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March 28, 2014

Via eTariff

Honorable Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426-0001

Re: PJM Interconnection, L.L.C., Docket No. ER14-¹⁶⁰⁹-000

Dear Secretary Bose:

PJM Interconnection, L.L.C. ("PJM"), under Section 205 of the Federal Power Act ("FPA"), 16 U.S.C. § 824d, submits to the Federal Energy Regulatory Commission ("Commission") proposed revisions to Attachment DD ("Attachment DD") of the PJM Open Access Transmission Tariff ("Tariff") to implement a transition mechanism for Capacity Market Sellers¹ affected by changes to PJM's generating unit capability verification test procedures ("Affected Resource Owners") that choose not to provide replacement capacity for the 2014/2015, 2015/2016, and/or 2016/2017 Delivery Years ("applicable Delivery Years") to cover capacity commitment shortfalls resulting from the revised capability test procedures ("Shortfall Replacement Capacity"). PJM respectfully requests that the Commission issue an order accepting the proposed revisions by May 28, 2014, which is at least 60 days from this filing, with an effective date June 1, 2014.

¹ Capitalized terms used and not otherwise defined herein have the meaning set forth in the Tariff or the Reliability Assurance Agreement Among Load Serving Entities in the PJM Region ("RAA").

I. Background and Rationale

PJM's Planning Committee recommended, and PJM stakeholders endorsed, certain changes to PJM's generating unit capability verification test procedures reflected in PJM Manual 21: Rules and Procedures for Determination of Generating Capability.² Those changes, which became effective on March 5, 2014 and will be implemented for the 2014 Delivery Year beginning on June 1, 2014, include: (1) language clarifying summer and winter test results for all generating units must be corrected to reflect expected ambient temperature conditions (for air and/or cooling water as appropriate) under PJM seasonal peak load conditions; and (2) revised requirements for hydro and pumped storage generating units specifying capability tests must be conducted during the summer period (June, July, or August) rather than at any time during the year.

The Manual 21 revisions are intended to improve reliability because the installed capacity value for all generating units will properly reflect expected output under PJM peak load conditions, and will be determined consistently.³ Therefore, PJM proposes to implement the revised capability test procedures without delay, effective with the summer 2014 capability tests. Based on this implementation schedule, various PJM Members expressed concerns about the potential impacts of the revised capability test procedures on the ability of Affected Resource Owners to meet their existing Reliability Pricing Model ("RPM") commitments for the applicable Delivery Years. Without a transition mechanism, Affected Resource Owners that choose not to provide Shortfall

² PJM Manual 21: *Rules and Procedures for Determination of Generating Capability*, Revision 11, Effective March 5, 2014.

³ To put this in context, PJM's records indicate that, for summer 2012, roughly 60% of the test results for steam generating units representing a total ICAP MW value of 69,200 MWs were corrected to reflect expected ambient temperature conditions, while 40% were not.

Replacement Capacity are at risk of being assessed Capacity Resource Deficiency Charges (or other capacity market performance assessment charges) as a direct result of the revised capability test procedures.

To address Member concerns, PJM developed a tariff transition mechanism that Affected Resource Owners may elect if they choose not to provide Shortfall Replacement Capacity for one or more of the applicable Delivery Years. Under the transition mechanism, an Affected Resource Owner may elect to have the Unforced Capacity commitments for all of its Affected Resources⁴ reduced for the applicable Delivery Years to eliminate the capacity commitment shortfalls, across all of its Affected Resources, that result wholly and directly from the revised capability test procedures, and for which the Affected Resource Owner otherwise would be subject to Capacity Resource Deficiency Charges for the Delivery Year. In electing this option, the Affected Resource Owner will relinquish RPM Auction Credits associated with the reductions in Unforced Capacity commitments for all of its Affected Resources for the Delivery Year, and Locational Reliability Charges described in section 5.14(e) of Attachment DD will be adjusted accordingly.

PJM will offset the total reduction (across all Affected Resources and Affected Resource Owners) in Unforced Capacity commitments associated with the transition mechanism for the 2015/2016 and 2016/2017 Delivery Years⁵ by applying

⁴ "Affected Resources" are Generation Capacity Resources with existing capacity commitments for the applicable Delivery Years that experience reductions in verified installed capacity available for sale as a direct result of the revised capability test procedures.

⁵ Based on the timing, and the fact that there are no remaining Incremental Auctions for the 2014/2015 Delivery Year, PJM will not have the opportunity to offset any reduction associated with the transition mechanism for the 2014/2015 Delivery Year.

corresponding adjustments to the quantity of PJM Buy Bid or PJM Sell Offer activity in the upcoming Incremental Auctions for each of those Delivery Years, as described in sections 5.12(b)(ii-1) and 5.12(b)(iii-1) of Attachment DD.

II. Proposed Attachment DD Additions and Revisions

To implement the transition mechanism, PJM proposes to add a new section 5.14B to Attachment DD as follows.

5.14B Generating Unit Capability Verification Test Requirements Transition Provision for RPM Delivery Years 2014/2015, 2015/2016, and 2016/2017

A. This Transition Provision applies only with respect to Generation Capacity Resources with existing capacity commitments for the 2014/2015, 2015/2016, or 2016/2017 Delivery Years that experience reductions in verified installed capacity available for sale as a direct result of revised generating unit capability verification test procedures effective with the summer 2014 capability tests, as set forth in the PJM Manuals. A Generation Capacity Resource meeting the description of the preceding sentence, and the Capacity Market Seller of⁶ such a resource, are hereafter in this section 5.14B referred to as an “Affected Resource” and an “Affected Resource Owner,” respectively.

B. For each of its Affected Resources, an Affected Resource Owner is required to provide documentation to the Office of the Interconnection sufficient to show a reduction in installed capacity value as a direct result of the revised capability test procedures. Upon acceptance by the Office of the Interconnection, the Affected Resource’s installed capacity value will be updated in the eRPM system to reflect the reduction, and the Affected Resource’s Capacity Interconnection Rights value will be updated to reflect the reduction, effective June 1, 2014. The reduction’s impact on the Affected Resource’s existing capacity commitments for the 2014/2015 Delivery Year will be determined in Unforced

⁶ This language is slightly modified from the version endorsed by the Members Committee on March 27, 2014. The word “of” was previously “owning.” PJM changed the word “owning” to “of” in the following sentence to reflect not all Capacity Market Sellers may not own such resources .

Capacity terms, using the final EFORD value established by the Office of the Interconnection for the 2014/2015 Delivery Year as applied to the Third Incremental Auction for the 2014/2015 Delivery Year, to convert installed capacity to Unforced Capacity. The reduction's impact on the Affected Resource's existing capacity commitments for each of the 2015/2016 and 2016/2017 Delivery Years will be determined in Unforced Capacity terms, using the EFORD value from each Sell Offer in each applicable RPM Auction, applied on a pro-rata basis, to convert installed capacity to Unforced Capacity. The Unforced Capacity impact for each Delivery Year represents the Affected Resource's capacity commitment shortfall, resulting wholly and directly from the revised capability test procedures, for which the Affected Resource Owner is subject to a Capacity Resource Deficiency Charge for the Delivery Year, as described in section 8 of this Attachment DD, unless the Affected Resource Owner (i) provides replacement Unforced Capacity, as described in section 8.1 of this Attachment DD, prior to the start of the Delivery Year to resolve the Affected Resource's total capacity commitment shortfall; or (ii) requests relief from Capacity Resource Deficiency Charges that result wholly and directly from the revised capability test procedures by electing the transition mechanism described in this section 5.14B ("Transition Mechanism").

C. Under the Transition Mechanism, an Affected Resource Owner may elect to have the Unforced Capacity commitments for all of its Affected Resources reduced for the 2014/2015, 2015/2016, or 2016/2017 Delivery Years to eliminate the capacity commitment shortfalls, across all of its Affected Resources, that result wholly and directly from the revised capability test procedures, and for which the Affected Resource Owner otherwise would be subject to Capacity Resource Deficiency Charges for the Delivery Year. In electing this option, the Affected Resource Owner relinquishes RPM Auction Credits associated with the reductions in Unforced Capacity commitments for all of its Affected Resources for the Delivery Year, and Locational Reliability Charges as described in section 5.14(e) of this Attachment DD are adjusted accordingly. Affected Resource Owners wishing to elect the Transition Mechanism for the 2015/2016 Delivery Year must notify the Office of the Interconnection by May 30, 2014. Affected Resource

Owners wishing to elect the Transition Mechanism for the 2016/2017 Delivery Year must notify the Office of the Interconnection by July 25, 2014.

D. The Office of the Interconnection will offset the total reduction (across all Affected Resources and Affected Resource Owners) in Unforced Capacity commitments associated with the Transition Mechanism for the 2015/2016 and 2016/2017 Delivery Years by applying corresponding adjustments to the quantity of Buy Bid or Sell Offer activity in the upcoming Incremental Auctions for each of those Delivery Years, as described in sections 5.12(b)(ii-l) and 5.12(b)(iii-1) of this Attachment DD.

E. By electing the Transition Mechanism, an Affected Resource Owner may receive relief from applicable Capacity Resource Deficiency Charges for the 2014/2015, 2015/2016, or 2016/2017 Delivery Years, and a Locational UCAP Seller that sells Locational UCAP based on an Affected Resource owned by the Affected Resource Owner may receive relief from applicable Capacity Resource Deficiency Charges for the 2014/2015 Delivery Year, to the extent that the Affected Resource Owner demonstrates, to the satisfaction of the Office of the Interconnection, that an inability to deliver the amount of Unforced Capacity previously committed for the 2014/2015, 2015/2016, or 2016/2017 Delivery Years is due to a reduction in verified installed capacity available for sale as a direct result of revised generating unit capability verification test procedures effective with the summer 2014 capability tests, as set forth in the PJM Manuals; provided, however, that the Affected Resource Owner must provide the Office of the Interconnection with all information deemed necessary by the Office of the Interconnection to assess the merits of the request for relief.⁷

To offset the total reduction (across all Affected Resources and Affected Resource Owners) in Unforced Capacity commitments associated with the transition

⁷ OATT ATT DD.5.14.

mechanism for the 2015/2016 and 2016/2017 Delivery Years, PJM proposes to revise existing sections 5.12(b)(ii-1) and 5.12(b)(iii-1) of Attachment DD as follows.⁸

5.12 Conduct of RPM Auctions

...

b) Scheduled Incremental Auction and Supplemental Procurement Conditional Auctions.

...

(ii-1) When, *for any Delivery Year through the 2016-2017 Delivery Year*, the requirement to seek additional resource commitments in a Scheduled Incremental Auction is triggered by section 5.4(c)(1) of this Attachment, and the conditions stated in section 5.4(c)(2) do not apply, the Office of the Interconnection first shall determine the total quantity of (A) the Short-Term Resource Procurement Target Applicable Share for such auction, plus (B) the amount that the Office of the Interconnection sought to procure in prior Scheduled Incremental Auctions for such Delivery Year that does not clear such auction, minus (C) the amount that the Office of the Interconnection sought to sell back in prior Scheduled Incremental Auctions for such Delivery Year that does not clear such auction, plus (D) the difference between the updated PJM Region Reliability Requirement or updated LDA Reliability Requirement and, respectively, the PJM Region Reliability Requirement, or LDA Reliability Requirement, utilized in the most recent prior auction conducted for such Delivery Year plus any amount required by section 5.4(c)(2)(ii), plus (E) the reduction in Unforced Capacity commitments associated with the Transition Mechanism of section 5.14B of this Attachment DD, as described in section 5.14B(D). If the result of such equation is a positive quantity, the Office of the Interconnection shall employ in the clearing of such auction a portion of the Updated VRR Curve Increment extending right from the left-most point on that curve in a megawatt amount equal to that positive quantity defined above, to seek to procure such quantity. If the result of such equation is a negative quantity, the Office of the Interconnection shall employ in the clearing of the auction a portion of the Updated VRR Curve

⁸ Italicized language in the following sections indicate language that is currently pending before the Commission in Docket Nos. ER14-1461-000 and ER14-1461-001.

Decrement, extending and ascending to the left from the right-most point on that curve in a megawatt amount corresponding to the negative quantity defined above, to seek to sell back such quantity.

...

(iii-1) When, for any Delivery Year through the 2016-2017 Delivery Year, the possible need to seek agreements to release capacity commitments in any Scheduled Incremental Auction is indicated for the PJM Region or any LDA by section 5.4(c)(3)(i) of this Attachment, the Office of the Interconnection first shall determine the total quantity of (A) the Short-Term Resource Procurement Target Applicable Share for such auction, plus (B) the amount that the Office of the Interconnection sought to procure in prior Scheduled Incremental Auctions for such Delivery Year that does not clear such auction, minus (C) the amount that the Office of the Interconnection sought to sell back in prior Scheduled Incremental Auctions for such Delivery Year that does not clear such auction, plus (D) the difference between the updated PJM Region Reliability Requirement or updated LDA Reliability Requirement and, respectively, the PJM Region Reliability Requirement, or LDA Reliability Requirement, utilized in the most recent prior auction conducted for such Delivery Year minus any capacity sell-back amount determined by PJM to be required for the PJM Region or such LDA by section 5.4(c)(3)(ii) of this Attachment, plus (E) the reduction in Unforced Capacity commitments associated with the Transition Mechanism of section 5.14B of this Attachment DD, as described in section 5.14B(D); provided, however, that the amount sold in total for all LDAs and the PJM Region related to a delay in a Backbone Transmission upgrade may not exceed the amounts purchased in total for all LDAs and the PJM Region related to a delay in a Backbone Transmission upgrade. If the result of such equation is a positive quantity, the Office of the Interconnection shall employ in the clearing of such auction a portion of the Updated VRR Curve Increment extending right from the left-most point on that curve in a megawatt amount equal to that positive quantity defined above, to seek to procure such quantity. If the result of such equation is a negative quantity, the Office of the Interconnection shall employ in the clearing of the auction a portion of the Updated VRR Curve Decrement, extending

and ascending to the left from the right-most point on that curve in a megawatt amount corresponding to the negative quantity defined above, to seek to sell back such quantity; *provided, however, that in no event shall the Office of the Interconnection offer to sell back capacity at a price lower than the Capacity Resource Clearing Price determined in the Base Residual Auction for such Delivery Year for, as applicable to such contemplated sell-back, the PJM Region or relevant LDA.*⁹

....

To implement the adjustment in Locational Reliability Charges associated with the transmission mechanism, PJM proposes to revise existing section 5.14(e) of Attachment DD as follows.

5.14 Clearing Prices and Charges

...

e) Locational Reliability Charge

In accordance with the Reliability Assurance Agreement, each LSE shall incur a Locational Reliability Charge (subject to certain offsets and other adjustments as described in sections 5.13, 5.14A, 5.14B, and 5.15) equal to such LSE's Daily Unforced Capacity Obligation in a Zone during such Delivery Year multiplied by the applicable Final Zonal Capacity Price in such Zone. PJMSettlement shall be the Counterparty to the LSEs' obligations to pay, and payments of, Locational Reliability Charges.¹⁰

In sum, the revisions will allow Affected Resource Owners the ability to mitigate any adverse impacts to which they may otherwise be exposed when the Manual 21 changes are implemented starting with the summer 2014 testing period.

⁹ OATT ATT DD.5.14.

¹⁰ OATT ATT DD.5.14.

III. Stakeholder Review

At the February 27, 2014 Markets and Reliability Committee (“MRC”) meeting, stakeholders endorsed the proposed revisions by acclamation with no objections and two abstentions. At the March 27, 2014 Members Committee meeting, Members endorsed the proposed revisions by acclamation with one objection and seven abstentions.

IV. Requested Effective Date

For these revisions to Attachment DD, PJM requests an effective date of June 1, 2014, more than 60 days from this filing.

