11. DEMAND RESOURCE COMPLIANCE PENALTY CHARGE

The provisions of this section 11 do not apply to Demand Resources committed as Capacity Performance Resources or Base Capacity Demand Resources. All references to Demand Resources in this section specifically exclude Demand Resources committed as Capacity Performance Resources or Base Capacity Demand Resources.

(a) The Office of the Interconnection shall separately evaluate compliance of each Demand Resource committed for a Delivery Year, in accordance with procedures set forth in the PJM Manuals and, for Delivery Years through May 31, 2019, shall assess a Demand Resource Compliance Penalty Charge on Capacity Market Sellers that committed Demand Resources and Locational UCAP Sellers that sold Demand Resources that cannot demonstrate the hourly performance of such resource in real-time. The compliance is evaluated separately by Load Management Event in each CAA for Demand Resource Registrations dispatched by the Office of Interconnection. The Demand Resource Compliance Penalty Charge will not be assessed to Demand Resource Registrations that are dispatched on a subzonal basis unless such subzone is defined and publicly posted the day before the Load Management Event as set forth in the PJM Manuals. To the extent a Demand Resource Registration cannot respond, another Demand Resource Registration in the same geographic location defined by the PJM dispatch instruction with the same designated lead time and comparable capacity commitment may be substituted. Any Demand Resource Registration used as a substitute during a Load Management Event will have the same obligation to respond to future Load Management Event(s) as if it did not respond to such Load Management Event. Capacity Market Sellers that committed Demand Resources and Locational UCAP Sellers that sold Demand Resources that cannot demonstrate the hourly performance of such Demand Resource Registration in real-time based on the capacity commitment shall be assessed a Demand Resource Compliance Penalty Charge; provided, however, that such under compliance shall be determined on an aggregate basis for all dispatched Demand Resource Registrations committed by the same Capacity Market Seller or same Locational UCAP Seller in a CAA.

(b) The Demand Resource Compliance Penalty Charge for a Capacity Market Seller in a CAA for the on-peak period, which includes all hours specified in the Reliability Assurance Agreement definition of the Limited Demand Resource, shall equal the lesser of (1/the number of Load Management Events during the on-peak period for which such Demand Resource Registration was dispatched, or 0.50) times the weighted daily revenue rate for such seller’s dispatched registration, multiplied by the net under-compliance for such registration in such on-peak period, if any, for such seller resulting from all dispatched registrations it has committed for such Delivery Year for such CAA for each Load Management Event called by the Office of the Interconnection. Net CAA under compliance for the Load Management Event will be prorated to individual under compliant registrations in the CAA based on performance of each registration in order to determine net under compliance(s) for each Demand Resource Registration dispatched. The Demand Resource Compliance Penalty Charge for a Capacity Market Seller in a CAA for the off-peak period, which includes all hours specified in the Reliability Assurance Agreement definitions of
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Extended Summer Demand Resource or Annual Demand Resource, but does not include all
hours in the on-peak period, shall equal 1/52 times the weighted daily revenue rate for such
Demand Resource Registration dispatched for such seller, multiplied by the net
undercompliance for such registration in such off-peak period, if any, for such seller resulting
from all dispatched registrations it has committed for such Delivery Year for such CAA for
each Load Management Event called by the Office of the Interconnection. If a Load
Management Event is comprised of both an on-peak period and an off-peak period then such
Demand Resource Compliance Penalty Charge will be the higher of the charges calculated
under the prior two sentences. The total Compliance Penalty Charges for the Delivery Year
is not to exceed the annual revenue received for such Capacity Market Seller’s Demand
Resources. The net CAA undercompliance for each such Load Management Event shall be
the following megawatt quantity, converted to an Unforced Capacity basis using the
applicable DR Factor and Forecast Pool Requirement: (i) the megawatts of load reduction
capability committed by such seller on the day of the Load Management Event for all
dispatched resources minus (ii) the megawatts of load reduction actually provided by all such
dispatched Demand Resources during such Load Management Event. A seller’s net
undercompliance in a CAA shall be reduced by the seller’s total amount of Capacity
Resource deficiency shortfalls on the day of the Load Management Event, determined
pursuant to Tariff, Attachment DD, section 8, in a CAA for the seller’s committed Demand
Resources that are the same product(s) dispatched. The daily revenue rate for a Demand
Resource Registration shall be based on the Resource Clearing Price(s) that the Demand
Resource, for which such registration is linked, received in the auction(s) in which the
Demand Resource cleared. The weighted daily revenue rate for a Capacity Market Seller’s
Demand Resource registration shall be the average rate for the cleared Demand Resource
for which such registration is linked, weighted by the megawatts cleared at each price. The total
charge per megawatt that may be assessed on a Capacity Market Seller’s Demand Resource
Registration in a Delivery Year shall be capped at the weighted daily revenue rate the
Capacity Market Seller’s Demand Resource Registration would receive in the Delivery Year.

The Demand Resource Compliance Penalty Charges for a Load Management Event for
Limited Demand Resources are assessed daily and initially billed by the later of the month of
October during such Delivery Year or the third billing month following the Load
Management Event that gave rise to such charge. The initial billing for a Load Management
Event for Limited Demand Resources will reflect the amounts due from the start of the
Delivery Year to the last day that is reflected in the initial billing. The remaining charges for
such Load Management Event will be assessed daily and billed monthly through the
remainder of the Delivery Year. The Demand Resource Compliance Penalty Charges for a
Load Management Event for Annual or Extended Summer Demand Resources are assessed
daily and billed by the later of the month of June following such Delivery Year or the third
billing month following the Load Management Event that gave rise to such charge. The
billing for the Load Management Event for Annual or Extended Summer Demand Resources
will be in a lump sum and reflect the accrued charges for the entire Delivery Year.

     c)    Daily revenues from assessment of a Demand Resource Compliance Penalty
Charge shall be distributed on a pro-rata basis to Demand Resource Providers and Locational
UCAP Sellers that provided load reductions in excess of the amount such dispatched
Demand Resource Registrations were committed to provide. Such revenue distribution, however, shall not exceed for any Capacity Market Seller’s dispatched Demand Resource Registration the quantity of excess megawatts provided by such Capacity Market Seller during a single Load Management Event times 0.20 times the weighted daily revenue rate for such Capacity Market Seller’s dispatched Demand Resource Registration. To the extent any such revenues remain after such distribution, the remaining revenues shall be distributed to LSEs based on each LSE’s Daily Unforced Capacity Obligation.