

7.4 Allocation of Auction Revenues.

7.4.1 Eligibility.

- (a) Annual auction revenues, net of payments to entities selling Financial Transmission Rights into the auction, shall be allocated among holders of Auction Revenue Rights in proportion to the Target Allocation of Auction Revenue Rights Credits for the holder.
- (b) Auction Revenue Rights Credits will be calculated based upon the clearing price results of the applicable Annual Financial Transmission Rights auction.
- (c) Monthly and Balance of Planning Period FTR auction revenues, net of payments to entities selling Financial Transmission Rights into the auction, shall be allocated according to the following priority schedule:
- (i) To stage 1 and 2 Auction Revenue Rights holders in accordance with Operating Agreement, Schedule 1, section 7.4.4. If there are excess revenues remaining after a distribution made pursuant to this subsection, such revenues shall be distributed in accordance with subsection (c)(ii) of this section;
 - (ii) To the Residual Auction Revenue Rights holders in proportion to, but not more than their Target Allocation as determined pursuant to Operating Agreement, Schedule 1, section 7.4.3(b). If there are excess revenues remaining after a distribution made pursuant to this subsection, such revenues shall be distributed in accordance with subsection (c)(iii) of this section;
 - (iii) In accordance with Operating Agreement, Schedule 1, section 5.2.6.
- (d) Long-term FTR auction revenues associated with FTRs that cover individual Planning Periods shall be distributed in the Planning Period for which the FTR is effective. Long-term FTR auction revenues associated with FTRs that cover multiple Planning Years shall be distributed equally across each Planning Period in the effective term of the FTR. Long-term FTR auction revenue distributions within a Planning Period shall be in accordance with the following provisions:
- (i) Long-term FTR Auction revenues shall be distributed to Auction Revenue Rights holders in the effective Planning Period for the FTR. The distribution shall be in proportion to the economic value of the ARRs when compared to the annual FTR auction clearing prices from each round proportionately.
 - (ii) Long-term FTR auction revenues remaining after distributions made pursuant to Operating Agreement, Schedule 1, section 7.4.1(d)(ii) shall be distributed pursuant to Operating Agreement, Schedule 1, section 5.2.6 of Schedule 1 of this Agreement.

7.4.2 Auction Revenue Rights.

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

With respect to the allocation of Auction Revenue Rights, if the Office of the Interconnection discovers a *potential* error in the allocation, the Office of the Interconnection shall notify Market Participants as soon as possible after it is found, but in no event later than 5:00 p.m. of the Business Day following the initial publication of allocation results. After this initial notification, if the Office of the Interconnection determines that it is necessary to post modified allocation results, it shall provide notification of its intent to do so, *along with a description detailing the cause and scope of the error*, by no later than 5:00 p.m. of the second Business Day following the publication of the initial allocation. *The provided description will not contain information that is market sensitive or confidential.* Thereafter, the Office of the Interconnection must post any corrected allocation results by no later than 5:00 p.m. of the fourth calendar day following the initial publication. Should any of the above deadlines pass without the associated action on the part of the Office of the Interconnection, the originally posted results will be considered final. Notwithstanding the foregoing, the deadlines set forth above shall not apply if the referenced allocation is under publicly noticed review by the FERC.

(b) In stage 1A of the allocation process, each Network Service User may request Auction Revenue Rights for a term covering ten consecutive PJM Planning Periods beginning with the immediately ensuing PJM Planning Period from a subset of the Active Historical Generation Resources or Qualified Replacement Resources, and each Qualifying Transmission Customer (as defined in subsection (f) of this section) may request Auction Revenue Rights based on the megawatts of firm service provided between the receipt and delivery points as to which the Transmission Customer had Point-to-Point Transmission Service during the historical reference year. Active Historical Generation Resources shall mean those historical resources that were designated to be delivered to load based on the historical reference year, and which have not since been deactivated and, further, only up to the current installed capacity value of such resource as of the annual allocation of ARR for the target PJM Planning Period. Qualified Replacement Resources shall mean those resources the Office of the Interconnection designates for the ensuing Planning Period to replace historical resources that no longer qualify as Active Historical Generation Resources and that maximize the economic value of ARR while maintaining Simultaneous Feasibility, as further described in the PJM Manuals.

