pay for such energy at the applicable Real-time Price.

(e) Hydropower units, excluding pumped storage units, may only be self-scheduled.

1.10.4 Capacity Resources.

(a) A Generation Capacity Resource committed to service of PJM loads under the Reliability Pricing Model or Fixed Resource Requirement Alternative that is selected as a pool-scheduled resource shall be made available for scheduling and dispatch at the direction of the Office of the Interconnection. Such a Generation Capacity Resource that does not deliver energy as scheduled shall be deemed to have experienced a Generator Forced Outage to the extent of such energy not delivered. A Market Participant offering such Generation Capacity Resource in the Day-ahead Energy Market shall replace the energy not delivered with energy from the Real-time Energy Market and shall pay for such energy at the applicable Real-time Price.

(b) Energy from a Generation Capacity Resource committed to service of PJM loads under the Reliability Pricing Model or Fixed Resource Requirement Alternative that has not been scheduled in the Day-ahead Energy Market may be sold on a bilateral basis by the Market Seller, may be self-scheduled, or may be offered for dispatch during the Operating Day in accordance with the procedures specified in this Schedule. Such a Generation Capacity Resource that has not been scheduled in the Day-ahead Energy Market and that has been sold on a bilateral basis must be made available upon request to the Office of the Interconnection for scheduling and dispatch during the Operating Day if the Office of the Interconnection declares a Maximum Generation Emergency. Any such resource so scheduled and dispatched shall receive the applicable Real-time Price for energy delivered.

(c) A resource that has been self-scheduled shall not receive payments or credits for Start-up Costs or No-load Costs.

1.10.5 External Resources.

(a) External Resources may submit offers to the PJM Interchange Energy Market, in accordance with the day-ahead and real-time scheduling processes specified above. An External Resource selected as a pool-scheduled resource shall be made available for scheduling and dispatch at the direction of the Office of the Interconnection, and except as specified below shall be compensated on the same basis as other pool-scheduled resources. External Resources that are not capable of Dynamic Transfer shall, if selected by the Office of the Interconnection on the basis of the Market Seller's Offer Data, be block loaded on an hourly scheduled basis. Market

Sellers shall offer External Resources to the PJM Interchange Energy Market on either a resource-specific or an aggregated resource basis. A Market Participant whose pool-scheduled resource does not deliver the energy scheduled in the Day-ahead Energy Market shall replace such energy not delivered as scheduled in the Day-ahead Energy Market with energy from the PJM Real-time Energy Market and shall pay for such energy at the applicable Real-time Price.

(b) Offers for External Resources from an aggregation of two or more generating units shall so indicate, and shall specify, in accordance with the Offer Data requirements specified by the Office of the Interconnection: (i) energy prices; (ii) hours of energy availability; (iii) a minimum dispatch level; (iv) a maximum dispatch level; and (v) unless such information has previously been made available to the Office of the Interconnection, sufficient information, as specified in the PJM Manuals, to enable the Office of the Interconnection to model the flow into the PJM Region of any energy from the External Resources scheduled in accordance with the Offer Data.

(c) Offers for External Resources on a resource-specific basis shall specify the resource being offered, along with the information specified in the Offer Data as applicable.

1.10.6 External Market Buyers.

(a) Deliveries to an External Market Buyer not subject to Dynamic Transfer by the Office of the Interconnection shall be delivered on a block loaded basis to the bus or buses at the electrical boundaries of the PJM Region, or in such area with respect to an External Market Buyer's load within such area not served by Network Service, at which the energy is delivered to or for the External Market Buyer. External Market Buyers shall be charged (which charge may be positive or negative) at either the Day-ahead Prices or Real-time Prices, whichever is applicable, for energy at the foregoing bus or buses.

(b) An External Market Buyer's hourly schedules for energy purchased from the PJM Interchange Energy Market shall conform to the ramping and other applicable requirements of the interconnection agreement between the PJM Region and the Control Area to which, whether as an intermediate or final point of delivery, the purchased energy will initially be delivered.

(c) The Office of the Interconnection shall curtail deliveries to an External Market Buyer if necessary to maintain appropriate reserve levels for a Control Zone as defined in the PJM Manuals, or to avoid shedding load in such Control Zone.

1.10.6A Transmission Loading Relief Customers.

(a) An entity that desires to elect to pay Transmission Congestion Charges in order to continue its energy schedules during an Operating Day over contract paths outside the PJM Region in the event that PJM initiates Transmission Loading Relief that otherwise would cause PJM to request security coordinators to curtail such Member's energy schedules shall:

- (i) enter its election on OASIS by 10:30 a.m. of the day before the Operating Day, in accordance with procedures established by PJM, which election shall be applicable for the entire Operating Day; and

- (ii) if PJM initiates Transmission Loading Relief, provide to PJM, at such time and in accordance with procedures established by PJM, the hourly integrated energy schedules that impacted the PJM Region (as indicated from the NERC Interchange Distribution Calculator) during the Transmission Loading Relief.

(b) If an entity has made the election specified in Section (a), then PJM shall not request security coordinators to curtail such entity's energy transactions, except as may be necessary to respond to Emergencies.

(c) In order to make elections under this Section 1.10.6A, an entity must (i) have met the creditworthiness standards established by the Office of the Interconnection or provided a letter of credit or other form of security acceptable to the Office of the Interconnection, and (ii) have executed either the Agreement, a Service Agreement under the PJM Tariff, or other agreement committing to pay all Transmission Congestion Charges incurred under this Section.

1.10.7 Bilateral Transactions.

Bilateral transactions as to which the parties have notified the Office of the Interconnection by the deadline specified in Section 1.10.1A that they elect not to be included in the Day-ahead Energy Market and that they are not willing to incur Transmission Congestion Charges in the Real-time Energy Market shall be curtailed by the Office of the Interconnection as necessary to reduce or alleviate transmission congestion. Bilateral transactions that were not included in the Day-ahead Energy Market and that are willing to incur congestion charges and bilateral transactions that were accepted in the Day-ahead Energy Market shall continue to be implemented during periods of congestion, except as may be necessary to respond to Emergencies.

1.10.8 Office of the Interconnection Responsibilities.

(a) The Office of the Interconnection shall use its best efforts to determine (i) the least-cost means of satisfying the projected hourly requirements for energy, Operating Reserves, and other ancillary services of the Market Buyers, including the reliability requirements of the PJM Region, of the Day-ahead Energy Market, and (ii) the least-cost means of satisfying the Operating Reserve and other ancillary service requirements for any portion of the load forecast of the Office of the Interconnection for the Operating Day in excess of that scheduled in the Day-ahead Energy Market. In making these determinations, the Office of the Interconnection shall take into account: (i) the Office of the Interconnection's forecasts of PJM Interchange Energy Market and PJM Region energy requirements, giving due consideration to the energy requirement forecasts and purchase requests submitted by Market Buyers and PRD Curves properly submitted by Load Serving Entities for the Price Responsive Demand loads they serve; (ii) the offers submitted by Market Sellers; (iii) the availability of limited energy resources; (iv) the capacity, location, and other relevant characteristics of self-scheduled resources; (v) the objectives of each Control Zone for Operating Reserves, as specified in the PJM Manuals; (vi) the requirements of each Regulation Zone for Regulation and other ancillary services, as

specified in the PJM Manuals; (vii) the benefits of avoiding or minimizing transmission constraint control operations, as specified in the PJM Manuals; and (viii) such other factors as the Office of the Interconnection reasonably concludes are relevant to the foregoing determination, including, without limitation, transmission constraints on external coordinated flowgates to the extent provided by section 1.7.6. The Office of the Interconnection shall develop a Day-ahead Energy Market based on the foregoing determination, and shall determine the Day-ahead Prices resulting from such schedule. The Office of the Interconnection shall report the planned schedule for a hydropower resource to the operator of that resource as necessary for plant safety and security, and legal limitations on pond elevations.

(b) By 1:30 p.m., or as soon as practicable thereafter, of the day before each Operating Day, or such other deadline as may be specified by the Office of the Interconnection in the PJM Manuals, the Office of the Interconnection shall: (i) post the aggregate Day-ahead Energy Market results; (ii) post the Day-ahead Prices; and (iii) inform the Market Sellers, Market Buyers, and Economic Load Response Participants of their scheduled injections, withdrawals, and demand reductions respectively. The foregoing notwithstanding, the deadlines set forth in this subsection shall not apply if the Office of the Interconnection is unable to obtain Market Participant bid/offer data due to extraordinary circumstances. For purposes of this subsection, extraordinary circumstances shall mean a technical malfunction that limits, prohibits or otherwise interferes with the ability of the Office of the Interconnection to obtain Market Participant bid/offer data prior to 11:59 p.m. on the day before the affected Operating Day. Extraordinary circumstances do not include a Market Participant's inability to submit bid/offer data to the Office of the Interconnection. If the Office of the Interconnection is unable to clear the Day-ahead Energy Market prior to 11:59 p.m. on the day before the affected Operating Day as a result of such extraordinary circumstances, the Office of the Interconnection shall notify Members as soon as practicable.

(c) Following posting of the information specified in Section 1.10.8(b), and absent extraordinary circumstances preventing the clearing of the Day-ahead Energy Market, the Office of the Interconnection shall revise its schedule of generation resources to reflect updated projections of load, conditions affecting electric system operations in the PJM Region, the availability of and constraints on limited energy and other resources, transmission constraints, and other relevant factors.

(d) Market Buyers shall pay PJMSettlement and Market Sellers shall be paid by PJMSettlement for the quantities of energy scheduled in the Day-ahead Energy Market at the Day-ahead Prices when the Day-ahead Price is positive. Market Buyers shall be paid by PJMSettlement and Market Sellers shall pay PJMSettlement for the quantities of energy scheduled in the Day-ahead Energy Market at the Day-ahead Prices when the Day-ahead Price is negative. Economic Load Response Participants shall be paid for scheduled demand reductions pursuant to Section 3.3A of this Schedule. Notwithstanding the foregoing, if the Office of the Interconnection is unable to clear the Day-ahead Energy Market prior to 11:59 p.m. on the day before the affected Operating Day due to extraordinary circumstances as described in subsection (b) above, no settlements shall be made for the Day-ahead Energy Market, no scheduled megawatt quantities shall be established, and no Day-ahead Prices shall be established for that Operating Day. Rather, for purposes of settlements for such Operating Day, the Office of the

Interconnection shall utilize a scheduled megawatt quantity and price of zero and all settlements, including Financial Transmission Right Target Allocations, will be based on the real-time quantities and prices as determined pursuant to Sections 2.4 and 2.5 hereof.

(e) If the Office of the Interconnection discovers an error in prices and/or cleared quantities in the Day-ahead Energy Market, Real-time Energy Market, Ancillary Services Markets or Day Ahead Scheduling Reserve Market after it has posted the results for these markets on its Web site, the Office of the Interconnection shall notify Market Participants of the error as soon as possible after it is found, but in no event later than 12:00 p.m. of the second Business Day following the Operating Day for the Ancillary Services Markets and Real-time Energy Market, and no later than 5:00 p.m. of the second Business Day following the initial publication of the results for the Day-ahead Scheduling Reserve Market and Day-ahead Energy Market. After this initial notification, if the Office of the Interconnection determines it is necessary to post modified results, it shall provide notification of its intent to do so, together with all available supporting documentation, by no later than 5:00 p.m. of the fifth Business Day following the Operating Day for the Ancillary Services Markets and Real-time Energy Market, and no later than 5:00 p.m. of the fifth Business Day following the initial publication of the results in the Day-ahead Scheduling Reserve Market and the Day-ahead Energy Market. Thereafter, the Office of the Interconnection must post on its Web site the corrected results by no later than 5:00 p.m. of the tenth calendar day following the Operating Day for the Ancillary Services Markets, Day-ahead Energy Market and Real-time Energy Market, and no later than 5:00 p.m. of the tenth calendar day following the initial publication of the results in the Day-ahead Scheduling Reserve Market. Should any of the above deadlines pass without the associated action on the part of 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 market results are under publicly noticed review by the FERC.