V. Description of Submittal

PJM encloses with this transmittal letter:

Attachment A: Marked Tariff; and

Attachment B: Clean Tariff.

VI. Correspondence

The following individuals are designated for inclusion on the official service list in this proceeding and for receipt of any communications regarding this filing:

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VII. 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 Web site, located at <http://www.pjm.com/documents/ferc-manuals/ferc-filings.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 of the filing and its availability on PJM's Web site. PJM also serves the parties listed on the Commission's official service list for this docket. Notwithstanding the foregoing, if the document is not immediately available by using the referenced link, it will be available within 24 hours of the filing. A copy of this filing will also be available on the Commission's eLibrary Web site located at <http://www.ferc.gov/docs-filing/elibrary.asp> in accordance with the Commission's regulations and Order No. 714.

VIII. Conclusion

For the reasons discussed herein, PJM requests that the Commission accept the proposed revisions to the Tariff.

¹¹ See 18C.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 state commissions.

Respectfully submitted,



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

Attachment A

Revisions to Section(s) of the
PJM Open Access Transmission Tariff

(Marked / Redline Format)

5.12 Conduct of RPM Auctions

The Office of the Interconnection shall employ an optimization algorithm for each Base Residual Auction and each Incremental Auction to evaluate the Sell Offers and other inputs to such auction to determine the Sell Offers that clear such auction.

a) Base Residual Auction

For each Base Residual Auction, the optimization algorithm shall consider:

- all Sell Offers submitted in such auction;
- the Variable Resource Requirement Curves for the PJM Region and each LDA;
- any constraints resulting from the Locational Deliverability Requirement *and any applicable Capacity Import Limit*;
- for Delivery Years starting June 1, 2014 and ending May 31, 2017, the Minimum Annual Resource Requirement and the Minimum Extended Summer Resource Requirement for the PJM Region and for each Locational Deliverability Area for which a separate VRR Curve is required by section 5.10(a) of this Attachment DD; and for the Delivery Year commencing June 1, 2017 and subsequent Delivery Years, the Limited Resource Constraints and the Sub-Annual Resource Constraints for the PJM Region and for each Locational Deliverability Area for which a separate VRR Curve is required by section 5.10(a) of this Attachment DD;
- the PJM Region Reliability Requirement minus the Short-Term Resource Procurement Target.

The optimization algorithm shall be applied to calculate the overall clearing result to minimize the cost of satisfying the reliability requirements across the PJM Region, regardless of whether the quantity clearing the Base Residual Auction is above or below the applicable target quantity, while respecting all applicable requirements and constraints, including any restrictions specified in any Credit-Limited Offers. Where the supply curve formed by the Sell Offers submitted in an auction falls entirely below the Variable Resource Requirement Curve, the auction shall clear at the price-capacity point on the Variable Resource Requirement Curve corresponding to the total Unforced Capacity provided by all such Sell Offers. Where the supply curve consists only of Sell Offers located entirely below the Variable Resource Requirement Curve and Sell Offers located entirely above the Variable Resource Requirement Curve, the auction shall clear at the price-capacity point on the Variable Resource Requirement Curve corresponding to the total Unforced Capacity provided by all Sell Offers located entirely below the Variable Resource Requirement Curve. In determining the lowest-cost overall clearing result that satisfies all applicable constraints and requirements, the optimization may select from among multiple

possible alternative clearing results that satisfy such requirements, including, for example (without limitation by such example), accepting a lower-priced Sell Offer that intersects the Variable Resource Requirement Curve and that specifies a minimum capacity block, accepting a higher-priced Sell Offer that intersects the Variable Resource Requirement Curve and that contains no minimum-block limitations, or rejecting both of the above alternatives and clearing the auction at the higher-priced point on the Variable Resource Requirement Curve that corresponds to the Unforced Capacity provided by all Sell Offers located entirely below the Variable Resource Requirement Curve.

The Sell Offer price of a Qualifying Transmission Upgrade shall be treated as a capacity price differential between the LDAs specified in such Sell Offer between which CETL is increased, and the Import Capability provided by such upgrade shall clear to the extent the difference in clearing prices between such LDAs is greater than the price specified in such Sell Offer. The Capacity Resource clearing results and Capacity Resource Clearing Prices so determined shall be applicable for such Delivery Year.

b) *Scheduled Incremental Auction and Supplemental Procurement Conditional Auctions.*

For purposes of a *Scheduled Incremental Auction for any Delivery Year through the 2016-2017 Delivery Year, or, for any Delivery Year beginning with the 2017-2018 Delivery Year, for purposes of the Scheduled Incremental Auction or a Supplemental Procurement Conditional Auction (if conducted)*, the optimization algorithm shall consider:

- The PJM Region Reliability Requirement, less the Short-term Resource Procurement Target;
- Updated LDA Reliability Requirements taking into account any updated Capacity Emergency Transfer Objectives;
- The Capacity Emergency Transfer Limit used in the Base Residual Auction, or any updated value resulting from a *Backbone Transmission Conditional Incremental Auction*;
- *All applicable Capacity Import Limits*;
- For each LDA, such LDA's updated Reliability Requirement, less such LDA's Short-Term Resource Procurement Target;
- For Delivery Years starting June 1, 2014 and ending May 31, 2017, the Minimum Annual Resource Requirement and the Minimum Extended Summer Resource Requirement for the PJM Region and for each LDA for which PJM is required to establish a separate VRR Curve for the Base Residual Auction for the relevant Delivery Year; and for the Delivery Year commencing June 1, 2017 and subsequent Delivery Years, the Limited Resource Constraints and the Sub-annual Resource Constraints for the PJM Region and for each Locational Deliverability

Area for which a separate VRR Curve is required by section 5.10(a) of this Attachment DD;

- A demand curve consisting of the Buy Bids submitted in such auction and, if indicated for use in such auction in accordance with the provisions below, the Updated VRR Curve Increment;
- The Sell Offers submitted in such auction; and
- The Unforced Capacity previously committed for such Delivery Year.

(i-1) When the requirement to seek additional resource commitments in a Scheduled Incremental Auction *for any Delivery Year through the 2016-2017 Delivery Year* is triggered by section 5.4(c)(2) of this Attachment, the Office of the Interconnection shall employ in the clearing of such auction the Updated VRR Curve Increment.

(i-2) *When, for the 2017-2018 Delivery Year or any subsequent Delivery Year, the requirement to seek additional resource commitments in the Scheduled Incremental Auction is triggered by section 5.4A(c)(2) of this Attachment, or when the requirement to seek additional resource commitments in a Supplemental Procurement Conditional Auction is triggered by section 5.4A(e)(1)(i) of this Attachment, the Office of the Interconnection shall employ in the clearing of such auction the Updated VRR Curve Increment.*

(ii-1) When, *for any Delivery Year through the 2016-2017 Delivery Year*, the requirement to seek additional resource commitments in a Scheduled Incremental Auction is triggered by section 5.4(c)(1) of this Attachment, and the conditions stated in section 5.4(c)(2) do not apply, the Office of the Interconnection first shall determine the total quantity of (A) the Short-Term Resource Procurement Target Applicable Share for such auction, plus (B) the amount that the Office of the Interconnection sought to procure in prior Scheduled Incremental Auctions for such Delivery Year that does not clear such auction, minus (C) the amount that the Office of the Interconnection sought to sell back in prior Scheduled Incremental Auctions for such Delivery Year that does not clear such auction, plus (D) the difference between the updated PJM Region Reliability Requirement or updated LDA Reliability Requirement and, respectively, the PJM Region Reliability Requirement, or LDA Reliability Requirement, utilized in the most recent prior auction conducted for such Delivery Year plus any amount required by section 5.4(c)(2)(ii), plus (E) the reduction in Unforced Capacity commitments associated with the Transition Mechanism of section 5.14B of this Attachment DD, as described in section 5.14B(D). If the result of such equation is a positive quantity, the Office of the Interconnection shall employ in the clearing of such auction a portion of the Updated VRR Curve Increment extending right from the left-most point on that curve in a megawatt amount equal to that positive quantity defined above, to seek to procure such quantity. If the result of such equation is a negative quantity, the Office of the Interconnection shall employ in the clearing of the auction a portion of the Updated VRR Curve Decrement, extending and ascending to the left from the right-most point on that curve in a megawatt amount corresponding to the negative quantity defined above, to seek to sell back such quantity.

(ii-1) When, for the 2017-2018 Delivery Year or any subsequent Delivery Year, the requirement to seek additional resource commitments in the Scheduled Incremental Auction is triggered by section 5.4A(c)(1) of this Attachment, and the conditions stated in section 5.4A(c)(2) do not apply, or when the requirement to seek additional resource commitments in a Supplemental Procurement Conditional Auction is triggered by section 5.4A(e)(1)(ii) of this Attachment and the conditions stated in section 5.4A(e)(1)(i) do not apply, the Office of the Interconnection first shall determine the total quantity of (A) the Short-Term Resource Procurement Target Applicable Share for such auction, plus (B) the amount that the Office of the Interconnection sought to procure in prior Supplemental Procurement Conditional Auctions for such Delivery Year that does not clear such auction, plus (C) the difference between the updated PJM Region Reliability Requirement or updated LDA Reliability Requirement and, respectively, the PJM Region Reliability Requirement, or LDA Reliability Requirement, utilized in the most recent prior auction conducted for such Delivery Year plus any amount required by section 5.4A(c)(2)(ii). The Office of the Interconnection shall employ in the clearing of such auction a portion of the Updated VRR Curve Increment extending right from the left-most point on that curve in a megawatt amount equal to that positive quantity defined above, to seek to procure such quantity.

(iii-1) When, for any Delivery Year through the 2016-2017 Delivery Year, the possible need to seek agreements to release capacity commitments in any Scheduled Incremental Auction is indicated for the PJM Region or any LDA by section 5.4(c)(3)(i) of this Attachment, the Office of the Interconnection first shall determine the total quantity of (A) the Short-Term Resource Procurement Target Applicable Share for such auction, plus (B) the amount that the Office of the Interconnection sought to procure in prior Scheduled Incremental Auctions for such Delivery Year that does not clear such auction, minus (C) the amount that the Office of the Interconnection sought to sell back in prior Scheduled Incremental Auctions for such Delivery Year that does not clear such auction, plus (D) the difference between the updated PJM Region Reliability Requirement or updated LDA Reliability Requirement and, respectively, the PJM Region Reliability Requirement, or LDA Reliability Requirement, utilized in the most recent prior auction conducted for such Delivery Year minus any capacity sell-back amount determined by PJM to be required for the PJM Region or such LDA by section 5.4(c)(3)(ii) of this Attachment, plus (E) the reduction in Unforced Capacity commitments associated with the Transition Mechanism of section 5.14B of this Attachment DD, as described in section 5.14B(D); provided, however, that the amount sold in total for all LDAs and the PJM Region related to a delay in a Backbone Transmission upgrade may not exceed the amounts purchased in total for all LDAs and the PJM Region related to a delay in a Backbone Transmission upgrade. If the result of such equation is a positive quantity, the Office of the Interconnection shall employ in the clearing of such auction a portion of the Updated VRR Curve Increment extending right from the left-most point on that curve in a megawatt amount equal to that positive quantity defined above, to seek to procure such quantity. If the result of such equation is a negative quantity, the Office of the Interconnection shall employ in the clearing of the auction a portion of the Updated VRR Curve Decrement, extending and ascending to the left from the right-most point on that curve in a megawatt amount corresponding to the negative quantity defined above, to seek to sell back such quantity; provided, however, that in no event shall the Office of the Interconnection offer to sell back capacity at a price lower than the Capacity Resource Clearing Price determined in the Base Residual Auction for such Delivery Year for, as applicable to such contemplated sell-back, the PJM Region or relevant LDA.

(iii-2) When, for the 2017-2018 Delivery Year or any subsequent Delivery Year, the possible need to seek agreements to release capacity commitments in the Scheduled Incremental Auction is indicated for the PJM Region or any LDA by section 5.4A(c)(3)(i) of this Attachment, the Office of the Interconnection first shall determine the total quantity of (A) the Short-Term Resource Procurement Target Applicable Share for such auction, plus (B) the amount that the Office of the Interconnection sought to procure in prior Supplemental Procurement Conditional Auctions for such Delivery Year that does not clear such auction, plus (C) the difference between the updated PJM Region Reliability Requirement or updated LDA Reliability Requirement and, respectively, the PJM Region Reliability Requirement, or LDA Reliability Requirement, utilized in the most recent prior auction conducted for such Delivery Year minus (D) any capacity sell-back amount determined by PJM to be required for the PJM Region or such LDA by section 5.4A(c)(3)(ii) of this Attachment; provided, however, that the amount sold in total for all LDAs and the PJM Region related to a delay in a Backbone Transmission upgrade may not exceed the amounts purchased in total for all LDAs and the PJM Region related to a delay in a Backbone Transmission upgrade. If the result of such equation is a positive quantity, the Office of the Interconnection shall employ in the clearing of such auction a portion of the Updated VRR Curve Increment extending right from the left-most point on that curve in a megawatt amount equal to that positive quantity defined above, to seek to procure such quantity. If the result of such equation is a negative quantity, the Office of the Interconnection shall employ in the clearing of the auction a portion of the Updated VRR Curve Decrement, extending and ascending to the left from the right-most point on that curve in a megawatt amount corresponding to the negative quantity defined above, to seek to sell back such quantity; provided, however, that in no event shall the Office of the Interconnection offer to sell back capacity at a price lower than the Capacity Resource Clearing Price determined in the Base Residual Auction for such Delivery Year for, as applicable to such contemplated sell-back, the PJM Region or relevant LDA.

(iv-1) If, for any Delivery Year through the 2016-2017 Delivery Year, none of the tests for adjustment of capacity procurement in subsections (i-1), (ii-1), or (iii-1) is satisfied for the PJM Region or an LDA in a Scheduled Incremental Auction, the Office of the Interconnection first shall determine the total quantity of (A) the Short-Term Resource Procurement Target Applicable Share for such auction, plus (B) the amount that the Office of the Interconnection sought to procure in prior Scheduled Incremental Auctions for such Delivery Year that does not clear such auction, minus (C) the amount that the Office of the Interconnection sought to sell back in prior Scheduled Incremental Auctions for such Delivery Year that does not clear such auction. If the result of such equation is a positive quantity, the Office of the Interconnection shall employ in the clearing of such auction a portion of the Updated VRR Curve Increment extending right from the left-most point on that curve in a megawatt amount equal to that positive quantity defined above, to seek to procure such quantity. If the result of such equation is a negative quantity, the Office of the Interconnection shall employ in the clearing of the auction a portion of the Updated VRR Curve Decrement, extending and ascending to the left from the right-most point on that curve in a megawatt amount corresponding to the negative quantity defined above, to seek to sell back such quantity. If more than one of the tests for adjustment of capacity procurement in subsections (i-1), (ii-1), or (iii-1) is satisfied for the PJM Region or an LDA in a Scheduled Incremental Auction, the Office of the

Interconnection shall not seek to procure the Short-Term Resource Procurement Target Applicable Share more than once for such region or area for such auction; *provided, however, that in no event shall the Office of the Interconnection offer to sell back capacity at a price lower than the Capacity Resource Clearing Price determined in the Base Residual Auction for such Delivery Year for, as applicable to such contemplated sell-back, the PJM Region or relevant LDA.*

(iv-2) *If, for the 2017-2018 Delivery Year or any subsequent Delivery Year, none of the tests for adjustment of capacity procurement in subsections (i-2), (ii-2), or (iii-2) is satisfied for the PJM Region or an LDA in the Scheduled Incremental Auction, the Office of the Interconnection first shall determine the total quantity of (A) the Short-Term Resource Procurement Target Applicable Share for such auction, plus (B) the amount that the Office of the Interconnection sought to procure in prior Supplemental Procurement Conditional Incremental Auctions for such Delivery Year that does not clear such auction. The Office of the Interconnection shall employ in the clearing of such auction a portion of the Updated VRR Curve Increment extending right from the left-most point on that curve in a megawatt amount equal to that positive quantity defined above, to seek to procure such quantity. If more than one of the tests for adjustment of capacity procurement in subsections (i-2), (ii-2), or (iii-2) is satisfied for the PJM Region or an LDA in the Scheduled Incremental Auction, the Office of the Interconnection shall not seek to procure the Short-Term Resource Procurement Target Applicable Share more than once for such region or area for such auction.*

(v) If PJM seeks to procure additional capacity in an Incremental Auction for the 2014-15, 2015-16 or 2016-17 Delivery Years due to a triggering of the tests in subsections (i-1), (ii-1), (iii-1) or (iv-1) (or (i-2), (ii-2), (iii-2) or (iv-2)), then the Minimum Annual Resource Requirement for such Auction will be equal to the updated Minimum Annual Resource Requirement (based on the latest DR Reliability Targets) minus the amount of previously committed capacity from Annual Resources, and the Minimum Extended Summer Resource Requirement for such Auction will be equal to the updated Minimum Extended Summer Resource Requirement (based on the latest DR Reliability Targets) minus the amount of previously committed capacity in an Incremental Auction for the 2014-15, 2015-16 or 2016-17 Delivery Years from Annual Resources and Extended Summer Demand Resources. If PJM seeks to release prior committed capacity due to a triggering of the test in subsection (iii) then PJM may not release prior committed capacity from Annual Resources or Extended Summer Demand Resources below the updated Minimum Annual Resource Requirement and updated Minimum Extended Summer Resource Requirement, respectively.