Prior to the stage 1A of the allocation process, the Office of the Interconnection shall determine, for each Zone, the amount of megawatts of ARR available from Active Historical Generation Resources in that Zone and the amount of megawatts required from Qualified Replacement Resources. The Office of the Interconnection shall designate Qualified Replacement Resources as follows, and as further described in the PJM Manuals. Qualified Replacement Resources shall be either from a (1) capacity resource that has been included in the rate base of a specific Load

Serving Entity in a particular Zone, using criteria for rate-based as specified in sections 7.6 and 7.7 hereof concerning New Stage 1 Resources and Alternative Stage 1 Resources; or (2) from a non-rate-based capacity resource.

Prior to the end of each PJM Planning Period the Office of the Interconnection will determine which Stage 1 Resources are no longer viable for the next PJM Planning Period and then will replace such source points with Qualified Replacement Resources (i.e., Capacity Resources that pass the Simultaneous Feasibility Test and which are economic). The Office of Interconnection will determine the replacement source points as follows. First, the Office of the Interconnection will compile a list of all Capacity Resources that are operational as of the beginning of the next Planning Period, that are not currently designated as source points and will post such list on the PJM website prior to finalizing the Stage 1 eligible resource list for each transmission zone for review by Market Participants. In the first instance, all such resources will be considered to be non-rate-based. Market Participants will be asked to review the posted resource list and provide evidence to the Office of the Interconnection, if any, of the posted resources that shall be classified as rate-based resources. Once the replacement resource list along with the resource status is finalized after any input from Market Participants, the Office of the Interconnection will create two categories of resources for each Stage 1 transmission zone based on economic order: one for rate-based; and a second for non-rate-based resources. When determining economic order, the Office of the Interconnection will utilize historical source and sink Day-ahead Energy Market Congestion Locational Marginal Prices (“CLMPs”). Historical value will be based on the previous three years’ CLMP sink versus CLMP source differences weighted by 50% for the previous calendar year, weighted by 30% for the year prior and weighted by 20% for the year prior. To the extent replacement resources do not have three years’ worth historical data, weighting will be performed either 50/50% in the case of two years or 100% in the case of one year worth of historical data. If a full year of historical data is not available, PJM will utilize the CLMP from the closest electrically equivalent location to compose an entire year of historical data. Once the economic order is established for each Stage 1 zonal rate-based and non-rate-based generator categories, the Office of the Interconnection will begin to replace Stage 1 zonal retirements with the Qualified Replacement Resources by first utilizing rate-based resources in the economic order while respecting transmission limitations. And once the rate-based resource determination is concluded, the Office of the Interconnection will then utilize non-rate-based resources, in economic order, while respecting transmission limitations as described previously.

The historical reference year for all Zones shall be 1998, except that the historical reference year shall be: 2002 for the Allegheny Power and Rockland Electric Zones; 2004 for the AEP East, The Dayton Power & Light Company and Commonwealth Edison Company Zones; 2005 for the Virginia Electric and Power Company and Duquesne Light Company Zones; 2011 for the ATSI Zone; 2012 for the DEOK Zone; 2013 for the EKPC Zone; 2018 for the OVEC Zone; and the Office of the Interconnection shall specify a historical reference year for a new PJM zone corresponding to the year that the zone is integrated into the PJM Interchange Energy Market. For stage 1, the Office of the Interconnection shall determine a set of eligible historical generation resources for each Zone based on the historical reference year and assign a pro rata amount of megawatt capability from each historical generation resource to each Network Service User in the Zone based on its proportion of peak load in the Zone. Auction Revenue Rights shall be allocated to each Network Service User in a Zone from each historical generation resource in

a number of megawatts equal to or less than the amount of the historical generation resource that has been assigned to the Network Service User. Each Auction Revenue Right allocated to a Network Service User shall be to the Energy Settlement Area of such Network Service User as described in Section 31.7 of Part III of the Tariff, unless the Network Service User's Energy Settlement Area represents the Residual Metered Load of an electric distribution company's fully metered franchise area(s) or service territory(ies) and the Network Service User elects to have its Auction Revenue Rights allocated at the aggregate load buses in a Zone. In stage 1A of the allocation process, the sum of each Network Service User's allocated Auction Revenue Rights for a Zone must be equal to or less than *sixty percent (60%) of the Network Service User's proportion of peak load in the Zone*. The sum of each Network Service User's Auction Revenue Rights for Non-Zone Network Load must be equal to or less than fifty percent (50%) of the Network Service User's transmission responsibility for Non-Zone Network Load as determined under Section 34.1 of the Tariff. The sum of each Qualifying Transmission Customer's Auction Revenue Rights must be equal to or less than fifty percent (50%) of the megawatts of firm service provided between the receipt and delivery points as to which the Transmission Customer had Point-to-Point Transmission Service during the historical reference year. If stage 1A Auction Revenue Rights are adversely affected by any new or revised statute, regulation or rule issued by an entity with jurisdiction over the Office of the Interconnection, the Office of the Interconnection shall, to the greatest extent practicable, and consistent with any such statute, regulation or rule change, preserve the priority of the stage 1A Auction Revenue Rights for a minimum period covering the ten (10) consecutive PJM Planning Periods ("Stage 1A Transition Period") immediately following the implementation of any such changes, provided that the terms of all stage 1A Auction Revenue Rights in effect at the time the Office of the Interconnection implements the Stage 1A Transition Period shall be reduced by one PJM Planning Period during each annual stage 1A Auction Revenue Rights allocation performed during the Stage 1A Transition Period so that all stage 1A Auction Revenue Rights that were effective at the start of the Stage 1A Transition Period expire at the end of that period.