(f) Consistent with Section 18.17.1 of the PJM Operating Agreement, and notwithstanding anything to the contrary in the Operating Agreement or in the PJM Tariff, to allow the tracking of Market Participants' non-aggregated bids and offers over time as required by FERC Order No. 719, the Office of the Interconnection shall post on its Web site the non-aggregated bid data and Offer Data submitted by Market Participants (for participation in the PJM Interchange Energy Market) approximately four months after the bid or offer was submitted to the Office of the Interconnection.

1.10.9 Hourly Scheduling.

(a) Following the initial posting by the Office of the Interconnection of the Locational Marginal Prices resulting from the Day-ahead Energy Market, and subject to the right of the Office of the Interconnection to schedule and dispatch pool-scheduled resources and to direct that schedules be changed in an Emergency, and absent extraordinary circumstances preventing the clearing of the Day-ahead Energy Market, a generation rebidding period shall exist. Typically the rebidding period shall be from the time the Office of the Interconnection posts the results of the Day-ahead Energy Market until 2:15 p.m. on the day before each Operating Day. However, should the clearing of the Day-ahead Energy Market be significantly delayed, the Office of the Interconnection may establish a revised rebidding period. During the rebidding

period, Market Participants may submit revisions to generation Offer Data for the next Operating Day. Adjustments to the Day-ahead Energy Market shall be settled at the applicable Real-time Prices, and shall not affect the obligation to pay or receive payment for the quantities of energy scheduled in the Day-ahead Energy Market at the applicable Day-ahead Prices.

(b) A Market Participant may adjust the schedule of a resource under its dispatch control on an hour-to-hour basis beginning at 10:00 p.m. of the day before each Operating Day, provided that the Office of the Interconnection is notified not later than 65 minutes prior to the hour in which the adjustment is to take effect, as follows and as specified in section 1.10.9A of this Schedule:

- i) A Generating Market Buyer may self-schedule any of its resource increments, including hydropower resources, not previously designated as self-scheduled and not selected as a pool-scheduled resource in the Day-ahead Energy Market;
- ii) A Market Participant may request the scheduling of a non-firm bilateral transaction; or
- iii) A Market Participant may request the scheduling of deliveries or receipts of Spot Market Energy; or
- iv) A Generating Market Buyer may remove from service a resource increment, including a hydropower resource, that it had previously designated as self-scheduled, provided that the Office of the Interconnection shall have the option to schedule energy from any such resource increment that is a Capacity Resource at the price offered in the scheduling process, with no obligation to pay any Start-Up Costs.

(c) An External Market Buyer may refuse delivery of some or all of the energy it requested to purchase in the Day-ahead Energy Market by notifying the Office of the Interconnection of the adjustment in deliveries not later than 65 minutes prior to the hour in which the adjustment is to take effect, but any such adjustment shall not affect the obligation of the External Market Buyer to pay for energy scheduled on its behalf in the Day-ahead Energy Market at the applicable Day-ahead Prices.

(d) The Office of the Interconnection shall provide External Market Buyers and External Market Sellers and parties to bilateral transactions with any revisions to their schedules resulting from the rebidding period by 6:30 p.m. on the day before each Operating Day. The Office of the Interconnection may also commit additional resources after such time as system conditions require. For each hour in the Operating Day, as soon as practicable after the deadlines specified in the foregoing subsection of this Section 1.10, the Office of the Interconnection shall provide External Market Buyers and External Market Sellers and parties to bilateral transactions with any revisions to their schedules for the hour.

1.10.9A Updating Offers in Real-time

(a) Each Market Seller may submit Real-time Offers for a resource up to 65 minutes before the applicable clock hour, and such Real-time Offers shall supersede any previous offer for that resource for the clock hour, as further described in the PJM Manuals and subject to the following conditions:

(i) A market-based Real-time Offer shall not exceed the applicable energy offer caps specified in this Schedule. Once a Market Seller's resource is committed for an applicable clock hour, the Market Seller may not increase its Incremental Energy Offer and may only submit a market-based Real-time Offer that is higher than its market-based offer that was in effect at the time of commitment to reflect increases in the resource's cost-based Start-up Costs and cost-based No-load Costs. The Market Seller may elect not to have its market-based offer considered for dispatch and to have only its lowest cost-based offer considered for the remainder of the Operating Day.

(ii) Cost-based Real-time Offers shall be submitted to the Office of the Interconnection in the form specified by the Office of the Interconnection's Offer Data specification, Operating Agreement, Schedule 1, sections 1.10.1A(d) and 1.10.9B, Operating Agreement, Schedule 2 and the PJM Manuals, as applicable. If a Market Seller submits a market-based Real-time Offer for a particular clock hour in accordance with subsection (c) below, or if updates to a cost-based offer are required by the Market Seller's approved Fuel Cost Policy, the Market Seller shall update its previously submitted cost-based Real-time Offer.

(iii) If a Market Seller's available cost-based offer is not compliant with Operating Agreement, Schedule 2 and the PJM Manuals at the time a Market Seller submits a market-based Real-time Offer for an applicable clock hour during the Operating Day, the Market Seller must submit an updated cost-based Real-time Offer consisting of an Incremental Energy Offer, Start-up Cost, and No-load Cost for that clock hour that is compliant with Operating Agreement, Schedule 2 and the PJM Manuals.

(b) *Each Market Seller may submit Real-time Offers for a resource during and through the end of the applicable clock hour to update only the following offer parameters, as further described in the PJM Manuals: (1) Economic Minimum; (2) Economic Maximum; (3) emergency minimum MW; (4) emergency maximum MW; (5) unit availability status; and (6) fixed output indicator. Such Real-time Offers shall supersede any previous offer for that resource for the clock hour.*

1.10.9B Offer Parameter Flexibility

(a) Market Sellers may, in accordance with sections 1.10.1A and 1.10.9A above, this section 1.10.9B, and the PJM Manuals, update offer parameters at any time up to 65 minutes before the applicable clock hour, including prior to the close of the Day-ahead Energy Market and prior to the close of the rebidding period specified in section 1.10.9, except that Market Sellers may not update their offers for the supply of energy or demand reduction: (1) during the period after the close the Day-ahead Energy Market and prior to the posting of the Day-ahead Energy Market results pursuant to section 1.10.8(b); or (2) during the period after close of the rebidding period and prior to PJM announcing the results of the rebidding period pursuant to section 1.10.9(d).

(b) For generation resource offers, Market Sellers may vary for each clock hour during the entire Operating Day the following offer parameters: (1) cost-based Start-up Costs; (2) cost-based No-load Costs; (3) Incremental Energy Offer; (4) Economic Minimum and Economic Maximum; (5) emergency minimum MW and emergency maximum MW; and (6) for Real-time Offers only, (i) notification time and (ii) *for uncommitted hours only*, Minimum Run Time.

(c) For Demand Resource offers, Market Sellers may vary for each clock hour during the entire Operating Day the following offer parameters: (1) shutdown costs, (2) Incremental Energy Offer; (3) Economic Minimum; (4) Economic Maximum; and (5) for Real-time Offers only, (i) notification time and (ii) *for uncommitted hours only*, minimum down time.

(d) After the announcement of the results of the rebidding period pursuant to section 1.10.9(d), a Market Seller may submit a Real-time Offer where offer parameters *may differ from the offer originally submitted in the Day-ahead Energy Market, except that a Market Seller may not submit a Real-time Offer that changes, of the offer parameters listed in section 1.10.1A(d), the MW amounts specified in the Incremental Energy Offer, ramp rate, maximum run time, and availability; provided, however, Market Sellers of dual-fueled resources may submit Real-time Offers for such resources that change the availability of a submitted cost-based offer.*

6.4 Offer Price Caps.

6.4.1 Applicability.

- (a) If, at any time, it is determined by the Office of the Interconnection in accordance with Sections 1.10.8 or 6.1 of this Schedule that any generation resource may be dispatched out of economic merit order to maintain system reliability as a result of limits on transmission capability, the offer prices for energy from such resource shall be capped at the levels specified below. If the Office of the Interconnection is able to do so, such offer prices shall be capped only during each hour when the transmission limit affects the schedule of the affected resource, and otherwise shall be capped for the entire Operating Day. The energy offer prices as capped shall be used to determine any Locational Marginal Price affected by the offer price of such resource and as further limited as described in Sections 2.2 and 2.4 of this Schedule.
- (b) The energy offer price by any generation resource requested to be dispatched in accordance with Section 6.3 of this Schedule shall be capped at the levels specified below. If the Office of the Interconnection is able to do so, such offer prices shall be capped only during each hour when the affected resource is so scheduled, and otherwise shall be capped for the entire Operating Day. The energy offer prices as capped shall be used to determine any Locational Marginal Price affected by the price of such resource.
- (c) Generation resources subject to an offer price cap shall be paid for energy at the applicable Locational Marginal Price.
- (d) [Reserved for Future Use]
- (e) Offer price caps under section 6.4 of this Schedule shall be suspended for a generation resource with respect to transmission limit(s) for any hour in which (1) there are not three or fewer generation suppliers available for redispatch under subsection (a) that are jointly pivotal with respect to such transmission limit(s), and (2) the generation resource's owner, when combined with the two largest other generation suppliers, is not pivotal ("three pivotal supplier test").
- (f) For the purposes of conducting the three pivotal supplier test in subsection (e), the following applies:
- (i) All megawatts of available incremental supply for which the power distribution factor ("dfax") has an absolute value equal to or greater than the dfax used by the Office of the Interconnection's system operators when evaluating the impact of generation with respect to the constraint ("effective megawatts") will be included in the available supply analysis at costs equal to the cost-based offers of the available incremental supply adjusted for dfax ("effective costs"). The Office of the Interconnection will post on the PJM website the dfax value used by operators with respect to a constraint when it varies from three percent.

- (ii) The three pivotal supplier test will include in the definition of the relevant market incremental supply up to and including all such supply available at an effective cost equal to 150% of the cost-based clearing price calculated using effective costs and effective megawatts and the need for megawatts to solve the constraint.
- (iii) Offer price caps will apply on a generation supplier basis (i.e. not a generating unit by generating unit basis) and only the generation suppliers that fail the three pivotal supplier test will have their units that are dispatched with respect to the constraint offer capped. A generation supplier for the purposes of this section includes corporate affiliates. Supply controlled by a generation supplier or its affiliates by contract with unaffiliated third parties or otherwise will be included as supply of that generation supplier; supply owned by a generation supplier but controlled by an unaffiliated third party by contract or otherwise will be included as supply of that third party.

A generation supplier's units are offer capped if, when combined with the two largest other generation suppliers, the generation supplier is pivotal.
- (iv) In the Day-ahead Energy Market, the Office of the Interconnection shall include price sensitive demand, Increment Offers and Decrement Bids as demand or supply, as applicable, in the relevant market.

6.4.2 Level.

- (a) The offer price cap shall be one of the amounts specified below, as specified in advance by the Market Seller for the affected unit:
 - (i) The weighted average Locational Marginal Price at the generation bus at which energy from the capped resource was delivered during a specified number of hours during which the resource was dispatched for energy in economic merit order, the specified number of hours to be determined by the Office of the Interconnection and to be a number of hours sufficient to result in an offer price cap that reflects reasonably contemporaneous competitive market conditions for that unit;
 - (ii) For offers of \$2,000/MWh or less, the incremental operating cost of the generation resource as determined in accordance with Schedule 2 of the Operating Agreement and the PJM Manuals ("incremental cost"), plus up to the lesser of 10% of such costs or \$100 MWh, the sum of which shall not exceed \$2,000/MWh; and, for offers greater than \$2,000/MWh, the incremental cost of the generation resource;
 - (iii) For units that are frequently offer capped ("Frequently Mitigated Unit" or "FMU"), and for which the unit's *market*-based offer was greater than its

cost based offer, the following shall apply:

(a) For units that are offer capped for 60% or more of their run hours, but less than 70% of their run hours, the offer price cap will be the greater of either (i) incremental cost plus 10% or (ii) incremental cost plus \$20 per megawatt-hour;

(b) For units that are offer capped for 70% or more of their run hours, but less than 80% of their run hours, the offer price cap will be the greater of either (i) incremental cost plus 10%, or (ii) incremental cost plus \$30 per megawatt-hour;

(c) For units that are offer capped for 80% or more of their run hours, the offer price cap will be the greater of either (i) incremental costs plus 10%; or (ii) incremental cost plus \$40 per megawatt-hour.