(vi) If the above tests are triggered for an LDA and for another LDA wholly located within the first LDA, the Office of the Interconnection may adjust the amount of any Sell Offer or Buy Bids otherwise required by subsections (i-1), (ii-1), or (iii-1) (or by subsections (i-2), (ii-2, or (iii-2)) above in one LDA as appropriate to take into account any reliability impacts on the other LDA.

(vii) The optimization algorithm shall calculate the overall clearing result to minimize the cost to satisfy the Unforced Capacity Obligation of the PJM Region to account for

the updated PJM Peak Load Forecast and the cost of committing replacement capacity in response to the Buy Bids submitted, while satisfying or honoring such reliability requirements and constraints, in the same manner as set forth in subsection (a) above.

(viii) Load Serving Entities may be entitled to certain credits (“Excess Commitment Credits”) under certain circumstances as follows:

- (A) For either or both of the Delivery Years commencing on June 1, 2010 or June 1, 2011, if the PJM Region Reliability Requirement used for purposes of the Base Residual Auction for such Delivery Year exceeds the PJM Region Reliability Requirement that is based on the last updated load forecast prior to such Delivery Year, then such excess will be allocated to Load Serving Entities as set forth below;
- (B) For any Delivery Year beginning with the Delivery Year that commences June 1, 2012, the total amount that the Office of the Interconnection sought to sell back pursuant to subsection (b)(iii-1) or (b)(iii-2) above in the Scheduled Incremental Auction(s) for such Delivery Year that does not clear such auction(s), less the total amount that the Office of the Interconnection sought to procure pursuant to subsections (b)(i) and (b)(ii) above in the Scheduled Incremental Auction(s) *and, as applicable, Supplemental Procurement Conditional Auctions* for such Delivery Years that does not clear such auctions, will be allocated to Load Serving Entities as set forth below;
- (C) the amount from (A) or (B) above for the PJM Region shall be allocated among Locational Deliverability Areas pro rata based on the reduction for each such Locational Deliverability Area in the peak load forecast from the time of the Base Residual Auction to the time of the *Scheduled Incremental Auction (or for Delivery Years through the 2016-2017 Delivery Year, the Third Incremental Auction)*; provided, however, that the amount allocated to a Locational Deliverability Area may not exceed the reduction in the corresponding Reliability Requirement for such Locational Deliverability Area; and provided further that any LDA with an increase in its load forecast shall not be allocated any Excess Commitment Credits;
- (D) the amount, if any, allocated to a Locational Deliverability Area shall be further allocated among Load Serving Entities in such areas that are charged a Locational Reliability Charge based on the Daily Unforced Capacity Obligation of such Load Serving Entities as of June 1 of the Delivery Year and shall be constant for the entire Delivery Year. Excess Commitment Credits may be used as Replacement Capacity or traded bilaterally.

c) *Backbone Transmission* Conditional Incremental Auction

For each *Backbone Transmission* Conditional Incremental Auction, the optimization algorithm shall consider:

- The quantity and location of capacity required to address the identified reliability concern that gave rise to the *Backbone Transmission* Conditional Incremental Auction;
- *All applicable Capacity Import Limits*;
- the same Capacity Emergency Transfer Limits that were modeled in the Base Residual Auction, or any updated value resulting from a *Backbone Transmission* Conditional Incremental Auction; and
- the Sell Offers submitted in such auction.

The Office of the Interconnection shall submit a Buy Bid based on the quantity and location of capacity required to address the identified reliability violation at a Buy Bid price equal to 1.5 times Net CONE.

The optimization algorithm shall calculate the overall clearing result to minimize the cost to address the identified reliability concern, while satisfying or honoring such reliability requirements and constraints.

d) Equal-priced Sell Offers

If two or more Sell Offers submitted in any auction satisfying all applicable constraints include the same offer price, and some, but not all, of the Unforced Capacity of such Sell Offers is required to clear the auction, then the auction shall be cleared in a manner that minimizes total costs, including total make-whole payments if any such offer includes a minimum block and, to the extent consistent with the foregoing, in accordance with the following additional principles:

1) as necessary, the optimization shall clear such offers that have a flexible megawatt quantity, and the flexible portions of such offers that include a minimum block that already has cleared, where some but not all of such equal-priced flexible quantities are required to clear the auction, pro rata based on their flexible megawatt quantities; and

2) when equal-priced minimum-block offers would result in equal overall costs, including make-whole payments, and only one such offer is required to clear the auction, then the offer that was submitted earliest to the Office of the Interconnection, based on its assigned timestamp, will clear.

5.14 Clearing Prices and Charges

a) Capacity Resource Clearing Prices

For each Base Residual Auction and Incremental Auction, the Office of the Interconnection shall calculate a clearing price to be paid for each megawatt-day of Unforced Capacity that clears in such auction. The Capacity Resource Clearing Price for each LDA will be the marginal value of system capacity for the PJM Region, without considering locational constraints, adjusted as necessary by any applicable Locational Price Adders, Annual Resource Price Adders, Extended Summer Resource Price Adders, Limited Resource Price Decrements, and Sub-Annual Resource Price Decrements, all as determined by the Office of the Interconnection based on the optimization algorithm. If a Capacity Resource is located in more than one Locational Deliverability Area, it shall be paid the highest Locational Price Adder in any applicable LDA in which the Sell Offer for such Capacity Resource cleared. The Annual Resource Price Adder is applicable for Annual Resources only. The Extended Summer Resource Price Adder is applicable for Annual Resources and Extended Summer Demand Resources.

b) Resource Make-Whole Payments

If a Sell Offer specifies a minimum block, and only a portion of such block is needed to clear the market in a Base Residual or Incremental Auction, the MW portion of such Sell Offer needed to clear the market shall clear, and such Sell Offer shall set the marginal value of system capacity. In addition, the Capacity Market Seller shall receive a Resource Make-Whole Payment equal to the Capacity Resource Clearing Price in such auction times the difference between the Sell Offer's minimum block MW quantity and the Sell Offer's cleared MW quantity. The cost for any such Resource Make-Whole Payments required in a Base Residual Auction or Incremental Auction for adjustment of prior capacity commitments shall be collected pro rata from all LSEs in the LDA in which such payments were made, based on their Daily Unforced Capacity Obligations. The cost for any such Resource Make-Whole Payments required in an Incremental Auction for capacity replacement shall be collected from all Capacity Market Buyers in the LDA in which such payments were made, on a pro-rata basis based on the MWs purchased in such auction.

c) New Entry Price Adjustment

A Capacity Market Seller that submits a Sell Offer based on a Planned Generation Capacity Resource that clears in the BRA for a Delivery Year may, at its election, submit Sell Offers with a New Entry Price Adjustment in the BRAs for the two immediately succeeding Delivery Years if:

1. Such Capacity Market Seller provides notice of such election at the time it submits its Sell Offer for such resource in the BRA for the first Delivery Year for which such resource is eligible to be considered a Planned Generation Capacity Resource. When the Capacity Market Seller provides notice of such election, it must specify whether its Sell Offer is contingent upon qualifying for the New Entry Price Adjustment. The Office of the Interconnection shall not clear such contingent Sell Offer if it does not qualify for the New Entry Price Adjustment.

2. All or any part of a Sell Offer from the Planned Generation Capacity Resource submitted in accordance with section 5.14(c)(1) is the marginal Sell Offer that sets the Capacity Resource Clearing Price for the LDA.

3. Acceptance of all or any part of a Sell Offer that meets the conditions in section 5.14(c)(1)-(2) in the BRA increases the total Unforced Capacity committed in the BRA (including any minimum block quantity) for the LDA in which such Resource will be located from a megawatt quantity below the LDA Reliability Requirement, minus the Short Term Resource Procurement Target, to a megawatt quantity at or above a megawatt quantity at the price-quantity point on the VRR Curve at which the price is 0.40 times the applicable Net CONE divided by (one minus the pool-wide average EFORD).

4. Such Capacity Market Seller submits Sell Offers in the BRA for the two immediately succeeding Delivery Years for the entire Unforced Capacity of such Generation Capacity Resource committed in the first BRA under section 5.14(c)(1)-(2) equal to the lesser of: A) the price in such seller's Sell Offer for the BRA in which such resource qualified as a Planned Generation Capacity Resource that satisfies the conditions in section 5.14(c)(1)-(3); or B) 0.90 times the Net CONE applicable in the first BRA in which such Planned Generation Capacity Resource meeting the conditions in section 5.14(c)(1)-(3) cleared, on an Unforced Capacity basis, for such LDA.

5. If the Sell Offer is submitted consistent with section 5.14(c)(1)-(4) the foregoing conditions, then:

- (i) in the first Delivery Year, the Resource sets the Capacity Resource Clearing Price for the LDA and all cleared resources in the LDA receive the Capacity Resource Clearing Price set by the Sell Offer as the marginal offer, in accordance with sections 5.12(a) and 5.14(a).
- (ii) in either of the subsequent two BRAs, if any part of the Sell Offer from the Resource clears, it shall receive the Capacity Resource Clearing Price for such LDA for its cleared capacity and for any additional minimum block quantity pursuant to section 5.14(b); or
- (iii) if the Resource does not clear, it shall be deemed resubmitted at the highest price per MW-day at which the megawatt quantity of Unforced Capacity of such Resource that cleared the first-year BRA will clear the subsequent-year BRA pursuant to the optimization algorithm described in section 5.12(a) of this Attachment, and
- (iv) the resource with its Sell Offer submitted shall clear and shall be committed to the PJM Region in the amount cleared, plus any additional minimum-block quantity from its Sell Offer for such Delivery Year, but such additional amount shall be no greater than the portion of a minimum-block quantity, if any, from its first-year Sell Offer satisfying section

5.14(c)(1)-(3) that is entitled to compensation pursuant to section 5.14(b) of this Attachment; and

- (v) the Capacity Resource Clearing Price, and the resources cleared, shall be re-determined to reflect the resubmitted Sell Offer. In such case, the Resource for which the Sell Offer is submitted pursuant to section 5.14(c)(1)-(4) shall be paid for the entire committed quantity at the Sell Offer price that it initially submitted in such subsequent BRA. The difference between such Sell Offer price and the Capacity Resource Clearing Price (as well as any difference between the cleared quantity and the committed quantity), will be treated as a Resource Make-Whole Payment in accordance with Section 5.14(b). Other capacity resources that clear the BRA in such LDA receive the Capacity Resource Clearing Price as determined in Section 5.14(a).

6. The failure to submit a Sell Offer consistent with Section 5.14(c)(i)-(iii) in the BRA for Delivery Year 3 shall not retroactively revoke the New Entry Price Adjustment for Delivery Year 2. However, the failure to submit a Sell Offer consistent with section 5.14(c)(4) in the BRA for Delivery Year 2 shall make the resource ineligible for the New Entry Pricing Adjustment for Delivery Years 2 and 3.

7. For each Delivery Year that the foregoing conditions are satisfied, the Office of the Interconnection shall maintain and employ in the auction clearing for such LDA a separate VRR Curve, notwithstanding the outcome of the test referenced in Section 5.10(a)(ii) of this Attachment.

8. On or before August 1, 2012, PJM shall file with FERC under FPA section 205, as determined necessary by PJM following a stakeholder process, tariff changes to establish a long-term auction process as a not unduly discriminatory means to provide adequate long-term revenue assurances to support new entry, as a supplement to or replacement of this New Entry Price Adjustment.

d) Qualifying Transmission Upgrade Payments

A Capacity Market Seller that submitted a Sell Offer based on a Qualifying Transmission Upgrade that clears in the Base Residual Auction shall receive a payment equal to the Capacity Resource Clearing Price, including any Locational Price Adder, of the LDA into which the Qualifying Transmission Upgrade is to increase Capacity Emergency Transfer Limit, less the Capacity Resource Clearing Price, including any Locational Price Adder, of the LDA from which the upgrade was to provide such increased CETL, multiplied by the megawatt quantity of increased CETL cleared from such Sell Offer. Such payments shall be reflected in the Locational Price Adder determined as part of the Final Zonal Capacity Price for the Zone associated with such LDAs, and shall be funded through a reduction in the Capacity Transfer Rights allocated to Load-Serving Entities under section 5.15, as set forth in that section. PJMSettlement shall be the Counterparty to any cleared capacity transaction resulting from a Sell Offer based on a Qualifying Transmission Upgrade.

e) Locational Reliability Charge

In accordance with the Reliability Assurance Agreement, each LSE shall incur a Locational Reliability Charge (subject to certain offsets and other adjustments as described in sections 5.13, 5.14A, [5.14B](#), and 5.15) equal to such LSE's Daily Unforced Capacity Obligation in a Zone during such Delivery Year multiplied by the applicable Final Zonal Capacity Price in such Zone. PJM Settlement shall be the Counterparty to the LSEs' obligations to pay, and payments of, Locational Reliability Charges.

f) The Office of the Interconnection shall determine Zonal Capacity Prices in accordance with the following, based on the optimization algorithm:

i) The Office of the Interconnection shall calculate and post the Preliminary Zonal Capacity Prices for each Delivery Year following the Base Residual Auction for such Delivery Year. The Preliminary Zonal Capacity Price for each Zone shall be the sum of: 1) the marginal value of system capacity for the PJM Region, without considering locational constraints; 2) the Locational Price Adder, if any, for the LDA in which such Zone is located; provided however, that if the Zone contains multiple LDAs with different Capacity Resource Clearing Prices, the Zonal Capacity Price shall be a weighted average of the Capacity Resource Clearing Prices for such LDAs, weighted by the Unforced Capacity of Capacity Resources cleared in each such LDA; 3) an adjustment, if required, to account for adders paid to Annual Resources and Extended Summer Demand Resources in the LDA for which the zone is located; 4) an adjustment, if required, to account for Resource Make-Whole Payments; and (5) an adjustment, if required to provide sufficient revenue for payment of any PRD Credits, all as determined in accordance with the optimization algorithm.