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

valid Auction Revenue Right source buses include Active Historical Resources, Qualified Replacement Resources, Zones, hubs and external Interface Pricing Points.

(d) In stage 2 of the allocation process, the Office of the Interconnection shall conduct an iterative allocation process that consists of *two* rounds with up to one *half* of the remaining system Auction Revenue Rights capability allocated in each round. Each round of this allocation process will be conducted sequentially with Network Service Users and Transmission Customers being given the opportunity to view results of each allocation round prior to submission of Auction Revenue Right requests into the subsequent round. In each round, each Network Service User shall designate a subset of buses from which Auction Revenue Rights will *source and sink*. Valid Auction Revenue Rights source buses include only Zones, generators, hubs and external Interface Pricing Points. *Valid Auction Revenue Rights sink buses include only Zones, generators, hubs and external Interface Pricing Points.* The Network Service User shall specify the amount of Auction Revenue Rights requested from each source bus *to each sink bus*. Prior to the 2015/2016 Planning Period, each Auction Revenue Right shall sink to the Energy Settlement Area of the Network Service User as described in Section 31.7 of Part III of the Tariff. Commencing with the 2015/2016 Planning Period, each Auction Revenue Right shall sink to the Energy Settlement Area of the Network Service User as described in Section 31.7 of Part III of the Tariff, unless the Network Service User's Energy Settlement Area represents the Residual Metered Load of an electric distribution company's fully metered franchise area(s) or service territory(ies) and the Network Service User elects to have its Auction Revenue Rights sink at the aggregate load buses in a Zone. The sum of each Network Service User's Auction Revenue Rights requests in each stage 2 allocation round for each Zone must be equal to or less than one *half* of the difference between the Network Service User's peak load for that Zone as determined pursuant to Section 7.4.2(b) and the sum of its Auction Revenue Right Allocation from stages 1A and 1B of the allocation process for that Zone. The stage 2 allocation to Transmission Customers shall be as set forth in subsection (f).

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

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

between such historical reference year receipt and delivery points. A Qualifying Transmission Customer may request Auction Revenue Rights in either or both of stage 1 or 2 of the allocation without regard to whether such customer is subject to a charge for Firm Point-to-Point Transmission Service under Section 1 of Schedule 7 of the PJM Tariff (“Base Transmission Charge”). A Transmission Customer that is not a Qualifying Transmission Customer may request Auction Revenue Rights in stage 2 of the allocation process, but only if it is subject to a Base Transmission Charge. The Auction Revenue Rights that such a Transmission Customer may request in each round of stage 2 of the allocation process must be equal to or less than one *half* of the number of megawatts equal to the megawatts of firm service being provided between the receipt and delivery points as to which the Transmission Customer currently has Firm Point-to-Point Transmission Service. The source point of the Auction Revenue Rights must be the designated source point that is specified in the Transmission Service request and the sink point of the Auction Revenue Rights must be the designated sink point that is specified in the Transmission Service request. A Qualifying Transmission Customer may request Auction Revenue Rights in each round of stage 2 of the allocation process in a number of megawatts equal to or less than one *half* of the difference between the number of megawatts of firm service being provided between the receipt and delivery points as to which the Transmission Customer currently has Firm Point-to-Point Transmission Service and its Auction Revenue Right Allocation from stage 1 of the allocation process.