(b) For purposes of section 6.4.2(a)(iii), a generating unit shall qualify for the specified offer cap upon issuance of written notice from the Market Monitoring Unit, pursuant to Section II.A of the Attachment M-Appendix, that it is a “Frequently Mitigated Unit” because it meets all of the following criteria:

- (i) The unit was offer capped for the applicable percentage of its run hours, determined on a rolling 12-month basis, effective with a one month lag.
- (ii) The unit’s Projected PJM Market Revenues plus the unit’s PJM capacity market revenues on a rolling 12-month basis, divided by the unit’s MW of installed capacity (in \$/MW-year) are less than its accepted unit specific Avoidable Cost Rate (in \$/MW-year) (excluding APIR and ARPIR), or its default Avoidable Cost Rate (in \$/MW-year) if no unit-specific Avoidable Cost Rate is accepted for the BRAs for the Delivery Years included in the rolling 12-month period, determined pursuant to Sections 6.7 and 6.8 of Attachment DD of the Tariff. (The relevant Avoidable Cost Rate is the weighted average of the Avoidable Cost Rates for each Delivery Year included in the rolling 12-month period, weighted by month.)
- (iii) No portion of the unit is included in a FRR Capacity Plan or receiving compensation under Part V of the Tariff.
- (iv) The unit is internal to the PJM Region and subject only to PJM dispatch.

(c) Any generating unit, without regard to ownership, located at the same site as a Frequently Mitigated Unit qualifying under Sections 6.4.2(a)(iii) shall become an “Associated Unit” upon issuance of written notice from the Market Monitoring Unit pursuant to Section II.A of Attachment M-Appendix, that it meets all of the following criteria:

- 1. The unit has the identical electric impact on the transmission system as the FMU;

2. The unit (i) belongs to the same design class (where a design class includes generation that is the same size and utilizes the same technology, without regard to manufacturer) and uses the identical primary fuel as the FMU or (ii) is regularly dispatched by PJM as a substitute for the FMU based on differences in cost that result from the currently applicable FMU adder;
3. The unit (i) has an average daily cost-based offer, as measured over the preceding 12-month period, that is less than or equal to the FMU's average daily cost-based offer adjusted to include the currently applicable FMU adder or (ii) is regularly dispatched by PJM as a substitute for the FMU based on differences in cost that result from the currently applicable FMU adder.

The offer cap for an associated unit shall be equal to the incremental operating cost of such unit, as determined in accordance with Schedule 2 of the Operating Agreement and the PJM Manuals, plus the applicable percentage adder or dollar per megawatt-hour adder as specified in Section 6.4.2(a)(iii)(a), (b), or (c) for the unit with which it is associated.

(d) Market Participants shall have exclusive responsibility for preparing and submitting their offers on the basis of accurate information and in compliance with the FERC Market Rules, inclusive of the level of any applicable offer cap, and in no event shall PJM be held liable for the consequences of or make any retroactive adjustment to any clearing price on the basis of any offer submitted on the basis of inaccurate or non-compliant information.

6.4.3 Verification of Cost-Based Offers Over \$1,000/Megawatt-hour

(a) If a Market Seller submits a cost-based energy offer for a generation resource that includes an Incremental Energy Offer greater than \$1,000/megawatt-hour, then, in order for that offer to be eligible to set the applicable Locational Marginal Price under section 2.2 of this Schedule, the Office of the Interconnection shall apply a formulaic screen to verify the reasonableness of the Incremental Energy Offer component of such cost-based offer. For each Incremental Energy Offer segment greater than \$1,000/megawatt-hour, the Office of the Interconnection shall evaluate whether such offer segment exceeds the reasonably expected costs for that generation resource by determining the Maximum Allowable Incremental Cost for each

Maximum Allowable Incremental Cost (\$/MWh segment in accordance with the following formula: @ MW) =

$$[(\text{Maximum Allowable Operating Rate}_i) - (\text{Bid Production Cost}_{i-1})] / (\text{MW}_i - \text{MW}_{i-1})$$

where

i = an offer segment within the Incremental Energy Offer, which is comprised of a pairing of price (\$/MWh) and a megawatt quantity

Maximum Allowable Operating Rate (\$/hour @ MW) =

$$[(\text{Heat Input } i @ \text{ MW}_i) x (\text{Performance Factor}) x (\text{Fuel Cost})] x (1 + A)$$

where

Heat Input = a heat input curve (in MMBtu/hr), determined in accordance with the Market Seller's PJM-approved Fuel Cost Policy, Operating Agreement, Schedule 2, and PJM Manual 15, describing the resource's operational characteristics for converting the applicable fuel input (MMBtu) into energy (MW) specified in the Incremental Energy Offer, and up to the greater of the resource's Emergency Maximum or the last offer segment in MW;

Performance Factor = a scaling factor that is a calculated ratio of actual fuel burn to either theoretical fuel burn (i.e, design Heat Input) or other current tested Heat Input, which is determined annually in accordance with the Market Seller's PJM-approved Fuel Cost Policy, Operating Agreement, Schedule 2, and PJM Manual 15, reflecting the resource's actual ability to convert fuel into energy (normal operation is 1.0);

Fuel Cost = applicable fuel cost as estimated by the Office of the Interconnection at a geographically appropriate commodity trading hub, plus 10 percent; and

A = Up to 10% cost adder, in accordance with section 6.4.2 of this Schedule.

Bid Production Cost (\$/hour @ MW) =

$$[\sum_{i=1}^n (MW_i - MW_{i-1}) x (P_i) - \frac{1}{2} x UBS x (MW_i - MW_{i-1}) x (P_i - P_{i-1})] + \text{No-Load Cost}$$

where

MW = the MW quantity per offer segment within the Incremental Energy Offer;

P = the price (in dollars per megawatt-hour) per offer segment within the Incremental Energy Offer;

UBS = Uses Bid-Slope = 0 for block-offer resources (i.e., a resource with an Incremental Energy Offer that uses a step function curve); and 1 for all other resources (i.e., resources with an Incremental Energy Offer that uses a sloped offer curve); and

If the price submitted for the offer segment is less than or equal to the Maximum Allowable Incremental Cost then that offer segment shall be deemed verified and is eligible to set the applicable Locational Marginal Price. If the price submitted for the offer segment is greater than the Maximum Allowable Incremental Cost, then the Market Seller's cost-based offer for that segment and all segments at an equal or greater price are deemed not verified and are not eligible to set the applicable Locational Marginal Price and such offer shall be price capped at

the greater of \$1,000/megawatt-hour or the offer price of the most expensive verified segment on the Incremental Energy Offer for the purpose of setting Locational Marginal Prices; provided however, such Market Seller shall be allowed to submit a challenge to a non-verification determination, including supporting documentation, to the Office of the Interconnection in accordance with the procedures set forth in the PJM Manuals. Upon review of such documentation, the Office of the Interconnection may determine that the Market Seller's cost-based offer is verified and eligible to set the applicable Locational Marginal Price as described above.

- (i) For the first incremental segment ($i=1$), when the MW in the segment is greater than zero, the first segment shall be screened as a block-loaded segment ($UBS=0$) as if there was a preceding MW_{i-1} of zero. The Maximum Allowable Incremental Cost calculation for the first incremental would use a preceding Bid Production Cost $i-1$ (at zero MW) equal to the energy No-Load Cost.
- (ii) For the first incremental segment ($i=1$), when the MW in the segment is equal to zero, and is the only bid-in segment to be verified, then the segment shall be deemed not verified and subject to the rules as described above.
- (iii) For the first incremental segment ($i=1$), when the MW in the segment is equal to zero, and there are additional segments to be verified, then the first segment shall be deemed verified only if the second segment is deemed verified. If the second segment is deemed not verified, then the first segment shall also be deemed not verified and subject to the rules as described above.

(b) If an Economic Load Response Participant a cost-based demand reduction offer that includes incremental costs greater than or equal to \$1,000/megawatt-hour, in order for that offer to be eligible to determine the applicable Locational Marginal Price under section 2.2 of this Schedule, the Economic Load Response Participant must validate the incremental costs with the end use customer(s) and, upon request, submit to the Office of the Interconnection supporting documentation demonstrating that the end-use customer's costs in providing such demand reduction are greater than \$1,000/megawatt-hour in accordance with the following provisions:

(i) The supporting documentation must explain and support the quantification of the end-use customer's incremental costs; and

(ii) The end use customer's incremental costs shall include quantifiable cost incurred for not consuming electricity when dispatched by the Office of the Interconnection, such as wages paid without production, lost sales, damaged products that cannot be sold, or other incremental costs as defined in the PJM Manuals or as approved by the Office of the Interconnection, and may not include shutdown costs.

If upon review of the supporting documentation for the Economic Load Response Participant's, cost-based offer by the Office of the Interconnection and the Market Monitoring Unit, the Office of the Interconnection and/or the Market Monitoring Unit determines that the offer was not

reasonably supported by incremental costs greater than or equal to \$1,000/megawatt-hour, the Office of the Interconnection and/or the Market Monitoring Unit may refer the matter to the FERC Office of Enforcement for investigation.

Section(s) of the
PJM Operating Agreement
(Clean Format)

1.10 Scheduling.

1.10.1 General.

- (a) The Office of the Interconnection shall administer scheduling processes to implement a Day-ahead Energy Market and a Real-time Energy Market. PJMSettlement shall be the Counterparty to the purchases and sales of energy that clear the Day-ahead Energy Market and the Real-time Energy Market; provided that PJMSettlement shall not be a contracting party to bilateral transactions between Market Participants or with respect to a Generating Market Buyer's self-schedule or self-supply of its generation resources up to that Generating Market Buyer's Equivalent Load.
- (b) The Day-ahead Energy Market shall enable Market Participants to purchase and sell energy through the PJM Interchange Energy Market at Day-ahead Prices and enable Transmission Customers to reserve transmission service with Transmission Congestion Charges and Transmission Loss Charges based on locational differences in Day-ahead Prices. Up-to Congestion Transactions submitted in the Day-ahead Energy Market shall not require transmission service and Transmission Customers shall not reserve transmission service for such Up-to Congestion Transactions. Market Participants whose purchases and sales, and Transmission Customers whose transmission uses are scheduled in the Day-ahead Energy Market, shall be obligated to purchase or sell energy, or pay Transmission Congestion Charges and Transmission Loss Charges, at the applicable Day-ahead Prices for the amounts scheduled.
- (c) In the Real-time Energy Market, Market Participants that deviate from the amounts of energy purchases or sales, or Transmission Customers that deviate from the transmission uses, scheduled in the Day-ahead Energy Market shall be obligated to purchase or sell energy, or pay Transmission Congestion Charges and Transmission Loss Charges, for the amount of the deviations at the applicable Real-time Prices or price differences, unless otherwise specified by this Schedule.
- (d) The following scheduling procedures and principles shall govern the commitment of resources to the Day-ahead Energy Market and the Real-time Energy Market over a period extending from one week to one hour prior to the real-time dispatch. Scheduling encompasses the day-ahead and hourly scheduling process, through which the Office of the Interconnection determines the Day-ahead Energy Market and determines, based on changing forecasts of conditions and actions by Market Participants and system constraints, a plan to serve the hourly energy and reserve requirements of the Internal Market Buyers and the purchase requests of the External Market Buyers in the least costly manner, subject to maintaining the reliability of the PJM Region. Scheduling does not encompass Coordinated External Transactions, which are subject to the procedures of Section 1.13 of this Schedule 1 of this Agreement. Scheduling shall be conducted as specified in Section 1.10.1A below, subject to the following condition. If the Office of the Interconnection's forecast for the next seven days projects a likelihood of Emergency conditions, the Office of the Interconnection may commit, for all or part of such seven day period, to the use of generation resources with notification or start-up times greater than one day as necessary in order to alleviate or mitigate such Emergency, in accordance with the Market Sellers' offers for such units for such periods and the specifications in the PJM

Manuals. Such resources committed by the Office of the Interconnection to alleviate or mitigate an Emergency will not receive Operating Reserve Credits nor otherwise be made whole for its hours of operation for the duration of any portion of such commitment that exceeds the maximum start-up and notification times for such resources during Hot Weather Alerts and Cold Weather Alerts, consistent with Sections 3.2.3 and 6.6 hereof.