ii) The Office of the Interconnection shall calculate and post the Adjusted Zonal Capacity Price following each Incremental Auction. The Adjusted Zonal Capacity Price for each Zone shall equal the sum of: (1) the average marginal value of system capacity weighted by the Unforced Capacity cleared in all auctions previously conducted for such Delivery Year (excluding any Unforced Capacity cleared as replacement capacity); (2) the average Locational Price Adder weighted by the Unforced Capacity cleared in all auctions previously conducted for such Delivery Year (excluding any Unforced Capacity cleared as replacement capacity); (3) an adjustment, if required, to account for adders paid to Annual Resources and Extended Summer Demand Resources for all auctions previously conducted for such Delivery Year (excluding any Unforced Capacity cleared as replacement capacity); (4) an adjustment, if required, to account for Resource Make-Whole Payments for all actions previously conducted (excluding any Resource Make-Whole Payments to be charged to the buyers of replacement capacity); and (5) an adjustment, if required to provide sufficient revenue for payment of any PRD Credits. The Adjusted Zonal Capacity Price may decrease if Unforced Capacity is decommitted or the Resource Clearing Price decreases in an Incremental Auction.

iii) The Office of the Interconnection shall calculate and post the Final Zonal Capacity Price for each Delivery Year after the final auction is held for such Delivery Year, as set forth above. The Final Zonal Capacity Price for each Zone shall equal the Adjusted Zonal Capacity Price, as further adjusted to reflect any decreases in the Nominated Demand Resource

Value of any existing Demand Resource cleared in the Base Residual Auction and Second Incremental Auction.

g) Resource Substitution *Charge and Replacement Capacity Adjustment Charge*

i) Each Capacity Market Buyer in an Incremental Auction securing replacement capacity shall pay a Resource Substitution Charge equal to the Capacity Resource Clearing Price resulting from such auction multiplied by the megawatt quantity of Unforced Capacity purchased by such Market Buyer in such auction.

ii) *Each Capacity Market Seller that clears a Sell Offer based on a Capacity Resource in one or more RPM Auctions for the 2017-2018 Delivery Year or for any subsequent Delivery Year, and thereafter replaces (by any means) such resource, shall, when the Capacity Resource Clearing Price in the Scheduled Incremental Auction for such Delivery Year is less than the weighted average Capacity Resource Clearing Price in the RPM Auctions in which such resource cleared for such Delivery Year, pay a Replacement Capacity Adjustment Charge equal to [the weighted average Capacity Resource Clearing Price in the RPM Auctions in which such resource cleared minus the Capacity Resource Clearing Price in the Scheduled Incremental Auction] multiplied by the replaced Unforced Capacity megawatt quantity. Revenues from all Replacement Capacity Adjustment Charges for a Delivery Year shall be summed for the PJM Region and all LDAs and allocated to Zones based on the proportion of all Locational Reliability Charges assessed in each Zone to the total Locational Reliability Charges assessed in all Zones. Within Zones, such revenues shall be allocated among LSEs responsible for paying Locational Reliability Charges in such Zone pro-rata based on the Unforced Capacity Obligation of each LSE in the Zone.*

h) Minimum Offer Price Rule for Certain Generation Capacity Resources

(1) General Rule. Any Sell Offer submitted in any RPM Auction for any Delivery Year based on a MOPR Screened Generation Resource shall have an offer price no lower than the MOPR Floor Offer Price for the period specified in this subsection (h), unless the Capacity Market Seller has obtained a Self-Supply Exemption, a Competitive Entry Exemption, or a Unit-Specific Exception with respect to such MOPR Screened Generation Resource in such auction prior to the submission of such offer, in accordance with the provisions of this subsection. Nothing in subsection (c) of this section 5.14 shall be read to excuse compliance of any Sell Offer with the requirements of this subsection (h).

(2) Applicability. A MOPR Screened Generation Resource shall be any Generation Capacity Resource, and any uprate to a Generation Capacity Resource that is being, or has been, modified to increase the number of megawatts of available installed capacity thereof by 20 MW or more, based on a combustion turbine, combined cycle, or integrated gasification combined cycle generating plant (including Repowering of an existing plant whenever the repowered plant utilizes combustion turbine, combined cycle, or integrated gasification combined cycle *technology*) with an installed capacity rating, combined for all units comprising such resource at a single point of interconnection to the Transmission System, of no less than 20 MW; provided, however, that a MOPR Screened Generation Resource shall not include: (i) the Installed Capacity equivalent (measured as of the time of clearing) of any of a resource's

Unforced Capacity that has cleared any RPM Auction conducted prior to February 1, 2013 or an uprate of such resource to the extent that the developer or owner of the uprate timely submitted a request for, and PJM issued, an offer floor pursuant to the unit-specific exception process of this subsection (h) before the start of the commencement of the Base Residual Auction for the 2016/2017 Delivery Year and the capacity associated with the uprate clears that auction; (ii) any unit primarily fueled with landfill gas; (iii) any cogeneration unit that is certified or self-certified as a Qualifying Facility (as defined in Part 292 of FERC's regulations), where the Capacity Market Seller is the owner of the Qualifying Facility or has contracted for the Unforced Capacity of such facility and the Unforced Capacity of the unit is no larger than approximately all of the Unforced Capacity Obligation of the host load, and all Unforced Capacity of the unit is used to meet the Unforced Capacity Obligation of the host load. A MOPR Screened Generation Resource shall include all Generation Capacity Resources located in the PJM Region that meet the foregoing criteria, and all Generation Capacity Resources located outside the PJM Region (where such Sell Offer is based solely on such resource) that entered commercial service on or after January 1, 2013, that meet the foregoing criteria and that require sufficient transmission investment for delivery to the PJM Region to indicate a long-term commitment to providing capacity to the PJM Region.

(3) MOPR Floor Offer Price. The MOPR Floor Offer Price shall be 100% of the Net Asset Class Cost of New Entry for the relevant generator type and location, as determined hereunder. The gross Cost of New Entry component of the Net Asset Class Cost of New Entry shall be, for purposes of the Delivery Year commencing on June 1, 2015, the values indicated in the table below for each CONE Area for a combustion turbine generator ("CT"), a combined cycle generator ("CC"), and an integrated gasification combined cycle generator ("IGCC"), respectively, and shall be adjusted for subsequent Delivery Years in accordance with subsection (h)(3)(i) below. The estimated energy and ancillary service revenues for each type of plant shall be determined as described in subsection (h)(3)(ii) below.

	CONE Area 1	CONE Area 2	CONE Area 3	CONE Area 4	CONE Area 5
CT \$/MW-yr	140,000	130,600	127,500	134,500	114,500
CC \$/MW-yr	173,000	152,600	166,000	166,000	147,000
IGCC \$/MW-yr	582,042	558,486	547,240	537,306	541,809

i) Commencing with the Delivery Year that begins on June 1, 2016, the gross Cost of New Entry component of the Net Asset Class Cost of New Entry shall be adjusted to reflect changes in generating plant construction costs in the same manner as set forth for the cost of new entry in section 5.10(a)(iv)(B), provided, however, that nothing herein shall preclude the Office of the Interconnection from filing to change the Net Asset Class Cost of New Entry for any Delivery Year pursuant to appropriate filings with FERC under the Federal Power Act.

ii) For purposes of this provision, the net energy and ancillary services revenue estimate for a combustion turbine generator shall be that determined by section 5.10(a)(v)(A) of this Attachment DD, provided that the energy revenue estimate for each CONE Area shall be based on the Zone within such CONE Area that has the highest energy revenue estimate calculated under the methodology in that subsection. The net energy and ancillary services revenue estimate for a combined cycle generator shall be determined in the same

manner as that prescribed for a combustion turbine generator in the previous sentence, except that the heat rate assumed for the combined cycle resource shall be 6.722 MMBtu/Mwh, the variable operations and maintenance expenses for such resource shall be \$3.23 per MWh, the Peak-Hour Dispatch scenario for both the Day-Ahead and Real-Time Energy Markets shall be modified to dispatch the resource continuously during the full peak-hour period, as described in section 2.46, for each such period that the resource is economic (using the test set forth in such section), rather than only during the four-hour blocks within such period that such resource is economic, and the ancillary service revenues shall be \$3198 per MW-year. The net energy and ancillary services revenue estimate for an integrated gasification combined cycle generator shall be determined in the same manner as that prescribed for a combustion turbine generator above, except that the heat rate assumed for the combined cycle resource shall be 8.7 MMBtu/Mwh, the variable operations and maintenance expenses for such resource shall be \$7.77 per MWh, the Peak-Hour Dispatch scenario for both the Day-Ahead and Real-Time Energy Markets shall be modified to dispatch the resource continuously during the full peak-hour period, as described in section 2.46, for each such period that the resource is economic (using the test set forth in such section), rather than only during the four-hour blocks within such period that such resource is economic, and the ancillary service revenues shall be \$3,198 per MW-year.

(4) Duration. The MOPR Floor Offer Price shall apply to any Sell Offer based on a MOPR Screened Generation Resource (to the extent an exemption has not been obtained for such resource under this subsection) until *(and including)* the *first Delivery Year* for which a Sell Offer based on the non-exempt portion of such resource has cleared an RPM Auction.

(5) Effect of Exemption or Exception. To the extent a Sell Offer in any RPM Auction for any Delivery Year is based on a MOPR Screened Generation Resource for which the Capacity Market Seller obtains, prior to the submission of such offer, either a Competitive Entry Exemption or a Self-Supply Exemption, such offer (to the extent of such exemption) may include an offer price below the MOPR Floor Offer Price (including, without limitation, an offer price of zero or other indication of intent to clear regardless of price). *To the extent a Sell Offer in any RPM Auction for any Delivery Year is based on a MOPR Screened Generation Resource for which the Capacity Market Seller obtains, prior to the submission of such offer, a Unit-Specific Exception, such offer (to the extent of such exception) may include an offer price below the MOPR Floor Offer Price but no lower than the minimum offer price determined in such exception process.* The Installed Capacity equivalent of any MOPR Screened Generation Resource's Unforced Capacity that has both obtained such an exemption *or exception* and cleared the RPM Auction for which it obtained such exemption *or exception* shall not be subject to a MOPR Floor Offer Price in any subsequent RPM Auction, except as provided in subsection (h)(10) hereof.

(6) Self-Supply Exemption. A Capacity Market Seller that is a Self-Supply LSE may qualify its MOPR Screened Generation Resource in any RPM Auction for any Delivery Year for a Self-Supply Exemption if the MOPR Screened Generation Resource satisfies the criteria specified below:

i) Cost and revenue criteria. The costs and revenues associated with a MOPR Screened Generation Resource for which a Self-Supply LSE seeks a Self-Supply

Exemption may permissibly reflect: (A) payments, concessions, rebates, subsidies, or incentives designed to incent or promote, or participation in a program, contract, or other arrangement that utilizes criteria designed to incent or promote, general industrial development in an area; (B) payments, concessions, rebates, subsidies or incentives from a county or other local government authority designed to incent, or participation in a program, contract or other arrangement established by a county or other local governmental authority utilizing eligibility or selection criteria designed to incent, siting facilities in that county or locality rather than another county or locality; (C) revenues received by the Self-Supply LSE attributable to the inclusion of costs of the MOPR Screened Generation Resource in such LSE's regulated retail rates where such LSE is a *Vertically Integrated Utility* and the MOPR Screened Generation Resource is planned consistent with such LSE's most recent integrated resource plan found reasonable by the RERRA to meet the needs of its customers; and (D) payments to the Self-Supply LSE (such as retail rate recovery) traditionally associated with revenues and costs of Public Power Entities (or joint action of multiple Public Power Entities); revenues to a Public Power Entity from its contracts having a term of one year or more with its members or customers (including wholesale power contracts between an electric cooperative and its members); or cost or revenue advantages related to a longstanding business model employed by the Self-Supply LSE, such as its financial condition, tax status, access to capital, or other similar conditions affecting the Self-Supply LSE's costs and revenues. A Self-Supply Exemption shall not be permitted to the extent that the Self-Supply LSE, acting either as the Capacity Market Seller or on behalf of the Capacity Market Seller, has any formal or informal agreements or arrangements to seek, recover, accept or receive: (E) any material payments, concessions, rebates, or subsidies, connected to the construction, or clearing in any RPM Auction, of the MOPR Screened Generation Resource, not described by (A) through (D) of this section; or (F) other support through contracts having a term of one year or more obtained in any procurement process sponsored or mandated by any state legislature or agency connected with the construction, or clearing in any RPM Auction, of the MOPR Screened Generation Resource. Any cost and revenue advantages described by (A) through (D) of this subsection that are material to the cost of the MOPR Screened Generation Resource and that are irregular or anomalous, that do not reflect arms-length transactions, or that are not in the ordinary course of the Self-Supply LSE's business, shall disqualify application of the Self-Supply Exemption unless the Self-Supply LSE demonstrates in the exemption process provided hereunder that such costs and revenues are consistent with the overall objectives of the Self-Supply Exemption.

ii) Owned and Contracted Capacity. To qualify for the Self-Supply Exemption, the Self-Supply LSE, acting either as the Capacity Market Seller or on behalf of the Capacity Market Seller, must demonstrate that the MOPR Screened Generation Resource is included in such LSE's Owned and Contracted Capacity and that its Owned and Contracted Capacity meets the criteria outlined below after the addition of such MOPR Screened Generation Resource.

iii) Maximum Net Short Position. If the excess, if any, of the Self-Supply LSE's Estimated Capacity Obligation above its Owned and Contracted Capacity ("Net Short") is less than the amount of Unforced Capacity specified in or calculated under the table below for all relevant areas based on the specified type of LSE, then this exemption criterion is satisfied. For this purpose, the Net Short position shall be calculated for any Self-Supply LSE requesting this exemption for the PJM Region and for each LDA specified in the table below in

which the MOPR Screened Generation Resource is located (including through nesting of LDAs) to the extent the Self-Supply LSE has an Estimated Capacity Obligation in such LDA. If the Self-Supply LSE does not have an Estimated Capacity Obligation in an evaluated LDA, then the Self-Supply LSE is deemed to satisfy the test for that LDA.