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

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

(i) If any Auction Revenue Right requests made during stage 1A of the annual allocation process are not feasible due to system conditions, then PJM shall increase the capability limits of the binding constraints that would have rendered the Auction Revenue Rights infeasible to the extent necessary in order to allocate such Auction Revenue Rights without their being infeasible unless such infeasibility is caused by extraordinary circumstances. Such increased limits shall be included in all rounds of the annual allocation and auction processes and in subsequent modeling during the Planning Year to support any incremental allocations of Auction Revenue Rights and monthly and balance of the Planning Period Financial Transmission Rights auctions unless and to the extent those system conditions that contributed to infeasibility in the annual process are not extant for the time period subject to the subsequent modeling, such as would be the case, for example, if transmission facilities are returned to service during the Planning Year. In these cases, any increase in the capability limits taken under this subsection (i) during the annual process will be removed from subsequent modeling to support any incremental allocations of Auction Revenue Rights and monthly and balance of the Planning Period Financial Transmission Rights auctions. In addition, PJM may remove or lower the increased capability limits, if

feasible, during subsequent FTR Auctions if the removal or lowering of the increased capability limits does not impact Auction Revenue Rights funding and net auction revenues are positive.

For the purposes of this subsection (i), extraordinary circumstances shall mean an event of force majeure that reduces the capability of existing or planned transmission facilities and such reduction in capability is the cause of the infeasibility of such Auction Revenue Rights. Extraordinary circumstances do not include those system conditions and assumptions modeled in simultaneous feasibility analyses conducted pursuant to section 7.5 of Schedule 1 of this Agreement. If PJM allocates stage 1A Auction Revenue Rights as a result of this subsection (i) that would not otherwise have been feasible, then PJM shall notify Members and post on its web site (a) the aggregate megawatt quantities, by sources and sinks, of such Auction Revenue Rights and (b) any increases in capability limits used to allocate such Auction Revenue Rights.

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

- i. The relevant Transmission Service shall be used to deliver energy from a designated Network Resource located either outside or within the PJM Region to load located outside the PJM Region.
- ii. To be eligible to participate in stage 1A of the annual Auction Revenue Rights allocation: 1) the relevant Transmission Service shall remain in effect for the stage 1A period addressed by the allocation; and 2) the control area in which the external load is located has similar rules for load external to the relevant control area.
- iii. Source points for stage 1 requests authorized pursuant to this subsection 7.4.2(j) shall be limited to: 1) generation resources owned by the LSE serving the load located outside the PJM Region; or 2) generation resources subject to a bona fide firm energy and capacity supply contract executed by the LSE to meet its load obligations, provided that such contract remains in force and effect for a minimum term of ten (10) years from the first effective Planning Period that follows the initial stage 1 request.
- iv. For Long-Term Firm Point-to-Point Transmission Service customers requesting stage 1 Auction Revenue Rights pursuant to this subsection 7.4.2(j), the generation resource(s) designated as source points may include any portion of the generating capacity of such resource(s) that is not, at the time of the request, already identified as a Capacity Resource.
- v. For Network Service Users requesting stage 1 Auction Revenue Rights pursuant to this subsection 7.4.2(j), at the time of the request, the generation resource(s) designated as source points must either be

committed into PJM's RPM market or be designated as part of the entity's FRR Capacity Plan for the purpose of serving the capacity requirement of the external load.

- vi. All stage 1 source point requests made pursuant to this subsection 7.4.2(j) shall not increase the megawatt flow on facilities binding in the relevant annual Auction Revenue Rights allocation or in future stage 1A allocations and shall not cause megawatt flow to exceed applicable ratings on any other facilities in either set of conditions in the simultaneous feasibility test prescribed in subsection (vii) of this subsection 7.4.2(j).
- vii. To ensure the conditions of subsection (vi) of this subsection 7.4.2(j) are met, a simultaneous feasibility test shall be conducted: 1) based on next allocation year with all existing stage 1 and stage 2 Auction Revenue Rights modeled as fixed injection-withdrawal pairs; and 2) based on 10 year allocation model with all eligible stage 1A Auction Revenue Rights for each year including base load growth for each year.
- viii. Requests for stage 1 Auction Revenue Rights made pursuant to this subsection 7.4.2(j) that are received by PJM by November 1st of a Planning Period shall be processed for the next annual Auction Revenue Rights allocation. Requests received after November 1st shall not be considered for the upcoming annual Auction Revenue Rights allocation. If all requests are not simultaneously feasible then requests will be awarded on a pro-rata basis.
- ix. Requests for new or alternate stage 1 resources made by Network Service Users and external LSEs that are received by November 1st shall be evaluated at the same time. If all requests are not simultaneously feasible then requests will be awarded on a pro-rata basis.
- x. Stage 1 Auction Revenue Rights source points that qualify pursuant to this subsection 7.4.2(j) shall be eligible as stage 1 Auction Revenue Rights source points in subsequent annual Auction Revenue Rights allocations.
- xi. Long-Term Firm Point-to-Point Transmission Service customers requesting stage 1 Auction Revenue Rights pursuant to this subsection 7.4.2(j) may request Auction Revenue Rights megawatts up to the lesser of: 1) the customer's Long-Term Firm Point-to-Point Transmission service contract megawatt amount; or 2) the customer's Firm Transmission Withdrawal Rights.
- xii. Network Service Users requesting stage 1 Auction Revenue Rights pursuant to this subsection 7.4.2(j) may request Auction Revenue Rights megawatts up to the lesser of: 1) the customer's network service peak load; or 2) the customer's Firm Transmission Withdrawal Rights.