1.10.1A Day-ahead Energy Market Scheduling.

The following actions shall occur not later than 10:30 a.m. on the day before the Operating Day for which transactions are being scheduled, or such other deadline as may be specified by the Office of the Interconnection in order to comply with the practical requirements and the economic and efficiency objectives of the scheduling process specified in this Schedule.

(a) Each Market Participant may submit to the Office of the Interconnection specifications of the amount and location of its customer loads and/or energy purchases to be included in the Day-ahead Energy Market for each hour of the next Operating Day, such specifications to comply with the requirements set forth in the PJM Manuals. Each Market Buyer shall inform the Office of the Interconnection of the prices, if any, at which it desires not to include its load in the Day-ahead Energy Market rather than pay the Day-ahead Price. PRD Providers that have committed Price Responsive Demand in accordance with the Reliability Assurance Agreement shall submit to the Office of the Interconnection, in accordance with procedures specified in the PJM Manuals, any desired updates to their previously submitted PRD Curves, provided that such updates are consistent with their Price Responsive Demand commitments, and provided further that PRD Providers that are not Load Serving Entities for the Price Responsive Demand at issue may only submit PRD Curves for the Real-time Energy Market. Price Responsive Demand that has been committed in accordance with the Reliability Assurance Agreement shall be presumed available for the next Operating Day in accordance with the most recently submitted PRD Curve unless the PRD Curve is updated to indicate otherwise. PRD Providers may also submit PRD Curves for any Price Responsive Demand that is not committed in accordance with the Reliability Assurance Agreement; provided that PRD Providers that are not Load Serving Entities for the Price Responsive Demand at issue may only submit PRD Curves for the Real-time Energy Market. All PRD Curves shall be on a PRD Substation basis, and shall specify the maximum time period required to implement load reductions.

(b) Each Generating Market Buyer shall submit to the Office of the Interconnection:
(i) hourly schedules for resource increments, including hydropower units, self-scheduled by the Market Buyer to meet its Equivalent Load; and (ii) the Dispatch Rate at which each such self-scheduled resource will disconnect or reduce output, or confirmation of the Market Buyer's intent not to reduce output.

(c) All Market Participants shall submit to the Office of the Interconnection schedules for any energy exports, energy imports, and wheel through transactions involving use of generation or Transmission Facilities as specified below, and shall inform the Office of the Interconnection if the transaction is to be scheduled in the Day-ahead Energy Market. Any Market Participant that elects to schedule an export, import or wheel through transaction in the Day-ahead Energy Market may specify the price (such price not to exceed \$2,000/MWh), if any, at which the

export, import or wheel through transaction will be wholly or partially curtailed. The foregoing price specification shall apply to the applicable interface pricing point. Any Market Participant that elects not to schedule its export, import or wheel through transaction in the Day-ahead Energy Market shall inform the Office of the Interconnection if the parties to the transaction are not willing to incur Transmission Congestion and Loss Charges in the Real-time Energy Market in order to complete any such scheduled transaction. Such transactions in the Real-Time Energy Market, other than Coordinated Transaction Schedules and emergency energy sales and purchases, may specify a price up to \$2,000/MWh. Scheduling of such transactions shall be conducted in accordance with the specifications in the PJM Manuals and the following requirements:

- i) Market Participants shall submit schedules for all energy purchases for delivery within the PJM Region, whether from resources inside or outside the PJM Region;
- ii) Market Participants shall submit schedules for exports for delivery outside the PJM Region from resources within the PJM Region that are not Dynamic Transfers to such entities pursuant to Section 1.12; and
- iii) In addition to the foregoing schedules for exports, imports and wheel through transactions, Market Participants shall submit confirmations of each scheduled transaction from each other party to the transaction in addition to the party submitting the schedule, or the adjacent Control Area.

(c-1) A Market Participant may elect to submit in the Day-ahead Energy Market a form of Virtual Transaction that combines an offer to sell energy at a source, with a bid to buy the same megawatt quantity of energy at a sink where such transaction specifies the maximum difference between the Locational Marginal Prices at the source and sink. The Office of Interconnection will schedule these transactions only to the extent this difference in Locational Marginal Prices is within the maximum amount specified by the Market Participant. A Virtual Transaction of this type is referred to as an “Up-to Congestion Transaction.” Such Up-to Congestion Transactions may be wholly or partially scheduled depending on the price difference between the source and sink locations in the Day-ahead Energy Market. The maximum difference between the source and sink prices that a participant may specify shall be limited to +/- \$50/MWh. The foregoing price specification shall apply to the price difference between the specified source and sink in the day-ahead scheduling process only. An accepted Up-to Congestion Transaction results in scheduled injection at a specified source and scheduled withdrawal of the same megawatt quantity at a specified sink in the Day-ahead Energy Market. The source-sink paths on which an Up-to Congestion Transaction may be submitted are limited to those paths posted on the PJM internet site and determined by the Office of the Interconnection using the following criteria:

Step 1: Start with the historic set of eligible nodes that were available as sources and sinks for interchange transactions on the PJM OASIS.

Step 2: Remove from the list of nodes described in Step 1 all load buses below 69 kV.

Step 3: Remove from the resulting set of nodes from Step 2 all generator buses at which no generators of 100 megawatts or more are connected.

Step 4: Remove from the results of Step 3 all electrically equivalent nodes.

(c-2) A Market Participant may elect to submit an Increment Offer and/or Decrement Bid form of Virtual Transaction in the Day-ahead Energy Market and shall specify the price for such transaction which shall be limited to \$2,000/megawatt-hour.

(d) Market Sellers in the Day-ahead Energy Market shall submit offers for the supply of energy, demand reductions, or other services for the following Operating Day for each clock hour for which the Market Seller desires or is required to make its resource available to the Office of the Interconnection. Offers for the supply of energy may be cost-based, market-based, or both, and may vary hourly. Offers shall be submitted to the Office of the Interconnection in the form specified by the Office of the Interconnection and shall contain the information specified in the Office of the Interconnection's Offer Data specification, this Section 1.10.1A(d), Section 1.10.9B, Schedule 2 of the Operating Agreement, and the PJM Manuals, as applicable. Market Sellers owning or controlling the output of a Generation Capacity Resource that was committed in an FRR Capacity Plan, self-supplied, offered and cleared in a Base Residual Auction or Incremental Auction, or designated as replacement capacity, as specified in Attachment DD of the PJM Tariff, and that has not been rendered unavailable by a Generator Planned Outage, a Generator Maintenance Outage, or a Generator Forced Outage shall submit offers for the available capacity of such Generation Capacity Resource, including any portion that is self-scheduled by the Generating Market Buyer. Such offers shall be based on the ICAP equivalent of the Market Seller's cleared UCAP capacity commitment, provided, however, where the underlying resource is a Capacity Storage Resource or an Intermittent Resource, the Market Seller shall satisfy the must offer requirement by either self-scheduling or offering the unit as a dispatchable resource, in accordance with the PJM Manuals, where the hourly day-ahead self-scheduled values for such Capacity Storage Resources and Intermittent Resources may vary hour to hour from the capacity commitment. Any offer not designated as a Maximum Emergency offer shall be considered available for scheduling and dispatch under both Emergency and non-Emergency conditions. Offers may only be designated as Maximum Emergency offers to the extent that the Generation Capacity Resource falls into at least one of the following categories:

- i) Environmental limits. If the resource has a limit on its run hours imposed by a federal, state, or other governmental agency that will significantly limit its availability, on either a temporary or long-term basis. This includes a resource that is limited to operating only during declared PJM capacity emergencies by a governmental authority.
- ii) Fuel limits. If physical events beyond the control of the resource owner result in the temporary interruption of fuel supply and there is limited on-site fuel storage. A fuel supplier's exercise of a contractual right to

interrupt supply or delivery under an interruptible service agreement shall not qualify as an event beyond the control of the resource owner.

- iii) Temporary emergency conditions at the unit. If temporary emergency physical conditions at the resource significantly limit its availability.
- iv) Temporary megawatt additions. If a resource can provide additional megawatts on a temporary basis by oil topping, boiler over-pressure, or similar techniques, and such megawatts are not ordinarily otherwise available.

The submission of offers for resource increments that have not cleared in a Base Residual Auction or an Incremental Auction, were not committed in an FRR Capacity Plan, and were not designated as replacement capacity under Attachment DD of the PJM Tariff shall be optional, but any such offers must contain the information specified in the Office of the Interconnection's Offer Data specification, Operating Agreement, Schedule 1, sections 1.10.1A(d), and 1.10.9B, Operating Agreement, Schedule 2, and the PJM Manuals, as applicable. Energy offered from generation resources that have not cleared a Base Residual Auction or an Incremental Auction, were not committed in an FRR Capacity Plan, and were not designated as replacement capacity under Attachment DD of the PJM Tariff shall not be supplied from resources that are included in or otherwise committed to supply the Operating Reserves of a Control Area outside the PJM Region.

The foregoing offers:

- i) Shall specify the Generation Capacity Resource or Demand Resource and energy or demand reduction amount, respectively, for each clock hour in the offer period;
- ii) Shall specify the amounts and prices for each clock hour during the entire Operating Day for each resource component offered by the Market Seller to the Office of the Interconnection;
- iii) May specify for generation resources offer parameters for each clock hour during the entire Operating Day, as applicable and in accordance with section 1.10.9B below, including: (1) Minimum Run Time; (2) maximum run time; (3) Start-up Costs; (4) No-load Costs; (5) Incremental Energy Offer; (6) notification time; (7) availability; (8) ramp rate; (9) Economic Minimum; (10) Economic Maximum; (11) emergency minimum MW; and (12) emergency maximum MW, and may specify offer parameters for Demand Resources for each clock hour during the entire Operating Day, as applicable and in accordance with section 1.10.9B below, including: (1) minimum down time; (2) shutdown costs; (3) Incremental Energy Offer; (4) notification time; (5) Economic Minimum; and (6) Economic Maximum;

- iv) Shall set forth any special conditions upon which the Market Seller proposes to supply a resource increment, including any curtailment rate specified in a bilateral contract for the output of the resource, or any cancellation fees;
- v) May include a schedule of offers for prices and operating data contingent on acceptance by the deadline specified in this Schedule, with additional schedules applicable if accepted after the foregoing deadline;
- vi) Shall constitute an offer to submit the resource increment to the Office of the Interconnection for scheduling and dispatch in accordance with the terms of the offer for the clock hour, which offer shall remain open through the Operating Day, for which the offer is submitted, unless the Market Seller a) submits a Real-time Offer for the applicable clock hour, or b) updates the availability of its offer for that hour, as further described in the PJM Manuals;
- vii) Shall be final as to the price or prices at which the Market Seller proposes to supply energy or other services to the PJM Interchange Energy Market, such price or prices being guaranteed by the Market Seller for the period extending through the end of the following Operating Day, unless modified after the close of the Day-ahead Energy Market as permitted pursuant to sections 1.10.9A or 1.10.9B below;
- viii) Shall not exceed an energy offer price of \$1,000/megawatt-hour for all generation resources, except (1) when a Market Seller's cost-based offer is above \$1,000/megawatt-hour and less than or equal to \$2,000/megawatt-hour, then its market-based offer must be less than or equal to the cost-based offer; and (2) when a Market Seller's cost-based offer is greater than \$2,000/megawatt-hour, then its market-based offer must be less than or equal to \$2,000/megawatt-hour; and
- ix) Shall not exceed a *demand reduction* offer price of \$1,000/megawatt-hour, *except when an Economic Load Response Participant submits a cost-based offer that includes an incremental cost component that is above \$1,000/megawatt-hour, then its market-based offer must be less than or equal to the cost-based offer but in no event greater than \$2,000/megawatt-hour; and*
- x) Shall not exceed an energy offer price of \$0.00/MWh for pumped storage hydropower units scheduled by the Office of the Interconnection pursuant to the hydro optimization tool in the Day-ahead Energy Market.