Type of Self-Supply LSE	Maximum Net Short Position (UCAP MW, measured at RTO, MAAC, SWMAAC and EMAAC unless otherwise specified)
Single Customer Entity	150 MW
Public Power Entity	1000 MW
Multi-state Public Power Entity*	1000 MW in SWMAAC, EMAAC, or MAAC LDAs and 1800 MW RTO
Vertically Integrated Utility	20% of LSE's Reliability Requirement

*A Multi-state Public Power Entity shall not have more than 90% of its total load in any one state.

iv) **Maximum Net Long Position.** If the excess, if any, of the Self-Supply LSE's Owned and Contracted Capacity for the PJM Region above its Estimated Capacity Obligation for the PJM Region ("Net Long"), is less than the amount of Unforced Capacity specified in or calculated under the table below, then this exemption criterion is satisfied:

Self-Supply LSE Total Estimated Capacity Obligation in the PJM Region (UCAP MW)	Maximum Net Long Position (UCAP MW)
Less than 500	75 MW
Greater than or equal to 500 and less than 5,000	15% of LSE's Estimated Capacity Obligation
Greater than or equal to 5,000 and less than 15,000	750 MW
Greater than or equal to 15,000 and less than 25,000	1,000 MW
Greater than or equal to 25,000	4% of LSE's Estimated Capacity Obligation capped at 1300 MWs

If the MOPR Screened Generation Resource causes the Self-Supply LSE's Net Long Position to exceed the applicable threshold stated above, the MOPR Floor Offer Price shall apply, for the Delivery Year in which such threshold is exceeded, only to the quantity of Unforced Capacity of such resource that exceeds such threshold. In such event, such Unforced Capacity of such resource shall be subject to the MOPR Floor Offer Price for the period specified in subsection (h)(4) hereof; provided however, that any such Unforced Capacity that did not qualify for such exemption for such Delivery Year may qualify for such exemption in any RPM Auction for a future Delivery Year to the extent the Self-Supply LSE's future load growth accommodates the resource under the Net Long Position criteria.

v) *Beginning with the Delivery Year that commences June 1, 2020, and continuing no later than for every fourth Delivery Year thereafter, the Office of the*

Interconnection shall review the Maximum Net Short and Net Long positions, as required by the foregoing subsection. Such review may include, without limitation, analyses under various appropriate scenarios of the minimum net short quantities at which the benefit to an LSE of a clearing price reduction for its capacity purchases from the RPM Auction outweighs the cost to the LSE of a new generating unit that is offered at an uneconomic price, and may, to the extent appropriate, reasonably balance the need to protect the market with the need to accommodate the normal business operations of Self-Supply LSEs. Based on the results of such review, PJM shall propose either to modify or retain the existing Maximum Net Short and Net Long positions. The Office of the Interconnection shall post publicly and solicit stakeholder comment regarding the proposal. If, as a result of this process, changes to the Maximum Net Short and/or Net Long positions are proposed, the Office of the Interconnection shall file such modified Maximum Net Short and/or Net Long positions with the FERC by October 1, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values would be applied.

vi) Officer Certification. The Self-Supply LSE, acting either as the Capacity Market Seller or on behalf of the Capacity Market Seller, shall submit a sworn, notarized certification of a duly authorized officer, certifying that the officer has personal knowledge of, or has engaged in a diligent inquiry to determine, the facts and circumstances supporting the Capacity Market Seller's decision to submit a Sell Offer into the RPM Auction for the MOPR Screened Generation Resource and seek an exemption from the MOPR Floor Offer Price for such resource, and to the best of his/her knowledge and belief: (A) the information supplied to the Market Monitoring Unit and the Office of Interconnection in support of its exemption request is true and correct and the MOPR Screened Generation Resource will be Owned and Contracted Capacity for the purpose of self-supply for the benefit of the Self-Supply LSE; (B) the Self-Supply LSE has disclosed all material facts relevant to the exemption request; and (C) the Capacity Market Seller satisfies the criteria for the exemption.

vii) For purposes of the Self-Supply Exemption:

(A) "Self-Supply LSE" means the following types of Load Serving Entity, which operate under long-standing business models: Municipal/Cooperative Entity, Single Customer Entity, or Vertically Integrated Utility.

(B) "Municipal/Cooperative Entity" means cooperative and municipal utilities, including public power supply entities comprised of either or both of the same, and joint action agencies.

(C) "Vertically Integrated Utility" means a utility that owns generation, includes such generation in its regulated rates, and earns a regulated return on its investment in such generation.

(D) "Single Customer Entity" means an LSE that serves at retail only customers that are under common control with such LSE, where such control means holding 51% or more of the voting securities or voting interests of the LSE and all its retail customers.

(E) All capacity calculations shall be on an Unforced Capacity basis.

(F) Estimated Capacity Obligations and Owned and Contracted Capacity shall be measured on a three-year average basis for the three years starting with the first day of the Delivery Year associated with the RPM Auction for which the exemption is being sought (“MOPR Exemption Measurement Period”). Such measurements shall be verified by PJM using the latest available data that PJM uses to determine capacity obligations.

(G) The Self-Supply LSE’s Estimated Capacity Obligation shall be the average, for the three Delivery Years of the MOPR Exemption Measurement Period, of the Self-Supply LSE’s estimated share of the most recent available Zonal Peak Load Forecast for each such Delivery Year for each Zone in which the Self-Supply LSE will serve load during such Delivery Year, times the Forecast Pool Requirement established for the first such Delivery Year, shall be stated on an Unforced Capacity basis. The Self-Supply LSE’s share of such load shall be determined by the ratio of: (1) the peak load contributions, from the most recent summer peak for which data is available at the time of the exemption request, of the customers or areas within each Zone for which such LSE will have load-serving responsibility during the first Delivery Year of the MOPR Exemption Measurement Period to (2) the weather-normalized summer peak load of such Zone for the same summer peak period addressed in the previous clause. *Notwithstanding the foregoing, solely in the case of any Self-Supply LSE that demonstrates to the Office of the Interconnection that its annual peak load occurs in the winter, such LSE’s Estimated Capacity Obligation determined solely for the purposes of this subsection 5.14(h) shall be based on its winter peak.* Once submitted, an exemption request shall not be subject to change due to later revisions to the PJM load forecasts for such Delivery Years. The Self-Supply LSE’s Estimated Capacity Obligation shall be limited to the LSE’s firm obligations to serve specific identifiable customers or groups of customers including native load obligations and specific load obligations in effective contracts for which the term of the contract includes at least a portion of the Delivery Year associated with the RPM Auction for which the exemption is requested (and shall not include load that is speculative or load obligations that are not native load or customer specific); as well as retail loads of entities that directly (as through charges on a retail electric bill) or indirectly, contribute to the cost recovery of the MOPR Screened Generation Resource; provided, however, nothing herein shall require a Self-Supply LSE that is a joint owner of a MOPR Screened Generation Resource to aggregate its expected loads with the loads of any other joint owner for purposes of such Self-Supply LSE’s exemption request.

(H) “Owned and Contracted Capacity” includes all of the Self-Supply LSE’s qualified Capacity Resources, whether internal or external to PJM. For purposes of the Self-Supply Exemption, Owned and Contracted Capacity includes Generation Capacity Resources without regard to whether such resource has failed or could fail the Competitive and Non-Discriminatory procurement standard of the Competitive Entry Exemption. To qualify for a Self-Supply Entry exemption, the MOPR Screened Generation must be used by the Self-Supply LSE, meaning such Self-Supply LSE is the beneficial off-taker of such generation such that the owned or contracted for MOPR Screened Generation is for the Self-Supply LSE’s use to supply its customer(s).

(I) If multiple entities will have an ownership or contractual share in, or are otherwise sponsoring, the MOPR Screened Generation Resource, the positions of each such entity will be measured and considered for a Self-Supply Exemption with respect to the individual Self-Supply LSE's ownership or contractual share of such resource.

(7) Competitive Entry Exemption. A Capacity Market Seller may qualify a MOPR Screened Generation Resource for a Competitive Entry Exemption in any RPM Auction for any Delivery Year if the Capacity Market Seller demonstrates that the MOPR Screened Generation Resource satisfies all of the following criteria:

i) No costs of the MOPR Screened Generation Resource are recovered from customers either directly or indirectly through a non-bypassable charge, *except in the event that Sections 5.14(h)(7)(ii) and (iii), to the extent either or both are applicable to such resource, are satisfied.*

ii) No costs of the MOPR Screened Generation Resource are supported through any contracts having a term of one year or more obtained in any state-sponsored or state-mandated procurement processes that are not Competitive and Non-Discriminatory. The Office of the Interconnection and the Market Monitoring Unit may deem a procurement process to be "Competitive and Non-Discriminatory" only if: (A) both new and existing resources may satisfy the requirements of the procurement; (B) the requirements of the procurement are fully objective and transparent; (C) the procurement terms do not restrict the type of capacity resources that may participate in and satisfy the requirements of the procurement; (D) the procurement terms do not include selection criteria that could give preference to new resources; and (E) the procurement terms do not use indirect means to discriminate against existing capacity, such as geographic constraints inconsistent with LDA import capabilities, unit technology or unit fuel requirements or unit heat-rate requirements, identity or nature of seller requirements, or requirements for new construction.

iii) The Capacity Market Seller does not have any formal or informal agreements or arrangements to seek, recover, accept or receive any (A) material payments, concessions, rebates, or subsidies directly or indirectly from any governmental entity connected with the construction, or clearing in any RPM Auction, of the MOPR Screened Generation Resource, or (B) other material support through contracts having a term of one year or more obtained in any state-sponsored or state-mandated procurement processes, connected to the construction, or clearing in any RPM Auction, of the MOPR Screened Generation Resource. These restrictions shall not include (C) payments (including payments in lieu of taxes), concessions, rebates, subsidies, or incentives designed to incent, or participation in a program, contract or other arrangement that utilizes criteria designed to incent or promote, general industrial development in an area; (D) payments, concessions, rebates, subsidies or incentives designed to incent, or participation in a program, contract or other arrangements from a county or other local governmental authority using eligibility or selection criteria designed to incent, siting facilities in that county or locality rather than another county or locality; or (E) federal government production tax credits, investment tax credits, and similar tax advantages or incentives that are available to generators without regard to the geographic location of the generation.

iv) The Capacity Market Seller shall submit a sworn, notarized certification of a duly authorized officer, certifying that the officer has personal knowledge of, or has engaged in a diligent inquiry to determine, the facts and circumstances supporting the Capacity Market Seller's decision to submit a Sell Offer into the RPM Auction for the MOPR Screened Generation Resource and seek an exemption from the MOPR Floor Offer Price for such resource, and, to the best of his/her knowledge and belief: (A) the information supplied to the Market Monitoring Unit and the Office of Interconnection to support its exemption is true and correct and the resource is being constructed or contracted for purposes of competitive entry by the Capacity Market Seller; (B) the Capacity Market Seller has disclosed all material facts relevant to the request for the exemption; and (C) the exemption request satisfies the criteria for the exemption.

(8) Unit-Specific Exception. *A Capacity Market Seller intending to submit a Sell Offer in any RPM Auction below the MOPR Floor Offer Price for any Delivery Year based on a MOPR Screened Generation Resource may, at its election, submit a request for a Unit-Specific Exception in addition to, or in lieu of, a request for a Self-Supply Exemption or a Competitive Entry Exemption, for such MOPR Screened Generation Resource. A Sell Offer meeting the Unit-Specific Exception criteria in this subsection shall be permitted and shall not be re-set to the MOPR Floor Offer Price if the Capacity Market Seller obtains a determination from the Office of the Interconnection or the Commission, prior to the RPM Auction in which it seeks to submit the Sell Offer, that such Sell Offer is permissible because it is consistent with the competitive, cost-based, fixed, net cost of new entry were the resource to rely solely on revenues from PJM-administered markets. The following requirements shall apply to requests for such determinations:*

i) *The Capacity Market Seller shall submit a written request with all of the required documentation as described below and in the PJM Manuals. For such purpose, per subsection (h)(9)(i) below, the Office of the Interconnection shall post a preliminary estimate for the relevant Delivery Year of the MOPR Floor Offer Price expected to be established hereunder. If the MOPR Floor Offer Price subsequently established for the relevant Delivery Year is less than the Sell Offer, the Sell Offer shall be permitted and no exception shall be required.*

ii) *As more fully set forth in the PJM Manuals, the Capacity Market Seller must include in its request for an exception under this subsection documentation to support the fixed development, construction, operation, and maintenance costs of the MOPR Screened Generation Resource, as well as estimates of offsetting net revenues. Estimates of costs or revenues shall be supported at a level of detail comparable to the cost and revenue estimates used to support the Net Asset Class Cost of New Entry established under this section 5.14(h). As more fully set forth in the PJM Manuals, supporting documentation for project costs may include, as applicable and available, a complete project description; environmental permits; vendor quotes for plant or equipment; evidence of actual costs of recent comparable projects; bases for electric and gas interconnection costs and any cost contingencies; bases and support for property taxes, insurance, operations and maintenance ("O&M") contractor costs, and other fixed O&M and administrative or general costs; financing documents for construction-period and permanent financing or evidence of recent debt costs of the seller for comparable investments; and the bases and support for the claimed capitalization ratio, rate of*

return, cost-recovery period, inflation rate, or other parameters used in financial modeling. Such documentation also shall identify and support any sunk costs that the Capacity Market Seller has reflected as a reduction to its Sell Offer. The request shall include a certification, signed by an officer of the Capacity Market Seller, that the claimed costs accurately reflect, in all material respects, the seller's reasonably expected costs of new entry and that the request satisfies all standards for a Unit-Specific Exception hereunder. The request also shall identify all revenue sources relied upon in the Sell Offer to offset the claimed fixed costs, including, without limitation, long-term power supply contracts, tolling agreements, or tariffs on file with state regulatory agencies, and shall demonstrate that such offsetting revenues are consistent, over a reasonable time period identified by the Capacity Market Seller, with the standard prescribed above. In making such demonstration, the Capacity Market Seller may rely upon forecasts of competitive electricity prices in the PJM Region based on well defined models that include fully documented estimates of future fuel prices, variable operation and maintenance expenses, energy demand, emissions allowance prices, and expected environmental or energy policies that affect the seller's forecast of electricity prices in such region, employing input data from sources readily available to the public. Documentation for net revenues also may include, as available and applicable, plant performance and capability information, including heat rate, start-up times and costs, forced outage rates, planned outage schedules, maintenance cycle, fuel costs and other variable operations and maintenance expenses, and ancillary service capabilities.

iii) A Sell Offer evaluated under the Unit-Specific Exception shall be permitted if the information provided reasonably demonstrates that the Sell Offer's competitive, cost-based, fixed, net cost of new entry is below the MOPR Floor Offer Price, based on competitive cost advantages relative to the costs implied by the MOPR Floor Offer Price, including, without limitation, competitive cost advantages resulting from the Capacity Market Seller's business model, financial condition, tax status, access to capital or other similar conditions affecting the applicant's costs, or based on net revenues that are reasonably demonstrated hereunder to be higher than those implied by the MOPR Floor Offer Price. Capacity Market Sellers shall be asked to demonstrate that claimed cost advantages or sources of net revenue that are irregular or anomalous, that do not reflect arm's-length transactions, or that are not in the ordinary course of the Capacity Market Seller's business are consistent with the standards of this subsection. Failure to adequately support such costs or revenues so as to enable the Office of the Interconnection to make the determination required in this section will result in denial of a Unit-Specific Exception hereunder by the Office of the Interconnection.

(9) Exemption/Exception Process.

i) The Office of the Interconnection shall post, by no later than one hundred fifty (150) days prior to the commencement of the offer period for an RPM Auction, a preliminary estimate for the relevant Delivery Year of the MOPR Floor Offer Price.

ii) The Capacity Market Seller must submit its request for a Unit-Specific Exception, Competitive Entry Exemption or a Self-Supply Exemption in writing simultaneously to the Market Monitoring Unit and the Office of Interconnection by no later than one hundred thirty five (135) days prior to the commencement of the offer period for the RPM Auction in which such seller seeks to submit its Sell Offer. The Capacity Market Seller shall

include in its request a description of its MOPR Screened Generation Resource, the exemption or exception that the Capacity Market Seller is requesting, and all documentation necessary to demonstrate that the exemption or exception criteria are satisfied, including without limitation the applicable certification(s) specified in this subsection (h). In addition to the documentation identified herein and in the PJM Manuals, the Capacity Market Seller shall provide any additional supporting information reasonably requested by the Office of the Interconnection or the Market Monitoring Unit to evaluate the Sell Offer. Requests for additional documentation will not extend the deadline by which the Office of the Interconnection or the Market Monitoring Unit must provide their determinations of the exemption request. The Capacity Market Seller shall have an ongoing obligation through the closing of the offer period for the RPM Auction to update the request to reflect any material changes in the request.

iii) As further described in Section II.D. of Attachment M-Appendix to this Tariff, the Market Monitoring Unit shall review the request and supporting documentation and shall provide its determination by no later than forty-five (45) days after receipt of the exemption or exception request. The Office of the Interconnection shall also review all exemption and exception requests to determine whether the request is acceptable in accordance with the standards and criteria under this section 5.14(h) and shall provide its determination in writing to the Capacity Market Seller, with a copy to the Market Monitoring Unit, by no later than sixty-five (65) days after receipt of the exemption or exception request. The Office of the Interconnection shall reject a requested exemption or exception if the Capacity Market Seller's request does not comply with the PJM Market Rules, as interpreted and applied by the Office of the Interconnection. Such rejection shall specify those points of non-compliance upon which the Office of the Interconnection based its rejection of the exemption or exception request. If the Office of the Interconnection does not provide its determination on an exemption or exception request by no later than sixty-five (65) days after receipt of the exemption or exception request, the request shall be deemed granted. Following the Office of the Interconnection's determination on a Unit-Specific Exception request, the Capacity Market Seller shall notify the Market Monitoring Unit and the Office of the Interconnection, in writing, of the minimum level of Sell Offer, consistent with such determination, to which it agrees to commit by no later than five (5) days after receipt of the Office of the Interconnection's determination of its Unit-Specific Exception request. A Capacity Market Seller that is dissatisfied with any determination hereunder may seek any remedies available to it from FERC; provided, however, that the Office of the Interconnection will proceed with administration of the Tariff and market rules unless and until ordered to do otherwise by FERC.