- xiii. Stage 1A Auction Revenue Rights requests made pursuant to this subsection 7.4.2(j) shall not exceed 50% of the maximum allowed megawatts authorized by subsections (xi) and (xii) of this subsection 7.4.2(j).
- xiv. Stage 1B Auction Revenue Rights requests made pursuant to this subsection 7.4.2(j) shall not exceed the difference between the maximum allowed megawatts authorized by subsections (xi) and (xii) of this subsection 7.4.2(j) and the Auction Revenue Rights megawatts granted in stage 1A.
- xv. In each round of Stage 2 of an annual allocation of Auction Revenue Rights, megawatt requests made pursuant to this subsection 7.4.2(j) shall be equal to or less than one *half* of the difference between the maximum allowed megawatts authorized by paragraphs (xi) and (xii) of this subsection 7.4.2(j) and the Auction Revenue Rights megawatt amount allocated in stage 1.
- xvi. Stage 1 Auction Revenue Rights sources established pursuant to this subsection 7.4.2(j) and the associated Auction Revenue Rights megawatt amount may be replaced with an alternate resource pursuant to the process established in Section 7.7 of Schedule 1 of this Agreement.

(k) PJM Transmission Customers taking firm transmission service for the delivery of Direct Charging Energy to Energy Storage Resources or to Open-Loop Hybrid Resources are not eligible for allocation of Auction Revenue Rights.

7.4.2a Bilateral Transfers of Auction Revenue Rights

- (a) Market Participants may enter into bilateral agreements to transfer Auction Revenue Rights or the right to receive an allocation of Auction Revenue Rights to a third party. Such bilateral transfers shall be reported to the Office of the Interconnection in accordance with this Schedule and pursuant to the LLC's rules related to its FTR reporting tools.
- (b) For purposes of clarity, with respect to all bilateral transfers of Auction Revenue Rights or the right to receive an allocation of Auction Revenue Rights, the rights and obligations to the Auction Revenue Rights or the right to receive an allocation of Auction Revenue Rights that are the subject of such a bilateral transfer shall pass to the buyer under the bilateral contract subject to the provisions of this Schedule. In no event, shall the purchase and sale of an Auction Revenue Right or the right to receive an allocation of Auction Revenue Rights pursuant to a bilateral transfer constitute a transaction with PJMSettlement or a transaction in any auction under this Schedule.
- (c) Consent of the Office of the Interconnection shall be required for a seller to transfer to a buyer any obligations associated with the Auction Revenue Rights or the right to receive an

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

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

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

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

7.4.3 Target Allocation of Auction Revenue Right Credits.

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

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

prompt-month FTR auction that occurs from the effective date of the Residual Auction Revenue Rights through the end of the relevant Planning Period.

7.4.4 Calculation of Auction Revenue Right Credits.

(a) Each day, the total of all the daily Target Allocations determined as specified above in Section 7.4.3 plus any additional Auction Revenue Rights Target Allocations applicable for that day shall be compared to the total revenues of all applicable monthly Financial Transmission Rights auction(s) (divided by the number of days in the month) plus the total revenues of the annual Financial Transmission Rights auction (divided by the number of days in the Planning Period). If the total of the Target Allocations is less than the total auction revenues, the Auction Revenue Right Credit for each entity holding an Auction Revenue Right shall be equal to its Target Allocation. All remaining funds shall be distributed as Excess Congestion Charges pursuant to Section 5.2.6.

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

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