(e) A Market Seller that wishes to make a resource available to sell Regulation service shall submit an offer for Regulation for each clock hour for which the Market Seller desires to make

its resource available to the Office of the Interconnection to provide Regulation that shall specify the megawatts of Regulation being offered, which must equal or exceed 0.1 megawatts, the Regulation Zone for which such Regulation is offered, the price of the capability offer in dollars per MW, the price of the performance offer in Dollars per change in MW, and such other information specified by the Office of the Interconnection as may be necessary to evaluate the offer and the resource's opportunity costs. Such offers may vary hourly, and may be updated each hour, up to 65 minutes before the applicable clock hour during the Operating Day. The total of the performance offer multiplied by the historical average mileage used in the market clearing plus the capability offer shall not exceed \$100/megawatt-hour in the case of Regulation offered for all Regulation Zones. In addition to any market-based offer for Regulation, the Market Seller also shall submit a cost-based offer. A cost-based offer must be in the form specified in the PJM Manuals and consist of the following components as well as any other components specified in the PJM Manuals:

- i. The costs (in \$/MW) of the fuel cost increase due to the steady-state heat rate increase resulting from operating the unit at lower megawatt output incurred from the provision of Regulation shall apply to the capability offer;
- ii. The cost increase (in $\$/\Delta\text{MW}$) in costs associated with movement of the regulation resource incurred from the provision of Regulation shall apply to the performance offer; and
- iii. An adder of up to \$12.00 per megawatt of Regulation provided applied to the capability offer.

Qualified Regulation capability must satisfy the measurement and verification tests specified in the PJM Manuals.

(f) Each Market Seller owning or controlling the output of a Generation Capacity Resource committed to service of PJM loads under the Reliability Pricing Model or Fixed Resource Requirement Alternative shall submit a forecast of the availability of each such Generation Capacity Resource for the next seven days. A Market Seller (i) may submit a non-binding forecast of the price at which it expects to offer a generation resource increment to the Office of the Interconnection over the next seven days, and (ii) shall submit a binding offer for energy, along with Start-up Costs and No-load Costs, if any, for the next seven days or part thereof, for any generation resource with minimum notification or start-up requirement greater than 24 hours. Such resources committed by the Office of the Interconnection will not receive Operating Reserve Credits nor otherwise be made whole for its hours of operation for the duration of any portion of such commitment that exceeds the maximum start-up and notification times for such resources during Hot Weather Alerts and Cold Weather Alerts, consistent with Sections 3.2.3 and 6.6 hereof.

(g) Each component of an offer by a Market Seller of a Generation Capacity Resource that is constant for the entire Operating Day and does not vary hour to hour shall remain in effect for subsequent Operating Days until superseded or canceled.

(h) The Office of the Interconnection shall post the total hourly loads scheduled in the Day-ahead Energy Market, as well as, its estimate of the combined hourly load of the Market Buyers for the next four days, and peak load forecasts for an additional three days.

(i) Except for Economic Load Response Participants, all Market Participants may submit Virtual Transactions that apply to the Day-ahead Energy Market only. Such Virtual Transactions must comply with the requirements set forth in the PJM Manuals and must specify amount, location and price, if any, at which the Market Participant desires to purchase or sell energy in the Day-ahead Energy Market. The Office of the Interconnection may require that a market participant shall not submit in excess of a defined number of bid/offer segments in the Day-ahead Energy Market, as specified in the PJM Manuals, when the Office of the Interconnection determines that such limit is required to avoid or mitigate significant system performance problems related to bid/offer volume. Notice of the need to impose such limit shall be provided prior to 10:00 a.m. EPT on the day that the Day-ahead Energy Market will clear. For purposes of this provision, a bid/offer segment is each pairing of price and megawatt quantity submitted as part of an Increment Offer or Decrement Bid. For purposes of applying this provision to an Up-to Congestion Transaction, a bid/offer segment shall refer to the pairing of a source and sink designation, as well as price and megawatt quantity, that comprise each Up-to Congestion Transaction.

(j) A Market Seller that wishes to make a generation resource or Demand Resource available to sell Synchronized Reserve shall submit an offer for Synchronized Reserve for each clock hour for which the Market Seller desires or is required to make its resource available to the Office of the Interconnection to provide Synchronized Reserve that shall specify the megawatts of Synchronized Reserve being offered, which must equal or exceed 0.1 megawatts, the price of the offer in dollars per megawatt hour, and such other information specified by the Office of the Interconnection as may be necessary to evaluate the offer and the energy used by the generation resource to provide the Synchronized Reserve and the generation resource's unit specific opportunity costs. Such offers may vary hourly, and may be updated each hour up to 65 minutes before the applicable clock hour during the Operating Day. The price of the offer shall not exceed the variable operating and maintenance costs for providing Synchronized Reserve plus seven dollars and fifty cents.

(k) An Economic Load Response Participant that wishes to participate in the Day-ahead Energy Market by reducing demand shall submit an offer to reduce demand to the Office of the Interconnection for each clock hour for which the Economic Load Response Participant desires to make its resource available to the Office of the Interconnection to reduce demand. The offer must equal or exceed 0.1 megawatts, may vary hourly, and shall specify: (i) the amount of the offered curtailment in minimum increments of .1 megawatts; (ii) the Day-ahead Locational Marginal Price above which the end-use customer will reduce load, subject to section 1.10.1A(d)(ix); and (iii) at the Economic Load Response Participant's option, start-up costs associated with reducing load, including direct labor and equipment costs, opportunity costs, and/or a minimum of number of contiguous hours for which the load reduction must be committed. Such offers may be updated each hour, up to 65 minutes before the applicable clock hour during the Operating Day. Economic Load Response Participants submitting offers to

reduce demand in the Day-ahead Energy Market may establish an incremental offer curve, provided that such offer curve shall be limited to ten price pairs (in MWs) per hour.

(l) Market Sellers owning or controlling the output of a Demand Resource that was committed in an FRR Capacity Plan, or that was self-supplied or that offered and cleared in a Base Residual Auction or Incremental Auction, may submit demand reduction bids for the available load reduction capability of the Demand Resource. The submission of demand reduction bids for Demand Resource increments that were not committed in an FRR Capacity Plan, or that have not cleared in a Base Residual Auction or Incremental Auction, shall be optional, but any such bids must contain the information required to be included in such bids, as specified in the PJM Economic Load Response Program. A Demand Resource that was committed in an FRR Capacity Plan, or that was self-supplied or offered and cleared in a Base Residual Auction or Incremental Auction, may submit a demand reduction bid in the Day-ahead Energy Market as specified in the Economic Load Response Program; provided, however, that in the event of an Emergency PJM shall require Demand Resources to reduce load, notwithstanding that the Zonal LMP at the time such Emergency is declared is below the price identified in the demand reduction bid.

(m) Market Sellers providing Day-ahead Scheduling Reserves Resources shall submit in the Day-ahead Scheduling Reserves Market: 1) a price offer in dollars per megawatt hour; and 2) such other information specified by the Office of the Interconnection as may be necessary to determine any relevant opportunity costs for the resource(s). The foregoing notwithstanding, to qualify to submit Day-ahead Scheduling Reserves pursuant to this section, the Day-ahead Scheduling Reserves Resources shall submit energy offers in the Day-ahead Energy Market including start-up and shut-down costs for generation resource and Demand Resources, respectively, and all generation resources that are capable of providing Day-ahead Scheduling Reserves that a particular resource can provide that service. The megawatt quantity of Day-ahead Scheduling Reserves that a particular resource can provide in a given hour will be determined based on the energy Offer Data submitted in the Day-ahead Energy Market, as detailed in the PJM Manuals.

1.10.1B Demand Bid Scheduling and Screening

(a) The Office of the Interconnection shall apply Demand Bid Screening to all Demand Bids submitted in the Day-ahead Energy Market for each Load Serving Entity, separately by Zone. Using Demand Bid Screening, the Office of the Interconnection will automatically reject a Load Serving Entity's Demand Bids in any future Operating Day for which the Load Serving Entity submits bids if the total megawatt volume of such bids would exceed the Load Serving Entity's Demand Bid Limit for any hour in such Operating Day, unless the Office of the Interconnection permits an exception pursuant to subsection (d) below.

(b) On a daily basis, PJM will update and post each Load Serving Entity's Demand Bid Limit in each applicable Zone. Such Demand Bid Limit will apply to all Demand Bids submitted by that Load Serving Entity for each future Operating Day for which it submits bids. The Demand Bid Limit is calculated using the following equation:

Demand Bid Limit = greater of (Zonal Peak Demand Reference Point * 1.3), or (Zonal Peak Demand Reference Point + 10MW)

Where:

1. Zonal Peak Demand Reference Point = for each Zone: the product of (a) LSE Recent Load Share, multiplied by (b) Peak Daily Load Forecast.
2. LSE Recent Load Share is the Load Serving Entity's highest share of Network Load in each Zone for any hour over the most recently available seven Operating Days for which PJM has data.
3. Peak Daily Load Forecast is PJM's highest available peak load forecast for each applicable Zone that is calculated on a daily basis.

(c) A Load Serving Entity whose Demand Bids are rejected as a result of Demand Bid Screening may change its Demand Bids to reduce its total megawatt volume to a level that does not exceed its Demand Bid Limit, and may resubmit them subject to the applicable rules related to bid submission outlined in Tariff, Operating Agreement and PJM Manuals.

(d) PJM may allow a Load Serving Entity to submit bids in excess of its Demand Bid Limit when circumstances exist that will cause, or are reasonably expected to cause, a Load Serving Entity's actual load to exceed its Demand Bid Limit on a given Operating Day. Examples of such circumstances include, but are not limited to, changes in load commitments due to state sponsored auctions, mergers and acquisitions between PJM Members, and sales and divestitures between PJM Members. A Load Serving Entity may submit a written exception request to the Office of Interconnection for a higher Demand Bid Limit for an affected Operating Day. Such request must include a detailed explanation of the circumstances at issue and supporting documentation that justify the Load Serving Entity's expectation that its actual load will exceed its Demand Bid Limit.

1.10.2 Pool-scheduled Resources.

Pool-scheduled resources are those resources for which Market Participants submitted offers to sell energy in the Day-ahead Energy Market and offers to reduce demand in the Day-ahead Energy Market, which the Office of the Interconnection scheduled in the Day-ahead Energy Market as well as generators committed by the Office of the Interconnection subsequent to the Day-ahead Energy Market. Such resources shall be committed to provide energy in the real-time dispatch unless the schedules for such units are revised pursuant to Sections 1.10.9 or 1.11. Pool-scheduled resources shall be governed by the following principles and procedures.

(a) Pool-scheduled resources shall be selected by the Office of the Interconnection on the basis of the prices offered for energy and demand reductions and related services, whether the resource is expected to be needed to maintain system reliability during the Operating Day, Start-up Costs, No-load Costs, and cancellation fees, and the specified operating characteristics, offered by Market Sellers to the Office of the Interconnection by the offer deadline specified in Section 1.10.1A. Hydropower units can only be pool-scheduled if they are pumped storage units and scheduled by the Office of the Interconnection pursuant to the hydro optimization tool in the Day-ahead Energy Market.

(b) A resource that is scheduled by a Market Participant to support a bilateral sale, or that is self-scheduled by a Generating Market Buyer, shall not be selected by the Office of the Interconnection as a pool-scheduled resource except in an Emergency.