(10) Procedures and Remedies in Cases of Suspected Fraud or Material Misrepresentation or Omissions in Connection with Exemption Requests.

In the event the Office of the Interconnection reasonably believes that a request for a Competitive Entry Exemption or a Self-Supply Exemption that has been granted contains fraudulent or material misrepresentations or fraudulent or material omissions such that the Capacity Market Seller would not have been eligible for the exemption for that resource had the request not contained such misrepresentations or omissions, then:

i) if the Office of the Interconnection provides written notice of revocation to the Capacity Market Seller no later than thirty (30) days prior to the

commencement of the offer period for the RPM Auction for which the seller submitted a fraudulent exemption request, the Office of the Interconnection shall revoke the exemption for that auction. In such event, the Office of the Interconnection shall make any filings with FERC that the Office of the Interconnection deems necessary, and

ii) if the Office of the Interconnection does not provide written notice of revocation no later than 30 days before the start of the relevant RPM Auction, then the Office of the Interconnection may not revoke the exemption absent FERC approval. In any such filing to FERC, the requested remedies shall include (A) in the event that such resource has not cleared in the RPM Auction for which the exemption has been granted and the filing is made no later than 5 days prior to the commencement of the offer period for the RPM Auction, revocation of the exemption or, (B) in the event that the resource has cleared the RPM Auction for which the exemption has been granted and the filing is made no later than two (2) years after the close of the offer period for the relevant RPM Auction, suspension of any payments, during the pendency of the FERC proceeding, to the Capacity Market Seller for the resource that cleared in any RPM Auction relying on such exemption; and suspension of the Capacity Market Seller's exemption for that resource for future RPM Auctions.

iii) Prior to any automatic revocation or submission to FERC, the Office of the Interconnection and/or the Market Monitoring Unit shall notify the affected Capacity Market Seller and, to the extent practicable, provide the Capacity Market Seller an opportunity to explain the alleged misrepresentation or omission. Any filing to FERC under this provision shall seek fast track treatment and neither the name nor any identifying characteristics of the Capacity Market Seller or the resource shall be publicly revealed, but otherwise the filing shall be public. The Capacity Market Seller may apply for a new exemption for that resource for subsequent auctions, including auctions held during the pendency of the FERC proceeding. In the event that the Capacity Market Seller is cleared by FERC from such allegations of misrepresentations or omissions then the exemption shall be restored to the extent and in the manner permitted by FERC. The remedies required by this subsection (h)(10) to be requested in any filing to FERC shall not be exclusive of any other remedies or penalties that may be pursued against the Capacity Market Seller.

i) Capacity Export Charges and Credits

(1) Charge

Each Capacity Export Transmission Customer shall incur for each day of each Delivery Year a Capacity Export Charge equal to the Reserved Capacity of Long-Term Firm Transmission Service used for such export ("Export Reserved Capacity") multiplied by (the Final Zonal Capacity Price for such Delivery Year for the Zone encompassing the interface with the Control Area to which such capacity is exported minus the Final Zonal Capacity Price for such Delivery Year for the Zone in which the resources designated for export are located, but not less than zero). If more than one Zone forms the interface with such Control Area, then the amount of Reserved Capacity described above shall be apportioned among such Zones for purposes of the above calculation in proportion to the flows from such resource through each such Zone directly to such interface under CETO/CETL analysis conditions, as determined by the Office of the Interconnection using procedures set forth in the PJM Manuals. The amount of the Reserved

Capacity that is associated with a fully controllable facility that crosses such interface shall be completely apportioned to the Zone within which such facility terminates.

(2) Credit

To recognize the value of firm Transmission Service held by any such Capacity Export Transmission Customer, such customer assessed a charge under section 5.14(i)(1) also shall receive a credit, comparable to the Capacity Transfer Rights provided to Load-Serving Entities under section 5.15. Such credit shall be equal to the locational capacity price difference specified in section 5.14(i)(1) times the Export Customer's Allocated Share determined as follows:

Export Customer's Allocated Share equals

$$(\text{Export Path Import} * \text{Export Reserved Capacity}) /$$

$$(\text{Export Reserved Capacity} + \text{Daily Unforced Capacity Obligations of all LSEs in such Zone}).$$

Where:

“Export Path Import” means the megawatts of Unforced Capacity imported into the export interface Zone from the Zone in which the resource designated for export is located.

If more than one Zone forms the interface with such Control Area, then the amount of Export Reserved Capacity shall be apportioned among such Zones for purposes of the above calculation in the same manner as set forth in subsection (i)(1) above.

(3) Distribution of Revenues

Any revenues collected from the Capacity Export Charge with respect to any capacity export for a Delivery Year, less the credit provided in subsection (i)(2) for such Delivery Year, shall be distributed to the Load Serving Entities in the export-interface Zone that were assessed a

Locational Reliability Charge for such Delivery Year, pro rata based on the Daily Unforced Capacity Obligations of such Load-serving Entities in such Zone during such Delivery Year. If more than one Zone forms the interface with such Control Area, then the revenues shall be apportioned among such Zones for purposes of the above calculation in the same manner as set forth in subsection (i)(1) above.

5.14A Demand Response Transition Provision for RPM Delivery Years 2012/2013, 2013/2014, and 2014/2015

A. This Transition Provision applies only with respect to Demand Resources cleared in the Base Residual Auction for any or all of the 2012/2013, 2013/2014, or 2014/2015 Delivery Years (hereafter, “Transition Delivery Years” and each a “Transition Delivery Year”) by a Curtailment Service Provider as an aggregator of end-use customers registered for the Emergency Load Response Program as Full Program Option or Capacity Only Option. A Curtailment Service

Provider meeting the description of the preceding sentence is hereafter in this Section 5.14A referred to as a “Qualified DR Provider.”

B. In the event that a Qualified DR Provider concludes that its cleared Demand Resource for a Transition Delivery Year is not viable under the revised Reporting and Compliance provisions of the Emergency Load Response Program which became effective on November 7, 2011, pursuant to the Commission’s order issued on November 4, 2011, in Docket No. ER11-3322-000 (137 FERC ¶ 61,108), the Qualified DR Provider must so inform PJM in writing by no later than 30 days prior to the next Incremental Auction for the Transition Delivery Year for which the identified Demand Resource was cleared. A Qualified DR Provider that does not timely provide the notice described in this paragraph shall be excluded from application of the remainder of this Transition Provision. A Demand Resource cleared for a Transition Delivery Year is not viable for purposes of this Transition Provision to the extent that it relies upon load reduction by any end-use customer for which the applicable Qualified DR Provider anticipated, when it offered the Demand Resource, measuring load reduction at loads in excess of such customer’s peak load contribution during Emergency Load Response dispatch events or tests.

1. In the event a Qualified DR Provider that participates in an Incremental Auction after providing notice pursuant to paragraph B. above purchases Capacity Resources to replace its previously cleared Demand Resource at a price that exceeds the price at which the provider’s Demand Resource cleared in the Base Residual Auction for the same Transition Delivery Year, the Qualified DR Provider shall receive a DR Capacity Transition Credit in an amount determined by the following:

$$\text{DRTC} = (\text{IAP} - \text{BRP}) * \text{DRMW}$$

Where:

DRTC is the amount of the DR Capacity Transition Credit for the Qualified DR Provider, expressed in dollars;

IAP = the Capacity Resource Clearing Price paid by the Qualified DR Provider for replacement Capacity Resources in the Incremental Auction for the relevant Transition Delivery Year;

BRP = the Capacity Resource Clearing Price at which the Qualified DR Provider’s Demand Resource cleared in the Base Residual Auction for the same Transition Delivery Year; and

DRMW = the capacity in MW of the Qualified DR Provider’s previously cleared Demand Resource.

2. All DR Capacity Transition Credits will be paid weekly to the recipient Qualified DR Providers by PJMSettlement during the relevant Transition Delivery Year.
3. The cost of payments of DR Capacity Transition Credits to Qualified DR Providers shall be included in the Locational Reliability Charge collected by PJMSettlement

during the relevant Transition Delivery Year from Load-Serving Entities in the LDA(s) for which the Qualified DR Provider's subject Demand Resource was cleared.

C. A Qualified DR Provider may seek compensation related to its previously cleared Demand Resource for a particular Transition Delivery Year, in lieu of any DR Capacity Transition Credits for which it otherwise might be eligible under paragraph B.1. above, under the following conditions:

1. The Qualified DR Provider must provide timely notice to PJM in accordance with paragraph B of this Transition Provision, and
2. The Qualified DR Provider must demonstrate to PJM's reasonable satisfaction, not later than 60 days prior to the start of the applicable Transition Delivery Year, that
 - a. the Qualified DR Provider entered into contractual arrangements on or before April 7, 2011, with one or more end-use customers registered for the Emergency Load Response Program as Full Program Option or Capacity Only Option in association with the Demand Resource identified in the provider's notice pursuant to paragraph B above,
 - b. under which the Qualified DR Provider is unavoidably obligated to pay to such end-use customers during the relevant Transition Delivery Year
 - c. an aggregate amount that exceeds:
 - (i) any difference of (A) the amount the Qualified DR Provider is entitled to receive in payment for the previously cleared Demand Resource it designated as not viable in its notice pursuant to paragraph B of this provision, minus (B) the amount the provider is obligated to pay for capacity resources it purchased in the Incremental Auctions to replace the Demand Resource the provider designated as not viable, plus
 - (ii) any monetary gains the Qualified DR Provider realizes from purchases of Capacity Resources in Incremental Auctions for the same Transition Delivery Year to replace any Demand Resources that the Qualified DR Provider cleared in the applicable Base Residual Auction other than the resource designated as not viable in the provider's notice pursuant to paragraph (B) of this provision,
 - (iii) where "monetary gains" for the purpose of clause (ii) shall be any positive difference of (A) the aggregate amount the Qualified DR Provider is entitled to receive in payment for any such other Demand Resource it cleared in the Base Residual Auction, minus (B) the aggregate amount the provider is obligated to pay for capacity resources it purchased in the applicable Incremental Auctions to replace any such other Demand Resource the provider cleared in the Base Residual Auction.

D. A Qualified DR Provider which demonstrates satisfaction of the conditions of paragraph C of this Transition Provision shall be entitled to an Alternative DR Transition Credit equal to the amount described in paragraph C.2.c. above. Any Alternative DR Transition Credit provided in accordance with this paragraph shall be paid and collected by PJMSettlement in the same manner as described in paragraphs B.2. and B.3. of this Transition Provision, provided, however, that each Qualified DR Provider receiving an Alternative DR Transition Credit shall submit to PJM within 15 days following the end of each month of the relevant Transition Delivery Year a report providing the calculation described in paragraph C.2.c. above, using actual amounts paid and received through the end of the month just ended. The DR Provider's Alternative DR Transition Credit shall be adjusted as necessary (including, if required, in the month following the final month of the Transition Delivery Year) to ensure that the total credit paid to the Qualified DR Provider for the Transition Delivery Year will equal, but shall not exceed, the amount described in paragraph C.2.c. above, calculated using the actual amounts paid and received by the Qualified DR Provider.

5.14B Generating Unit Capability Verification Test Requirements Transition Provision for RPM Delivery Years 2014/2015, 2015/2016, and 2016/2017

A. This Transition Provision applies only with respect to Generation Capacity Resources with existing capacity commitments for the 2014/2015, 2015/2016, or 2016/2017 Delivery Years that experience reductions in verified installed capacity available for sale as a direct result of revised generating unit capability verification test procedures effective with the summer 2014 capability tests, as set forth in the PJM Manuals. A Generation Capacity Resource meeting the description of the preceding sentence, and the Capacity Market Seller of such a resource, are hereafter in this section 5.14B referred to as an "Affected Resource" and an "Affected Resource Owner," respectively.

B. For each of its Affected Resources, an Affected Resource Owner is required to provide documentation to the Office of the Interconnection sufficient to show a reduction in installed capacity value as a direct result of the revised capability test procedures. Upon acceptance by the Office of the Interconnection, the Affected Resource's installed capacity value will be updated in the eRPM system to reflect the reduction, and the Affected Resource's Capacity Interconnection Rights value will be updated to reflect the reduction, effective June 1, 2014. The reduction's impact on the Affected Resource's existing capacity commitments for the 2014/2015 Delivery Year will be determined in Unforced Capacity terms, using the final EFORD value established by the Office of the Interconnection for the 2014/2015 Delivery Year as applied to the Third Incremental Auction for the 2014/2015 Delivery Year, to convert installed capacity to Unforced Capacity. The reduction's impact on the Affected Resource's existing capacity commitments for each of the 2015/2016 and 2016/2017 Delivery Years will be determined in Unforced Capacity terms, using the EFORD value from each Sell Offer in each applicable RPM Auction, applied on a pro-rata basis, to convert installed capacity to Unforced Capacity. The Unforced Capacity impact for each Delivery Year represents the Affected Resource's capacity commitment shortfall, resulting wholly and directly from the revised capability test procedures, for which the Affected Resource Owner is subject to a Capacity Resource Deficiency Charge for the Delivery Year, as described in section 8 of this Attachment DD, unless the Affected Resource Owner (i) provides replacement Unforced Capacity, as described in section 8.1 of this

Attachment DD, prior to the start of the Delivery Year to resolve the Affected Resource's total capacity commitment shortfall; or (ii) requests relief from Capacity Resource Deficiency Charges that result wholly and directly from the revised capability test procedures by electing the transition mechanism described in this section 5.14B ("Transition Mechanism").

C. Under the Transition Mechanism, an Affected Resource Owner may elect to have the Unforced Capacity commitments for all of its Affected Resources reduced for the 2014/2015, 2015/2016, or 2016/2017 Delivery Years to eliminate the capacity commitment shortfalls, across all of its Affected Resources, that result wholly and directly from the revised capability test procedures, and for which the Affected Resource Owner otherwise would be subject to Capacity Resource Deficiency Charges for the Delivery Year. In electing this option, the Affected Resource Owner relinquishes RPM Auction Credits associated with the reductions in Unforced Capacity commitments for all of its Affected Resources for the Delivery Year, and Locational Reliability Charges as described in section 5.14(e) of this Attachment DD are adjusted accordingly. Affected Resource Owners wishing to elect the Transition Mechanism for the 2015/2016 Delivery Year must notify the Office of the Interconnection by May 30, 2014. Affected Resource Owners wishing to elect the Transition Mechanism for the 2016/2017 Delivery Year must notify the Office of the Interconnection by July 25, 2014.

D. The Office of the Interconnection will offset the total reduction (across all Affected Resources and Affected Resource Owners) in Unforced Capacity commitments associated with the Transition Mechanism for the 2015/2016 and 2016/2017 Delivery Years by applying corresponding adjustments to the quantity of Buy Bid or Sell Offer activity in the upcoming Incremental Auctions for each of those Delivery Years, as described in sections 5.12(b)(ii-1) and 5.12(b)(iii-1) of this Attachment DD.

E. By electing the Transition Mechanism, an Affected Resource Owner may receive relief from applicable Capacity Resource Deficiency Charges for the 2014/2015, 2015/2016, or 2016/2017 Delivery Years, and a Locational UCAP Seller that sells Locational UCAP based on an Affected Resource owned by the Affected Resource Owner may receive relief from applicable Capacity Resource Deficiency Charges for the 2014/2015 Delivery Year, to the extent that the Affected Resource Owner demonstrates, to the satisfaction of the Office of the Interconnection, that an inability to deliver the amount of Unforced Capacity previously committed for the 2014/2015, 2015/2016, or 2016/2017 Delivery Years is due to a reduction in verified installed capacity available for sale as a direct result of revised generating unit capability verification test procedures effective with the summer 2014 capability tests, as set forth in the PJM Manuals; provided, however, that the Affected Resource Owner must provide the Office of the Interconnection with all information deemed necessary by the Office of the Interconnection to assess the merits of the request for relief.

Attachment B

Revisions to Section(s) of the
PJM Open Access Transmission Tariff

(Clean Format)

5.12 Conduct of RPM Auctions

The Office of the Interconnection shall employ an optimization algorithm for each Base Residual Auction and each Incremental Auction to evaluate the Sell Offers and other inputs to such auction to determine the Sell Offers that clear such auction.

a) Base Residual Auction

For each Base Residual Auction, the optimization algorithm shall consider:

- all Sell Offers submitted in such auction;
- the Variable Resource Requirement Curves for the PJM Region and each LDA;
- any constraints resulting from the Locational Deliverability Requirement *and any applicable Capacity Import Limit*;
- for Delivery Years starting June 1, 2014 and ending May 31, 2017, the Minimum Annual Resource Requirement and the Minimum Extended Summer Resource Requirement for the PJM Region and for each Locational Deliverability Area for which a separate VRR Curve is required by section 5.10(a) of this Attachment DD; and for the Delivery Year commencing June 1, 2017 and subsequent Delivery Years, the Limited Resource Constraints and the Sub-Annual Resource Constraints for the PJM Region and for each Locational Deliverability Area for which a separate VRR Curve is required by section 5.10(a) of this Attachment DD;
- the PJM Region Reliability Requirement minus the Short-Term Resource Procurement Target.

The optimization algorithm shall be applied to calculate the overall clearing result to minimize the cost of satisfying the reliability requirements across the PJM Region, regardless of whether the quantity clearing the Base Residual Auction is above or below the applicable target quantity, while respecting all applicable requirements and constraints, including any restrictions specified in any Credit-Limited Offers. Where the supply curve formed by the Sell Offers submitted in an auction falls entirely below the Variable Resource Requirement Curve, the auction shall clear at the price-capacity point on the Variable Resource Requirement Curve corresponding to the total Unforced Capacity provided by all such Sell Offers. Where the supply curve consists only of Sell Offers located entirely below the Variable Resource Requirement Curve and Sell Offers located entirely above the Variable Resource Requirement Curve, the auction shall clear at the price-capacity point on the Variable Resource Requirement Curve corresponding to the total Unforced Capacity provided by all Sell Offers located entirely below the Variable Resource Requirement Curve. In determining the lowest-cost overall clearing result that satisfies all applicable constraints and requirements, the optimization may select from among multiple

possible alternative clearing results that satisfy such requirements, including, for example (without limitation by such example), accepting a lower-priced Sell Offer that intersects the Variable Resource Requirement Curve and that specifies a minimum capacity block, accepting a higher-priced Sell Offer that intersects the Variable Resource Requirement Curve and that contains no minimum-block limitations, or rejecting both of the above alternatives and clearing the auction at the higher-priced point on the Variable Resource Requirement Curve that corresponds to the Unforced Capacity provided by all Sell Offers located entirely below the Variable Resource Requirement Curve.

The Sell Offer price of a Qualifying Transmission Upgrade shall be treated as a capacity price differential between the LDAs specified in such Sell Offer between which CETL is increased, and the Import Capability provided by such upgrade shall clear to the extent the difference in clearing prices between such LDAs is greater than the price specified in such Sell Offer. The Capacity Resource clearing results and Capacity Resource Clearing Prices so determined shall be applicable for such Delivery Year.

b) *Scheduled Incremental Auction and Supplemental Procurement Conditional Auctions.*

For purposes of a *Scheduled Incremental Auction for any Delivery Year through the 2016-2017 Delivery Year, or, for any Delivery Year beginning with the 2017-2018 Delivery Year, for purposes of the Scheduled Incremental Auction or a Supplemental Procurement Conditional Auction (if conducted)*, the optimization algorithm shall consider:

- The PJM Region Reliability Requirement, less the Short-term Resource Procurement Target;
- Updated LDA Reliability Requirements taking into account any updated Capacity Emergency Transfer Objectives;
- The Capacity Emergency Transfer Limit used in the Base Residual Auction, or any updated value resulting from a *Backbone Transmission Conditional Incremental Auction*;
- *All applicable Capacity Import Limits*;
- For each LDA, such LDA's updated Reliability Requirement, less such LDA's Short-Term Resource Procurement Target;
- For Delivery Years starting June 1, 2014 and ending May 31, 2017, the Minimum Annual Resource Requirement and the Minimum Extended Summer Resource Requirement for the PJM Region and for each LDA for which PJM is required to establish a separate VRR Curve for the Base Residual Auction for the relevant Delivery Year; and for the Delivery Year commencing June 1, 2017 and subsequent Delivery Years, the Limited Resource Constraints and the Sub-annual Resource Constraints for the PJM Region and for each Locational Deliverability

Area for which a separate VRR Curve is required by section 5.10(a) of this Attachment DD;

- A demand curve consisting of the Buy Bids submitted in such auction and, if indicated for use in such auction in accordance with the provisions below, the Updated VRR Curve Increment;
- The Sell Offers submitted in such auction; and
- The Unforced Capacity previously committed for such Delivery Year.

(i-1) When the requirement to seek additional resource commitments in a Scheduled Incremental Auction *for any Delivery Year through the 2016-2017 Delivery Year* is triggered by section 5.4(c)(2) of this Attachment, the Office of the Interconnection shall employ in the clearing of such auction the Updated VRR Curve Increment.

(i-2) *When, for the 2017-2018 Delivery Year or any subsequent Delivery Year, the requirement to seek additional resource commitments in the Scheduled Incremental Auction is triggered by section 5.4A(c)(2) of this Attachment, or when the requirement to seek additional resource commitments in a Supplemental Procurement Conditional Auction is triggered by section 5.4A(e)(1)(i) of this Attachment, the Office of the Interconnection shall employ in the clearing of such auction the Updated VRR Curve Increment.*

(ii-1) When, *for any Delivery Year through the 2016-2017 Delivery Year*, the requirement to seek additional resource commitments in a Scheduled Incremental Auction is triggered by section 5.4(c)(1) of this Attachment, and the conditions stated in section 5.4(c)(2) do not apply, the Office of the Interconnection first shall determine the total quantity of (A) the Short-Term Resource Procurement Target Applicable Share for such auction, plus (B) the amount that the Office of the Interconnection sought to procure in prior Scheduled Incremental Auctions for such Delivery Year that does not clear such auction, minus (C) the amount that the Office of the Interconnection sought to sell back in prior Scheduled Incremental Auctions for such Delivery Year that does not clear such auction, plus (D) the difference between the updated PJM Region Reliability Requirement or updated LDA Reliability Requirement and, respectively, the PJM Region Reliability Requirement, or LDA Reliability Requirement, utilized in the most recent prior auction conducted for such Delivery Year plus any amount required by section 5.4(c)(2)(ii), plus (E) the reduction in Unforced Capacity commitments associated with the Transition Mechanism of section 5.14B of this Attachment DD, as described in section 5.14B(D). If the result of such equation is a positive quantity, the Office of the Interconnection shall employ in the clearing of such auction a portion of the Updated VRR Curve Increment extending right from the left-most point on that curve in a megawatt amount equal to that positive quantity defined above, to seek to procure such quantity. If the result of such equation is a negative quantity, the Office of the Interconnection shall employ in the clearing of the auction a portion of the Updated VRR Curve Decrement, extending and ascending to the left from the right-most point on that curve in a megawatt amount corresponding to the negative quantity defined above, to seek to sell back such quantity.

(ii-1) When, for the 2017-2018 Delivery Year or any subsequent Delivery Year, the requirement to seek additional resource commitments in the Scheduled Incremental Auction is triggered by section 5.4A(c)(1) of this Attachment, and the conditions stated in section 5.4A(c)(2) do not apply, or when the requirement to seek additional resource commitments in a Supplemental Procurement Conditional Auction is triggered by section 5.4A(e)(1)(ii) of this Attachment and the conditions stated in section 5.4A(e)(1)(i) do not apply, the Office of the Interconnection first shall determine the total quantity of (A) the Short-Term Resource Procurement Target Applicable Share for such auction, plus (B) the amount that the Office of the Interconnection sought to procure in prior Supplemental Procurement Conditional Auctions for such Delivery Year that does not clear such auction, plus (C) the difference between the updated PJM Region Reliability Requirement or updated LDA Reliability Requirement and, respectively, the PJM Region Reliability Requirement, or LDA Reliability Requirement, utilized in the most recent prior auction conducted for such Delivery Year plus any amount required by section 5.4A(c)(2)(ii). The Office of the Interconnection shall employ in the clearing of such auction a portion of the Updated VRR Curve Increment extending right from the left-most point on that curve in a megawatt amount equal to that positive quantity defined above, to seek to procure such quantity.

(iii-1) When, for any Delivery Year through the 2016-2017 Delivery Year, the possible need to seek agreements to release capacity commitments in any Scheduled Incremental Auction is indicated for the PJM Region or any LDA by section 5.4(c)(3)(i) of this Attachment, the Office of the Interconnection first shall determine the total quantity of (A) the Short-Term Resource Procurement Target Applicable Share for such auction, plus (B) the amount that the Office of the Interconnection sought to procure in prior Scheduled Incremental Auctions for such Delivery Year that does not clear such auction, minus (C) the amount that the Office of the Interconnection sought to sell back in prior Scheduled Incremental Auctions for such Delivery Year that does not clear such auction, plus (D) the difference between the updated PJM Region Reliability Requirement or updated LDA Reliability Requirement and, respectively, the PJM Region Reliability Requirement, or LDA Reliability Requirement, utilized in the most recent prior auction conducted for such Delivery Year minus any capacity sell-back amount determined by PJM to be required for the PJM Region or such LDA by section 5.4(c)(3)(ii) of this Attachment, plus (E) the reduction in Unforced Capacity commitments associated with the Transition Mechanism of section 5.14B of this Attachment DD, as described in section 5.14B(D); provided, however, that the amount sold in total for all LDAs and the PJM Region related to a delay in a Backbone Transmission upgrade may not exceed the amounts purchased in total for all LDAs and the PJM Region related to a delay in a Backbone Transmission upgrade. If the result of such equation is a positive quantity, the Office of the Interconnection shall employ in the clearing of such auction a portion of the Updated VRR Curve Increment extending right from the left-most point on that curve in a megawatt amount equal to that positive quantity defined above, to seek to procure such quantity. If the result of such equation is a negative quantity, the Office of the Interconnection shall employ in the clearing of the auction a portion of the Updated VRR Curve Decrement, extending and ascending to the left from the right-most point on that curve in a megawatt amount corresponding to the negative quantity defined above, to seek to sell back such quantity; provided, however, that in no event shall the Office of the Interconnection offer to sell back capacity at a price lower than the Capacity Resource Clearing Price determined in the Base Residual Auction for such Delivery Year for, as applicable to such contemplated sell-back, the PJM Region or relevant LDA.

(iii-2) When, for the 2017-2018 Delivery Year or any subsequent Delivery Year, the possible need to seek agreements to release capacity commitments in the Scheduled Incremental Auction is indicated for the PJM Region or any LDA by section 5.4A(c)(3)(i) of this Attachment, the Office of the Interconnection first shall determine the total quantity of (A) the Short-Term Resource Procurement Target Applicable Share for such auction, plus (B) the amount that the Office of the Interconnection sought to procure in prior Supplemental Procurement Conditional Auctions for such Delivery Year that does not clear such auction, plus (C) the difference between the updated PJM Region Reliability Requirement or updated LDA Reliability Requirement and, respectively, the PJM Region Reliability Requirement, or LDA Reliability Requirement, utilized in the most recent prior auction conducted for such Delivery Year minus (D) any capacity sell-back amount determined by PJM to be required for the PJM Region or such LDA by section 5.4A(c)(3)(ii) of this Attachment; provided, however, that the amount sold in total for all LDAs and the PJM Region related to a delay in a Backbone Transmission upgrade may not exceed the amounts purchased in total for all LDAs and the PJM Region related to a delay in a Backbone Transmission upgrade. If the result of such equation is a positive quantity, the Office of the Interconnection shall employ in the clearing of such auction a portion of the Updated VRR Curve Increment extending right from the left-most point on that curve in a megawatt amount equal to that positive quantity defined above, to seek to procure such quantity. If the result of such equation is a negative quantity, the Office of the Interconnection shall employ in the clearing of the auction a portion of the Updated VRR Curve Decrement, extending and ascending to the left from the right-most point on that curve in a megawatt amount corresponding to the negative quantity defined above, to seek to sell back such quantity; provided, however, that in no event shall the Office of the Interconnection offer to sell back capacity at a price lower than the Capacity Resource Clearing Price determined in the Base Residual Auction for such Delivery Year for, as applicable to such contemplated sell-back, the PJM Region or relevant LDA.

(iv-1) If, for any Delivery Year through the 2016-2017 Delivery Year, none of the tests for adjustment of capacity procurement in subsections (i-1), (ii-1), or (iii-1) is satisfied for the PJM Region or an LDA in a Scheduled Incremental Auction, the Office of the Interconnection first shall determine the total quantity of (A) the Short-Term Resource Procurement Target Applicable Share for such auction, plus (B) the amount that the Office of the Interconnection sought to procure in prior Scheduled Incremental Auctions for such Delivery Year that does not clear such auction, minus (C) the amount that the Office of the Interconnection sought to sell back in prior Scheduled Incremental Auctions for such Delivery Year that does not clear such auction. If the result of such equation is a positive quantity, the Office of the Interconnection shall employ in the clearing of such auction a portion of the Updated VRR Curve Increment extending right from the left-most point on that curve in a megawatt amount equal to that positive quantity defined above, to seek to procure such quantity. If the result of such equation is a negative quantity, the Office of the Interconnection shall employ in the clearing of the auction a portion of the Updated VRR Curve Decrement, extending and ascending to the left from the right-most point on that curve in a megawatt amount corresponding to the negative quantity defined above, to seek to sell back such quantity. If more than one of the tests for adjustment of capacity procurement in subsections (i-1), (ii-1), or (iii-1) is satisfied for the PJM Region or an LDA in a Scheduled Incremental Auction, the Office of the

Interconnection shall not seek to procure the Short-Term Resource Procurement Target Applicable Share more than once for such region or area for such auction; *provided, however, that in no event shall the Office of the Interconnection offer to sell back capacity at a price lower than the Capacity Resource Clearing Price determined in the Base Residual Auction for such Delivery Year for, as applicable to such contemplated sell-back, the PJM Region or relevant LDA.*

(iv-2) *If, for the 2017-2018 Delivery Year or any subsequent Delivery Year, none of the tests for adjustment of capacity procurement in subsections (i-2), (ii-2), or (iii-2) is satisfied for the PJM Region or an LDA in the Scheduled Incremental Auction, the Office of the Interconnection first shall determine the total quantity of (A) the Short-Term Resource Procurement Target Applicable Share for such auction, plus (B) the amount that the Office of the Interconnection sought to procure in prior Supplemental Procurement Conditional Incremental Auctions for such Delivery Year that does not clear such auction. The Office of the Interconnection shall employ in the clearing of such auction a portion of the Updated VRR Curve Increment extending right from the left-most point on that curve in a megawatt amount equal to that positive quantity defined above, to seek to procure such quantity. If more than one of the tests for adjustment of capacity procurement in subsections (i-2), (ii-2), or (iii-2) is satisfied for the PJM Region or an LDA in the Scheduled Incremental Auction, the Office of the Interconnection shall not seek to procure the Short-Term Resource Procurement Target Applicable Share more than once for such region or area for such auction.*

(v) If PJM seeks to procure additional capacity in an Incremental Auction for the 2014-15, 2015-16 or 2016-17 Delivery Years due to a triggering of the tests in subsections (i-1), (ii-1), (iii-1) or (iv-1) (or (i-2), (ii-2), (iii-2) or (iv-2)), then the Minimum Annual Resource Requirement for such Auction will be equal to the updated Minimum Annual Resource Requirement (based on the latest DR Reliability Targets) minus the amount of previously committed capacity from Annual Resources, and the Minimum Extended Summer Resource Requirement for such Auction will be equal to the updated Minimum Extended Summer Resource Requirement (based on the latest DR Reliability Targets) minus the amount of previously committed capacity in an Incremental Auction for the 2014-15, 2015-16 or 2016-17 Delivery Years from Annual Resources and Extended Summer Demand Resources. If PJM seeks to release prior committed capacity due to a triggering of the test in subsection (iii) then PJM may not release prior committed capacity from Annual Resources or Extended Summer Demand Resources below the updated Minimum Annual Resource Requirement and updated Minimum Extended Summer Resource Requirement, respectively.