(c) Market Sellers offering energy from hydropower or other facilities with fuel or environmental limitations may submit data to the Office of the Interconnection that is sufficient to enable the Office of the Interconnection to determine the available operating hours of such facilities.

(d) The Market Seller of a resource selected as a pool-scheduled resource shall receive payments or credits for energy, demand reductions or related services, or for Start-up Costs and No-load Costs, from the Office of the Interconnection on behalf of the Market Buyers in accordance with Section 3 of this Schedule 1. Alternatively, the Market Seller shall receive, in lieu of Start-up Costs and No-load Costs, its actual costs incurred, if any, up to a cap of the resource's Start-up Costs, if the Office of the Interconnection cancels its selection of the resource as a pool-scheduled resource and so notifies the Market Seller before the resource is synchronized.

(e) Market Participants shall make available their pool-scheduled resources to the Office of the Interconnection for coordinated operation to supply the Operating Reserves needs of the applicable Control Zone.

(f) Economic Load Response Participants offering to reduce demand shall specify: (i) the amount of the offered curtailment, which offer must equal or exceed 0.1 megawatts, in minimum increments of .1 megawatts; (ii) the real-time Locational Marginal Price above which the end-use customer will reduce load; and (iii) at the Economic Load Response Participant's option, shut-down costs associated with reducing load, including direct labor and equipment costs, opportunity costs, and/or a minimum number of contiguous hours for which the load reduction must be committed. Economic Load Response Participants submitting offers to reduce demand in the Real-time Energy Market may establish an incremental offer curve, provided that such offer curve shall be limited to ten price pairs (in MWs). Economic Load Response Participants offering to reduce demand shall also indicate the hours that the demand reduction is not available.

1.10.3 Self-scheduled Resources.

Self-scheduled resources shall be governed by the following principles and procedures.

(a) Each Generating Market Buyer shall use all reasonable efforts, consistent with Good Utility Practice, not to self-schedule resources in excess of its Equivalent Load.

(b) The offered prices of resources that are self-scheduled, or otherwise not following the dispatch orders of the Office of the Interconnection, shall not be considered by the Office of the Interconnection in determining Locational Marginal Prices.

(c) Market Participants shall make available their self-scheduled resources to the Office of the Interconnection for coordinated operation to supply the Operating Reserves needs of the applicable Control Zone, by submitting an offer as to such resources.

(d) A Market Participant self-scheduling a resource in the Day-ahead Energy Market that does not deliver the energy in the Real-time Energy Market, shall replace the energy not delivered with energy from the Real-time Energy Market and shall pay for such energy at the applicable Real-time Price.

(e) Hydropower units, excluding pumped storage units, may only be self-scheduled.

1.10.4 Capacity Resources.

(a) A Generation Capacity Resource committed to service of PJM loads under the Reliability Pricing Model or Fixed Resource Requirement Alternative that is selected as a pool-scheduled resource shall be made available for scheduling and dispatch at the direction of the Office of the Interconnection. Such a Generation Capacity Resource that does not deliver energy as scheduled shall be deemed to have experienced a Generator Forced Outage to the extent of such energy not delivered. A Market Participant offering such Generation Capacity Resource in the Day-ahead Energy Market shall replace the energy not delivered with energy from the Real-time Energy Market and shall pay for such energy at the applicable Real-time Price.

(b) Energy from a Generation Capacity Resource committed to service of PJM loads under the Reliability Pricing Model or Fixed Resource Requirement Alternative that has not been scheduled in the Day-ahead Energy Market may be sold on a bilateral basis by the Market Seller, may be self-scheduled, or may be offered for dispatch during the Operating Day in accordance with the procedures specified in this Schedule. Such a Generation Capacity Resource that has not been scheduled in the Day-ahead Energy Market and that has been sold on a bilateral basis must be made available upon request to the Office of the Interconnection for scheduling and dispatch during the Operating Day if the Office of the Interconnection declares a Maximum Generation Emergency. Any such resource so scheduled and dispatched shall receive the applicable Real-time Price for energy delivered.

(c) A resource that has been self-scheduled shall not receive payments or credits for Start-up Costs or No-load Costs.

1.10.5 External Resources.

(a) External Resources may submit offers to the PJM Interchange Energy Market, in accordance with the day-ahead and real-time scheduling processes specified above. An External Resource selected as a pool-scheduled resource shall be made available for scheduling and dispatch at the direction of the Office of the Interconnection, and except as specified below shall be compensated on the same basis as other pool-scheduled resources. External Resources that are not capable of Dynamic Transfer shall, if selected by the Office of the Interconnection on the basis of the Market Seller's Offer Data, be block loaded on an hourly scheduled basis. Market

Sellers shall offer External Resources to the PJM Interchange Energy Market on either a resource-specific or an aggregated resource basis. A Market Participant whose pool-scheduled resource does not deliver the energy scheduled in the Day-ahead Energy Market shall replace such energy not delivered as scheduled in the Day-ahead Energy Market with energy from the PJM Real-time Energy Market and shall pay for such energy at the applicable Real-time Price.

(b) Offers for External Resources from an aggregation of two or more generating units shall so indicate, and shall specify, in accordance with the Offer Data requirements specified by the Office of the Interconnection: (i) energy prices; (ii) hours of energy availability; (iii) a minimum dispatch level; (iv) a maximum dispatch level; and (v) unless such information has previously been made available to the Office of the Interconnection, sufficient information, as specified in the PJM Manuals, to enable the Office of the Interconnection to model the flow into the PJM Region of any energy from the External Resources scheduled in accordance with the Offer Data.

(c) Offers for External Resources on a resource-specific basis shall specify the resource being offered, along with the information specified in the Offer Data as applicable.

1.10.6 External Market Buyers.

(a) Deliveries to an External Market Buyer not subject to Dynamic Transfer by the Office of the Interconnection shall be delivered on a block loaded basis to the bus or buses at the electrical boundaries of the PJM Region, or in such area with respect to an External Market Buyer's load within such area not served by Network Service, at which the energy is delivered to or for the External Market Buyer. External Market Buyers shall be charged (which charge may be positive or negative) at either the Day-ahead Prices or Real-time Prices, whichever is applicable, for energy at the foregoing bus or buses.

(b) An External Market Buyer's hourly schedules for energy purchased from the PJM Interchange Energy Market shall conform to the ramping and other applicable requirements of the interconnection agreement between the PJM Region and the Control Area to which, whether as an intermediate or final point of delivery, the purchased energy will initially be delivered.

(c) The Office of the Interconnection shall curtail deliveries to an External Market Buyer if necessary to maintain appropriate reserve levels for a Control Zone as defined in the PJM Manuals, or to avoid shedding load in such Control Zone.

1.10.6A Transmission Loading Relief Customers.

(a) An entity that desires to elect to pay Transmission Congestion Charges in order to continue its energy schedules during an Operating Day over contract paths outside the PJM Region in the event that PJM initiates Transmission Loading Relief that otherwise would cause PJM to request security coordinators to curtail such Member's energy schedules shall:

- (i) enter its election on OASIS by 10:30 a.m. of the day before the Operating Day, in accordance with procedures established by PJM, which election shall be applicable for the entire Operating Day; and

- (ii) if PJM initiates Transmission Loading Relief, provide to PJM, at such time and in accordance with procedures established by PJM, the hourly integrated energy schedules that impacted the PJM Region (as indicated from the NERC Interchange Distribution Calculator) during the Transmission Loading Relief.

(b) If an entity has made the election specified in Section (a), then PJM shall not request security coordinators to curtail such entity's energy transactions, except as may be necessary to respond to Emergencies.

(c) In order to make elections under this Section 1.10.6A, an entity must (i) have met the creditworthiness standards established by the Office of the Interconnection or provided a letter of credit or other form of security acceptable to the Office of the Interconnection, and (ii) have executed either the Agreement, a Service Agreement under the PJM Tariff, or other agreement committing to pay all Transmission Congestion Charges incurred under this Section.

1.10.7 Bilateral Transactions.

Bilateral transactions as to which the parties have notified the Office of the Interconnection by the deadline specified in Section 1.10.1A that they elect not to be included in the Day-ahead Energy Market and that they are not willing to incur Transmission Congestion Charges in the Real-time Energy Market shall be curtailed by the Office of the Interconnection as necessary to reduce or alleviate transmission congestion. Bilateral transactions that were not included in the Day-ahead Energy Market and that are willing to incur congestion charges and bilateral transactions that were accepted in the Day-ahead Energy Market shall continue to be implemented during periods of congestion, except as may be necessary to respond to Emergencies.

1.10.8 Office of the Interconnection Responsibilities.

(a) The Office of the Interconnection shall use its best efforts to determine (i) the least-cost means of satisfying the projected hourly requirements for energy, Operating Reserves, and other ancillary services of the Market Buyers, including the reliability requirements of the PJM Region, of the Day-ahead Energy Market, and (ii) the least-cost means of satisfying the Operating Reserve and other ancillary service requirements for any portion of the load forecast of the Office of the Interconnection for the Operating Day in excess of that scheduled in the Day-ahead Energy Market. In making these determinations, the Office of the Interconnection shall take into account: (i) the Office of the Interconnection's forecasts of PJM Interchange Energy Market and PJM Region energy requirements, giving due consideration to the energy requirement forecasts and purchase requests submitted by Market Buyers and PRD Curves properly submitted by Load Serving Entities for the Price Responsive Demand loads they serve; (ii) the offers submitted by Market Sellers; (iii) the availability of limited energy resources; (iv) the capacity, location, and other relevant characteristics of self-scheduled resources; (v) the objectives of each Control Zone for Operating Reserves, as specified in the PJM Manuals; (vi) the requirements of each Regulation Zone for Regulation and other ancillary services, as

specified in the PJM Manuals; (vii) the benefits of avoiding or minimizing transmission constraint control operations, as specified in the PJM Manuals; and (viii) such other factors as the Office of the Interconnection reasonably concludes are relevant to the foregoing determination, including, without limitation, transmission constraints on external coordinated flowgates to the extent provided by section 1.7.6. The Office of the Interconnection shall develop a Day-ahead Energy Market based on the foregoing determination, and shall determine the Day-ahead Prices resulting from such schedule. The Office of the Interconnection shall report the planned schedule for a hydropower resource to the operator of that resource as necessary for plant safety and security, and legal limitations on pond elevations.

(b) By 1:30 p.m., or as soon as practicable thereafter, of the day before each Operating Day, or such other deadline as may be specified by the Office of the Interconnection in the PJM Manuals, the Office of the Interconnection shall: (i) post the aggregate Day-ahead Energy Market results; (ii) post the Day-ahead Prices; and (iii) inform the Market Sellers, Market Buyers, and Economic Load Response Participants of their scheduled injections, withdrawals, and demand reductions respectively. The foregoing notwithstanding, the deadlines set forth in this subsection shall not apply if the Office of the Interconnection is unable to obtain Market Participant bid/offer data due to extraordinary circumstances. For purposes of this subsection, extraordinary circumstances shall mean a technical malfunction that limits, prohibits or otherwise interferes with the ability of the Office of the Interconnection to obtain Market Participant bid/offer data prior to 11:59 p.m. on the day before the affected Operating Day. Extraordinary circumstances do not include a Market Participant's inability to submit bid/offer data to the Office of the Interconnection. If the Office of the Interconnection is unable to clear the Day-ahead Energy Market prior to 11:59 p.m. on the day before the affected Operating Day as a result of such extraordinary circumstances, the Office of the Interconnection shall notify Members as soon as practicable.

(c) Following posting of the information specified in Section 1.10.8(b), and absent extraordinary circumstances preventing the clearing of the Day-ahead Energy Market, the Office of the Interconnection shall revise its schedule of generation resources to reflect updated projections of load, conditions affecting electric system operations in the PJM Region, the availability of and constraints on limited energy and other resources, transmission constraints, and other relevant factors.

(d) Market Buyers shall pay PJMSettlement and Market Sellers shall be paid by PJMSettlement for the quantities of energy scheduled in the Day-ahead Energy Market at the Day-ahead Prices when the Day-ahead Price is positive. Market Buyers shall be paid by PJMSettlement and Market Sellers shall pay PJMSettlement for the quantities of energy scheduled in the Day-ahead Energy Market at the Day-ahead Prices when the Day-ahead Price is negative. Economic Load Response Participants shall be paid for scheduled demand reductions pursuant to Section 3.3A of this Schedule. Notwithstanding the foregoing, if the Office of the Interconnection is unable to clear the Day-ahead Energy Market prior to 11:59 p.m. on the day before the affected Operating Day due to extraordinary circumstances as described in subsection (b) above, no settlements shall be made for the Day-ahead Energy Market, no scheduled megawatt quantities shall be established, and no Day-ahead Prices shall be established for that Operating Day. Rather, for purposes of settlements for such Operating Day, the Office of the

Interconnection shall utilize a scheduled megawatt quantity and price of zero and all settlements, including Financial Transmission Right Target Allocations, will be based on the real-time quantities and prices as determined pursuant to Sections 2.4 and 2.5 hereof.

(e) If the Office of the Interconnection discovers an error in prices and/or cleared quantities in the Day-ahead Energy Market, Real-time Energy Market, Ancillary Services Markets or Day Ahead Scheduling Reserve Market after it has posted the results for these markets on its Web site, the Office of the Interconnection shall notify Market Participants of the error as soon as possible after it is found, but in no event later than 12:00 p.m. of the second Business Day following the Operating Day for the Ancillary Services Markets and Real-time Energy Market, and no later than 5:00 p.m. of the second Business Day following the initial publication of the results for the Day-ahead Scheduling Reserve Market and Day-ahead Energy Market. After this initial notification, if the Office of the Interconnection determines it is necessary to post modified results, it shall provide notification of its intent to do so, together with all available supporting documentation, by no later than 5:00 p.m. of the fifth Business Day following the Operating Day for the Ancillary Services Markets and Real-time Energy Market, and no later than 5:00 p.m. of the fifth Business Day following the initial publication of the results in the Day-ahead Scheduling Reserve Market and the Day-ahead Energy Market. Thereafter, the Office of the Interconnection must post on its Web site the corrected results by no later than 5:00 p.m. of the tenth calendar day following the Operating Day for the Ancillary Services Markets, Day-ahead Energy Market and Real-time Energy Market, and no later than 5:00 p.m. of the tenth calendar day following the initial publication of the results in the Day-ahead Scheduling Reserve Market. Should any of the above deadlines pass without the associated action on the part of 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 market results are under publicly noticed review by the FERC.

(f) Consistent with Section 18.17.1 of the PJM Operating Agreement, and notwithstanding anything to the contrary in the Operating Agreement or in the PJM Tariff, to allow the tracking of Market Participants' non-aggregated bids and offers over time as required by FERC Order No. 719, the Office of the Interconnection shall post on its Web site the non-aggregated bid data and Offer Data submitted by Market Participants (for participation in the PJM Interchange Energy Market) approximately four months after the bid or offer was submitted to the Office of the Interconnection.

1.10.9 Hourly Scheduling.

(a) Following the initial posting by the Office of the Interconnection of the Locational Marginal Prices resulting from the Day-ahead Energy Market, and subject to the right of the Office of the Interconnection to schedule and dispatch pool-scheduled resources and to direct that schedules be changed in an Emergency, and absent extraordinary circumstances preventing the clearing of the Day-ahead Energy Market, a generation rebidding period shall exist. Typically the rebidding period shall be from the time the Office of the Interconnection posts the results of the Day-ahead Energy Market until 2:15 p.m. on the day before each Operating Day. However, should the clearing of the Day-ahead Energy Market be significantly delayed, the Office of the Interconnection may establish a revised rebidding period. During the rebidding

period, Market Participants may submit revisions to generation Offer Data for the next Operating Day. Adjustments to the Day-ahead Energy Market shall be settled at the applicable Real-time Prices, and shall not affect the obligation to pay or receive payment for the quantities of energy scheduled in the Day-ahead Energy Market at the applicable Day-ahead Prices.

(b) A Market Participant may adjust the schedule of a resource under its dispatch control on an hour-to-hour basis beginning at 10:00 p.m. of the day before each Operating Day, provided that the Office of the Interconnection is notified not later than 65 minutes prior to the hour in which the adjustment is to take effect, as follows and as specified in section 1.10.9A of this Schedule:

- i) A Generating Market Buyer may self-schedule any of its resource increments, including hydropower resources, not previously designated as self-scheduled and not selected as a pool-scheduled resource in the Day-ahead Energy Market;
- ii) A Market Participant may request the scheduling of a non-firm bilateral transaction; or
- iii) A Market Participant may request the scheduling of deliveries or receipts of Spot Market Energy; or
- iv) A Generating Market Buyer may remove from service a resource increment, including a hydropower resource, that it had previously designated as self-scheduled, provided that the Office of the Interconnection shall have the option to schedule energy from any such resource increment that is a Capacity Resource at the price offered in the scheduling process, with no obligation to pay any Start-Up Costs.

(c) An External Market Buyer may refuse delivery of some or all of the energy it requested to purchase in the Day-ahead Energy Market by notifying the Office of the Interconnection of the adjustment in deliveries not later than 65 minutes prior to the hour in which the adjustment is to take effect, but any such adjustment shall not affect the obligation of the External Market Buyer to pay for energy scheduled on its behalf in the Day-ahead Energy Market at the applicable Day-ahead Prices.

(d) The Office of the Interconnection shall provide External Market Buyers and External Market Sellers and parties to bilateral transactions with any revisions to their schedules resulting from the rebidding period by 6:30 p.m. on the day before each Operating Day. The Office of the Interconnection may also commit additional resources after such time as system conditions require. For each hour in the Operating Day, as soon as practicable after the deadlines specified in the foregoing subsection of this Section 1.10, the Office of the Interconnection shall provide External Market Buyers and External Market Sellers and parties to bilateral transactions with any revisions to their schedules for the hour.

1.10.9A Updating Offers in Real-time

(a) Each Market Seller may submit Real-time Offers for a resource up to 65 minutes before the applicable clock hour, and such Real-time Offers shall supersede any previous offer for that resource for the clock hour, as further described in the PJM Manuals and subject to the following conditions:

(i) A market-based Real-time Offer shall not exceed the applicable energy offer caps specified in this Schedule. Once a Market Seller's resource is committed for an applicable clock hour, the Market Seller may not increase its Incremental Energy Offer and may only submit a market-based Real-time Offer that is higher than its market-based offer that was in effect at the time of commitment to reflect increases in the resource's cost-based Start-up Costs and cost-based No-load Costs. The Market Seller may elect not to have its market-based offer considered for dispatch and to have only its lowest cost-based offer considered for the remainder of the Operating Day.

(ii) Cost-based Real-time Offers shall be submitted to the Office of the Interconnection in the form specified by the Office of the Interconnection's Offer Data specification, Operating Agreement, Schedule 1, sections 1.10.1A(d) and 1.10.9B, Operating Agreement, Schedule 2 and the PJM Manuals, as applicable. If a Market Seller submits a market-based Real-time Offer for a particular clock hour in accordance with subsection (c) below, or if updates to a cost-based offer are required by the Market Seller's approved Fuel Cost Policy, the Market Seller shall update its previously submitted cost-based Real-time Offer.

(iii) If a Market Seller's available cost-based offer is not compliant with Operating Agreement, Schedule 2 and the PJM Manuals at the time a Market Seller submits a market-based Real-time Offer for an applicable clock hour during the Operating Day, the Market Seller must submit an updated cost-based Real-time Offer consisting of an Incremental Energy Offer, Start-up Cost, and No-load Cost for that clock hour that is compliant with Operating Agreement, Schedule 2 and the PJM Manuals.

(b) *Each Market Seller may submit Real-time Offers for a resource during and through the end of the applicable clock hour to update only the following offer parameters, as further described in the PJM Manuals: (1) Economic Minimum; (2) Economic Maximum; (3) emergency minimum MW; (4) emergency maximum MW; (5) unit availability status; and (6) fixed output indicator. Such Real-time Offers shall supersede any previous offer for that resource for the clock hour.*

1.10.9B Offer Parameter Flexibility

(a) Market Sellers may, in accordance with sections 1.10.1A and 1.10.9A above, this section 1.10.9B, and the PJM Manuals, update offer parameters at any time up to 65 minutes before the applicable clock hour, including prior to the close of the Day-ahead Energy Market and prior to the close of the rebidding period specified in section 1.10.9, except that Market Sellers may not update their offers for the supply of energy or demand reduction: (1) during the period after the close the Day-ahead Energy Market and prior to the posting of the Day-ahead Energy Market results pursuant to section 1.10.8(b); or (2) during the period after close of the rebidding period and prior to PJM announcing the results of the rebidding period pursuant to section 1.10.9(d).

(b) For generation resource offers, Market Sellers may vary for each clock hour during the entire Operating Day the following offer parameters: (1) cost-based Start-up Costs; (2) cost-based No-load Costs; (3) Incremental Energy Offer; (4) Economic Minimum and Economic Maximum; (5) emergency minimum MW and emergency maximum MW; and (6) for Real-time Offers only, (i) notification time and (ii) *for uncommitted hours only*, Minimum Run Time.

(c) For Demand Resource offers, Market Sellers may vary for each clock hour during the entire Operating Day the following offer parameters: (1) shutdown costs, (2) Incremental Energy Offer; (3) Economic Minimum; (4) Economic Maximum; and (5) for Real-time Offers only, (i) notification time and (ii) *for uncommitted hours only*, minimum down time.

(d) After the announcement of the results of the rebidding period pursuant to section 1.10.9(d), a Market Seller may submit a Real-time Offer where offer parameters *may differ from the offer originally submitted in the Day-ahead Energy Market, except that a Market Seller may not submit a Real-time Offer that changes, of the offer parameters listed in section 1.10.1A(d), the MW amounts specified in the Incremental Energy Offer, ramp rate, maximum run time, and availability; provided, however, Market Sellers of dual-fueled resources may submit Real-time Offers for such resources that change the availability of a submitted cost-based offer.*

6.4 Offer Price Caps.

6.4.1 Applicability.

- (a) If, at any time, it is determined by the Office of the Interconnection in accordance with Sections 1.10.8 or 6.1 of this Schedule that any generation resource may be dispatched out of economic merit order to maintain system reliability as a result of limits on transmission capability, the offer prices for energy from such resource shall be capped at the levels specified below. If the Office of the Interconnection is able to do so, such offer prices shall be capped only during each hour when the transmission limit affects the schedule of the affected resource, and otherwise shall be capped for the entire Operating Day. The energy offer prices as capped shall be used to determine any Locational Marginal Price affected by the offer price of such resource and as further limited as described in Sections 2.2 and 2.4 of this Schedule.
- (b) The energy offer price by any generation resource requested to be dispatched in accordance with Section 6.3 of this Schedule shall be capped at the levels specified below. If the Office of the Interconnection is able to do so, such offer prices shall be capped only during each hour when the affected resource is so scheduled, and otherwise shall be capped for the entire Operating Day. The energy offer prices as capped shall be used to determine any Locational Marginal Price affected by the price of such resource.
- (c) Generation resources subject to an offer price cap shall be paid for energy at the applicable Locational Marginal Price.
- (d) [Reserved for Future Use]
- (e) Offer price caps under section 6.4 of this Schedule shall be suspended for a generation resource with respect to transmission limit(s) for any hour in which (1) there are not three or fewer generation suppliers available for redispatch under subsection (a) that are jointly pivotal with respect to such transmission limit(s), and (2) the generation resource's owner, when combined with the two largest other generation suppliers, is not pivotal ("three pivotal supplier test").
- (f) For the purposes of conducting the three pivotal supplier test in subsection (e), the following applies:
- (i) All megawatts of available incremental supply for which the power distribution factor ("dfax") has an absolute value equal to or greater than the dfax used by the Office of the Interconnection's system operators when evaluating the impact of generation with respect to the constraint ("effective megawatts") will be included in the available supply analysis at costs equal to the cost-based offers of the available incremental supply adjusted for dfax ("effective costs"). The Office of the Interconnection will post on the PJM website the dfax value used by operators with respect to a constraint when it varies from three percent.

- (ii) The three pivotal supplier test will include in the definition of the relevant market incremental supply up to and including all such supply available at an effective cost equal to 150% of the cost-based clearing price calculated using effective costs and effective megawatts and the need for megawatts to solve the constraint.
- (iii) Offer price caps will apply on a generation supplier basis (i.e. not a generating unit by generating unit basis) and only the generation suppliers that fail the three pivotal supplier test will have their units that are dispatched with respect to the constraint offer capped. A generation supplier for the purposes of this section includes corporate affiliates. Supply controlled by a generation supplier or its affiliates by contract with unaffiliated third parties or otherwise will be included as supply of that generation supplier; supply owned by a generation supplier but controlled by an unaffiliated third party by contract or otherwise will be included as supply of that third party.

A generation supplier's units are offer capped if, when combined with the two largest other generation suppliers, the generation supplier is pivotal.
- (iv) In the Day-ahead Energy Market, the Office of the Interconnection shall include price sensitive demand, Increment Offers and Decrement Bids as demand or supply, as applicable, in the relevant market.

6.4.2 Level.

- (a) The offer price cap shall be one of the amounts specified below, as specified in advance by the Market Seller for the affected unit:
 - (i) The weighted average Locational Marginal Price at the generation bus at which energy from the capped resource was delivered during a specified number of hours during which the resource was dispatched for energy in economic merit order, the specified number of hours to be determined by the Office of the Interconnection and to be a number of hours sufficient to result in an offer price cap that reflects reasonably contemporaneous competitive market conditions for that unit;
 - (ii) For offers of \$2,000/MWh or less, the incremental operating cost of the generation resource as determined in accordance with Schedule 2 of the Operating Agreement and the PJM Manuals ("incremental cost"), plus up to the lesser of 10% of such costs or \$100 MWh, the sum of which shall not exceed \$2,000/MWh; and, for offers greater than \$2,000/MWh, the incremental cost of the generation resource;
 - (iii) For units that are frequently offer capped ("Frequently Mitigated Unit" or "FMU"), and for which the unit's *market*-based offer was greater than its

cost based offer, the following shall apply:

(a) For units that are offer capped for 60% or more of their run hours, but less than 70% of their run hours, the offer price cap will be the greater of either (i) incremental cost plus 10% or (ii) incremental cost plus \$20 per megawatt-hour;

(b) For units that are offer capped for 70% or more of their run hours, but less than 80% of their run hours, the offer price cap will be the greater of either (i) incremental cost plus 10%, or (ii) incremental cost plus \$30 per megawatt-hour;

(c) For units that are offer capped for 80% or more of their run hours, the offer price cap will be the greater of either (i) incremental costs plus 10%; or (ii) incremental cost plus \$40 per megawatt-hour.

(b) For purposes of section 6.4.2(a)(iii), a generating unit shall qualify for the specified offer cap upon issuance of written notice from the Market Monitoring Unit, pursuant to Section II.A of the Attachment M-Appendix, that it is a “Frequently Mitigated Unit” because it meets all of the following criteria:

- (i) The unit was offer capped for the applicable percentage of its run hours, determined on a rolling 12-month basis, effective with a one month lag.
- (ii) The unit’s Projected PJM Market Revenues plus the unit’s PJM capacity market revenues on a rolling 12-month basis, divided by the unit’s MW of installed capacity (in \$/MW-year) are less than its accepted unit specific Avoidable Cost Rate (in \$/MW-year) (excluding APIR and ARPIR), or its default Avoidable Cost Rate (in \$/MW-year) if no unit-specific Avoidable Cost Rate is accepted for the BRAs for the Delivery Years included in the rolling 12-month period, determined pursuant to Sections 6.7 and 6.8 of Attachment DD of the Tariff. (The relevant Avoidable Cost Rate is the weighted average of the Avoidable Cost Rates for each Delivery Year included in the rolling 12-month period, weighted by month.)
- (iii) No portion of the unit is included in a FRR Capacity Plan or receiving compensation under Part V of the Tariff.
- (iv) The unit is internal to the PJM Region and subject only to PJM dispatch.

(c) Any generating unit, without regard to ownership, located at the same site as a Frequently Mitigated Unit qualifying under Sections 6.4.2(a)(iii) shall become an “Associated Unit” upon issuance of written notice from the Market Monitoring Unit pursuant to Section II.A of Attachment M-Appendix, that it meets all of the following criteria:

- 1. The unit has the identical electric impact on the transmission system as the FMU;

2. The unit (i) belongs to the same design class (where a design class includes generation that is the same size and utilizes the same technology, without regard to manufacturer) and uses the identical primary fuel as the FMU or (ii) is regularly dispatched by PJM as a substitute for the FMU based on differences in cost that result from the currently applicable FMU adder;
3. The unit (i) has an average daily cost-based offer, as measured over the preceding 12-month period, that is less than or equal to the FMU's average daily cost-based offer adjusted to include the currently applicable FMU adder or (ii) is regularly dispatched by PJM as a substitute for the FMU based on differences in cost that result from the currently applicable FMU adder.

The offer cap for an associated unit shall be equal to the incremental operating cost of such unit, as determined in accordance with Schedule 2 of the Operating Agreement and the PJM Manuals, plus the applicable percentage adder or dollar per megawatt-hour adder as specified in Section 6.4.2(a)(iii)(a), (b), or (c) for the unit with which it is associated.

(d) Market Participants shall have exclusive responsibility for preparing and submitting their offers on the basis of accurate information and in compliance with the FERC Market Rules, inclusive of the level of any applicable offer cap, and in no event shall PJM be held liable for the consequences of or make any retroactive adjustment to any clearing price on the basis of any offer submitted on the basis of inaccurate or non-compliant information.

6.4.3 Verification of Cost-Based Offers Over \$1,000/Megawatt-hour

(a) If a Market Seller submits a cost-based energy offer for a generation resource that includes an Incremental Energy Offer greater than \$1,000/megawatt-hour, then, in order for that offer to be eligible to set the applicable Locational Marginal Price under section 2.2 of this Schedule, the Office of the Interconnection shall apply a formulaic screen to verify the reasonableness of the Incremental Energy Offer component of such cost-based offer. For each Incremental Energy Offer segment greater than \$1,000/megawatt-hour, the Office of the Interconnection shall evaluate whether such offer segment exceeds the reasonably expected costs for that generation resource by determining the Maximum Allowable Incremental Cost for each

Maximum Allowable Incremental Cost (\$/MWh segment in accordance with the following formula: @ MW) =

$$[(\text{Maximum Allowable Operating Rate}_i) - (\text{Bid Production Cost}_{i-1})] / (\text{MW}_i - \text{MW}_{i-1})$$

where

i = an offer segment within the Incremental Energy Offer, which is comprised of a pairing of price (\$/MWh) and a megawatt quantity

Maximum Allowable Operating Rate (\$/hour @ MW) =

$$[(\text{Heat Input } i @ \text{ MW}_i) x (\text{Performance Factor}) x (\text{Fuel Cost})] x (1 + A)$$

where

Heat Input = a heat input curve (in MMBtu/hr), determined in accordance with the Market Seller's PJM-approved Fuel Cost Policy, Operating Agreement, Schedule 2, and PJM Manual 15, describing the resource's operational characteristics for converting the applicable fuel input (MMBtu) into energy (MW) specified in the Incremental Energy Offer, and up to the greater of the resource's Emergency Maximum or the last offer segment in MW;

Performance Factor = a scaling factor that is a calculated ratio of actual fuel burn to either theoretical fuel burn (i.e, design Heat Input) or other current tested Heat Input, which is determined annually in accordance with the Market Seller's PJM-approved Fuel Cost Policy, Operating Agreement, Schedule 2, and PJM Manual 15, reflecting the resource's actual ability to convert fuel into energy (normal operation is 1.0);

Fuel Cost = applicable fuel cost as estimated by the Office of the Interconnection at a geographically appropriate commodity trading hub, plus 10 percent; and

A = Up to 10% cost adder, in accordance with section 6.4.2 of this Schedule.

Bid Production Cost (\$/hour @ MW) =

$$[\sum_{i=1}^n (MW_i - MW_{i-1}) x (P_i) - \frac{1}{2} x UBS x (MW_i - MW_{i-1}) x (P_i - P_{i-1})] + \text{No-Load Cost}$$

where

MW = the MW quantity per offer segment within the Incremental Energy Offer;

P = the price (in dollars per megawatt-hour) per offer segment within the Incremental Energy Offer;

UBS = Uses Bid-Slope = 0 for block-offer resources (i.e., a resource with an Incremental Energy Offer that uses a step function curve); and 1 for all other resources (i.e., resources with an Incremental Energy Offer that uses a sloped offer curve); and

If the price submitted for the offer segment is less than or equal to the Maximum Allowable Incremental Cost then that offer segment shall be deemed verified and is eligible to set the applicable Locational Marginal Price. If the price submitted for the offer segment is greater than the Maximum Allowable Incremental Cost, then the Market Seller's cost-based offer for that segment and all segments at an equal or greater price are deemed not verified and are not eligible to set the applicable Locational Marginal Price and such offer shall be price capped at

the greater of \$1,000/megawatt-hour or the offer price of the most expensive verified segment on the Incremental Energy Offer for the purpose of setting Locational Marginal Prices; provided however, such Market Seller shall be allowed to submit a challenge to a non-verification determination, including supporting documentation, to the Office of the Interconnection in accordance with the procedures set forth in the PJM Manuals. Upon review of such documentation, the Office of the Interconnection may determine that the Market Seller's cost-based offer is verified and eligible to set the applicable Locational Marginal Price as described above.

- (i) For the first incremental segment ($i=1$), when the MW in the segment is greater than zero, the first segment shall be screened as a block-loaded segment ($UBS=0$) as if there was a preceding MW_{i-1} of zero. The Maximum Allowable Incremental Cost calculation for the first incremental would use a preceding Bid Production Cost $i-1$ (at zero MW) equal to the energy No-Load Cost.
- (ii) For the first incremental segment ($i=1$), when the MW in the segment is equal to zero, and is the only bid-in segment to be verified, then the segment shall be deemed not verified and subject to the rules as described above.
- (iii) For the first incremental segment ($i=1$), when the MW in the segment is equal to zero, and there are additional segments to be verified, then the first segment shall be deemed verified only if the second segment is deemed verified. If the second segment is deemed not verified, then the first segment shall also be deemed not verified and subject to the rules as described above.

(b) If an Economic Load Response Participant a cost-based demand reduction offer that includes incremental costs greater than or equal to \$1,000/megawatt-hour, in order for that offer to be eligible to determine the applicable Locational Marginal Price under section 2.2 of this Schedule, the Economic Load Response Participant must validate the incremental costs with the end use customer(s) and, upon request, submit to the Office of the Interconnection supporting documentation demonstrating that the end-use customer's costs in providing such demand reduction are greater than \$1,000/megawatt-hour in accordance with the following provisions:

(i) The supporting documentation must explain and support the quantification of the end-use customer's incremental costs; and

(ii) The end use customer's incremental costs shall include quantifiable cost incurred for not consuming electricity when dispatched by the Office of the Interconnection, such as wages paid without production, lost sales, damaged products that cannot be sold, or other incremental costs as defined in the PJM Manuals or as approved by the Office of the Interconnection, and may not include shutdown costs.

If upon review of the supporting documentation for the Economic Load Response Participant's, cost-based offer by the Office of the Interconnection and the Market Monitoring Unit, the Office of the Interconnection and/or the Market Monitoring Unit determines that the offer was not

reasonably supported by incremental costs greater than or equal to \$1,000/megawatt-hour, the Office of the Interconnection and/or the Market Monitoring Unit may refer the matter to the FERC Office of Enforcement for investigation.