(vi) If the above tests are triggered for an LDA and for another LDA wholly located within the first LDA, the Office of the Interconnection may adjust the amount of any Sell Offer or Buy Bids otherwise required by subsections (i-1), (ii-1), or (iii-1) (or by subsections (i-2), (ii-2, or (iii-2)) above in one LDA as appropriate to take into account any reliability impacts on the other LDA.

(vii) The optimization algorithm shall calculate the overall clearing result to minimize the cost to satisfy the Unforced Capacity Obligation of the PJM Region to account for

the updated PJM Peak Load Forecast and the cost of committing replacement capacity in response to the Buy Bids submitted, while satisfying or honoring such reliability requirements and constraints, in the same manner as set forth in subsection (a) above.

(viii) Load Serving Entities may be entitled to certain credits (“Excess Commitment Credits”) under certain circumstances as follows:

- (A) For either or both of the Delivery Years commencing on June 1, 2010 or June 1, 2011, if the PJM Region Reliability Requirement used for purposes of the Base Residual Auction for such Delivery Year exceeds the PJM Region Reliability Requirement that is based on the last updated load forecast prior to such Delivery Year, then such excess will be allocated to Load Serving Entities as set forth below;
- (B) For any Delivery Year beginning with the Delivery Year that commences June 1, 2012, the total amount that the Office of the Interconnection sought to sell back pursuant to subsection (b)(iii-1) or (b)(iii-2) above in the Scheduled Incremental Auction(s) for such Delivery Year that does not clear such auction(s), less the total amount that the Office of the Interconnection sought to procure pursuant to subsections (b)(i) and (b)(ii) above in the Scheduled Incremental Auction(s) *and, as applicable, Supplemental Procurement Conditional Auctions* for such Delivery Years that does not clear such auctions, will be allocated to Load Serving Entities as set forth below;
- (C) the amount from (A) or (B) above for the PJM Region shall be allocated among Locational Deliverability Areas pro rata based on the reduction for each such Locational Deliverability Area in the peak load forecast from the time of the Base Residual Auction to the time of the *Scheduled Incremental Auction (or for Delivery Years through the 2016-2017 Delivery Year, the Third Incremental Auction)*; provided, however, that the amount allocated to a Locational Deliverability Area may not exceed the reduction in the corresponding Reliability Requirement for such Locational Deliverability Area; and provided further that any LDA with an increase in its load forecast shall not be allocated any Excess Commitment Credits;
- (D) the amount, if any, allocated to a Locational Deliverability Area shall be further allocated among Load Serving Entities in such areas that are charged a Locational Reliability Charge based on the Daily Unforced Capacity Obligation of such Load Serving Entities as of June 1 of the Delivery Year and shall be constant for the entire Delivery Year. Excess Commitment Credits may be used as Replacement Capacity or traded bilaterally.

c) *Backbone Transmission Conditional Incremental Auction*

For each *Backbone Transmission* Conditional Incremental Auction, the optimization algorithm shall consider:

- The quantity and location of capacity required to address the identified reliability concern that gave rise to the *Backbone Transmission* Conditional Incremental Auction;
- *All applicable Capacity Import Limits*;
- the same Capacity Emergency Transfer Limits that were modeled in the Base Residual Auction, or any updated value resulting from a *Backbone Transmission* Conditional Incremental Auction; and
- the Sell Offers submitted in such auction.

The Office of the Interconnection shall submit a Buy Bid based on the quantity and location of capacity required to address the identified reliability violation at a Buy Bid price equal to 1.5 times Net CONE.

The optimization algorithm shall calculate the overall clearing result to minimize the cost to address the identified reliability concern, while satisfying or honoring such reliability requirements and constraints.

d) Equal-priced Sell Offers

If two or more Sell Offers submitted in any auction satisfying all applicable constraints include the same offer price, and some, but not all, of the Unforced Capacity of such Sell Offers is required to clear the auction, then the auction shall be cleared in a manner that minimizes total costs, including total make-whole payments if any such offer includes a minimum block and, to the extent consistent with the foregoing, in accordance with the following additional principles:

1) as necessary, the optimization shall clear such offers that have a flexible megawatt quantity, and the flexible portions of such offers that include a minimum block that already has cleared, where some but not all of such equal-priced flexible quantities are required to clear the auction, pro rata based on their flexible megawatt quantities; and

2) when equal-priced minimum-block offers would result in equal overall costs, including make-whole payments, and only one such offer is required to clear the auction, then the offer that was submitted earliest to the Office of the Interconnection, based on its assigned timestamp, will clear.

5.14 Clearing Prices and Charges

a) Capacity Resource Clearing Prices

For each Base Residual Auction and Incremental Auction, the Office of the Interconnection shall calculate a clearing price to be paid for each megawatt-day of Unforced Capacity that clears in such auction. The Capacity Resource Clearing Price for each LDA will be the marginal value of system capacity for the PJM Region, without considering locational constraints, adjusted as necessary by any applicable Locational Price Adders, Annual Resource Price Adders, Extended Summer Resource Price Adders, Limited Resource Price Decrements, and Sub-Annual Resource Price Decrements, all as determined by the Office of the Interconnection based on the optimization algorithm. If a Capacity Resource is located in more than one Locational Deliverability Area, it shall be paid the highest Locational Price Adder in any applicable LDA in which the Sell Offer for such Capacity Resource cleared. The Annual Resource Price Adder is applicable for Annual Resources only. The Extended Summer Resource Price Adder is applicable for Annual Resources and Extended Summer Demand Resources.

b) Resource Make-Whole Payments

If a Sell Offer specifies a minimum block, and only a portion of such block is needed to clear the market in a Base Residual or Incremental Auction, the MW portion of such Sell Offer needed to clear the market shall clear, and such Sell Offer shall set the marginal value of system capacity. In addition, the Capacity Market Seller shall receive a Resource Make-Whole Payment equal to the Capacity Resource Clearing Price in such auction times the difference between the Sell Offer's minimum block MW quantity and the Sell Offer's cleared MW quantity. The cost for any such Resource Make-Whole Payments required in a Base Residual Auction or Incremental Auction for adjustment of prior capacity commitments shall be collected pro rata from all LSEs in the LDA in which such payments were made, based on their Daily Unforced Capacity Obligations. The cost for any such Resource Make-Whole Payments required in an Incremental Auction for capacity replacement shall be collected from all Capacity Market Buyers in the LDA in which such payments were made, on a pro-rata basis based on the MWs purchased in such auction.

c) New Entry Price Adjustment

A Capacity Market Seller that submits a Sell Offer based on a Planned Generation Capacity Resource that clears in the BRA for a Delivery Year may, at its election, submit Sell Offers with a New Entry Price Adjustment in the BRAs for the two immediately succeeding Delivery Years if:

1. Such Capacity Market Seller provides notice of such election at the time it submits its Sell Offer for such resource in the BRA for the first Delivery Year for which such resource is eligible to be considered a Planned Generation Capacity Resource. When the Capacity Market Seller provides notice of such election, it must specify whether its Sell Offer is contingent upon qualifying for the New Entry Price Adjustment. The Office of the Interconnection shall not clear such contingent Sell Offer if it does not qualify for the New Entry Price Adjustment.

2. All or any part of a Sell Offer from the Planned Generation Capacity Resource submitted in accordance with section 5.14(c)(1) is the marginal Sell Offer that sets the Capacity Resource Clearing Price for the LDA.

3. Acceptance of all or any part of a Sell Offer that meets the conditions in section 5.14(c)(1)-(2) in the BRA increases the total Unforced Capacity committed in the BRA (including any minimum block quantity) for the LDA in which such Resource will be located from a megawatt quantity below the LDA Reliability Requirement, minus the Short Term Resource Procurement Target, to a megawatt quantity at or above a megawatt quantity at the price-quantity point on the VRR Curve at which the price is 0.40 times the applicable Net CONE divided by (one minus the pool-wide average EFORD).

4. Such Capacity Market Seller submits Sell Offers in the BRA for the two immediately succeeding Delivery Years for the entire Unforced Capacity of such Generation Capacity Resource committed in the first BRA under section 5.14(c)(1)-(2) equal to the lesser of: A) the price in such seller's Sell Offer for the BRA in which such resource qualified as a Planned Generation Capacity Resource that satisfies the conditions in section 5.14(c)(1)-(3); or B) 0.90 times the Net CONE applicable in the first BRA in which such Planned Generation Capacity Resource meeting the conditions in section 5.14(c)(1)-(3) cleared, on an Unforced Capacity basis, for such LDA.

5. If the Sell Offer is submitted consistent with section 5.14(c)(1)-(4) the foregoing conditions, then:

- (i) in the first Delivery Year, the Resource sets the Capacity Resource Clearing Price for the LDA and all cleared resources in the LDA receive the Capacity Resource Clearing Price set by the Sell Offer as the marginal offer, in accordance with sections 5.12(a) and 5.14(a).
- (ii) in either of the subsequent two BRAs, if any part of the Sell Offer from the Resource clears, it shall receive the Capacity Resource Clearing Price for such LDA for its cleared capacity and for any additional minimum block quantity pursuant to section 5.14(b); or
- (iii) if the Resource does not clear, it shall be deemed resubmitted at the highest price per MW-day at which the megawatt quantity of Unforced Capacity of such Resource that cleared the first-year BRA will clear the subsequent-year BRA pursuant to the optimization algorithm described in section 5.12(a) of this Attachment, and
- (iv) the resource with its Sell Offer submitted shall clear and shall be committed to the PJM Region in the amount cleared, plus any additional minimum-block quantity from its Sell Offer for such Delivery Year, but such additional amount shall be no greater than the portion of a minimum-block quantity, if any, from its first-year Sell Offer satisfying section

5.14(c)(1)-(3) that is entitled to compensation pursuant to section 5.14(b) of this Attachment; and

- (v) the Capacity Resource Clearing Price, and the resources cleared, shall be re-determined to reflect the resubmitted Sell Offer. In such case, the Resource for which the Sell Offer is submitted pursuant to section 5.14(c)(1)-(4) shall be paid for the entire committed quantity at the Sell Offer price that it initially submitted in such subsequent BRA. The difference between such Sell Offer price and the Capacity Resource Clearing Price (as well as any difference between the cleared quantity and the committed quantity), will be treated as a Resource Make-Whole Payment in accordance with Section 5.14(b). Other capacity resources that clear the BRA in such LDA receive the Capacity Resource Clearing Price as determined in Section 5.14(a).

6. The failure to submit a Sell Offer consistent with Section 5.14(c)(i)-(iii) in the BRA for Delivery Year 3 shall not retroactively revoke the New Entry Price Adjustment for Delivery Year 2. However, the failure to submit a Sell Offer consistent with section 5.14(c)(4) in the BRA for Delivery Year 2 shall make the resource ineligible for the New Entry Pricing Adjustment for Delivery Years 2 and 3.

7. For each Delivery Year that the foregoing conditions are satisfied, the Office of the Interconnection shall maintain and employ in the auction clearing for such LDA a separate VRR Curve, notwithstanding the outcome of the test referenced in Section 5.10(a)(ii) of this Attachment.

8. On or before August 1, 2012, PJM shall file with FERC under FPA section 205, as determined necessary by PJM following a stakeholder process, tariff changes to establish a long-term auction process as a not unduly discriminatory means to provide adequate long-term revenue assurances to support new entry, as a supplement to or replacement of this New Entry Price Adjustment.

d) Qualifying Transmission Upgrade Payments

A Capacity Market Seller that submitted a Sell Offer based on a Qualifying Transmission Upgrade that clears in the Base Residual Auction shall receive a payment equal to the Capacity Resource Clearing Price, including any Locational Price Adder, of the LDA into which the Qualifying Transmission Upgrade is to increase Capacity Emergency Transfer Limit, less the Capacity Resource Clearing Price, including any Locational Price Adder, of the LDA from which the upgrade was to provide such increased CETL, multiplied by the megawatt quantity of increased CETL cleared from such Sell Offer. Such payments shall be reflected in the Locational Price Adder determined as part of the Final Zonal Capacity Price for the Zone associated with such LDAs, and shall be funded through a reduction in the Capacity Transfer Rights allocated to Load-Serving Entities under section 5.15, as set forth in that section. PJMSettlement shall be the Counterparty to any cleared capacity transaction resulting from a Sell Offer based on a Qualifying Transmission Upgrade.

e) Locational Reliability Charge

In accordance with the Reliability Assurance Agreement, each LSE shall incur a Locational Reliability Charge (subject to certain offsets and other adjustments as described in sections 5.13, 5.14A, 5.14B, and 5.15) equal to such LSE's Daily Unforced Capacity Obligation in a Zone during such Delivery Year multiplied by the applicable Final Zonal Capacity Price in such Zone. PJM Settlement shall be the Counterparty to the LSEs' obligations to pay, and payments of, Locational Reliability Charges.

f) The Office of the Interconnection shall determine Zonal Capacity Prices in accordance with the following, based on the optimization algorithm:

i) The Office of the Interconnection shall calculate and post the Preliminary Zonal Capacity Prices for each Delivery Year following the Base Residual Auction for such Delivery Year. The Preliminary Zonal Capacity Price for each Zone shall be the sum of: 1) the marginal value of system capacity for the PJM Region, without considering locational constraints; 2) the Locational Price Adder, if any, for the LDA in which such Zone is located; provided however, that if the Zone contains multiple LDAs with different Capacity Resource Clearing Prices, the Zonal Capacity Price shall be a weighted average of the Capacity Resource Clearing Prices for such LDAs, weighted by the Unforced Capacity of Capacity Resources cleared in each such LDA; 3) an adjustment, if required, to account for adders paid to Annual Resources and Extended Summer Demand Resources in the LDA for which the zone is located; 4) an adjustment, if required, to account for Resource Make-Whole Payments; and (5) an adjustment, if required to provide sufficient revenue for payment of any PRD Credits, all as determined in accordance with the optimization algorithm.

ii) The Office of the Interconnection shall calculate and post the Adjusted Zonal Capacity Price following each Incremental Auction. The Adjusted Zonal Capacity Price for each Zone shall equal the sum of: (1) the average marginal value of system capacity weighted by the Unforced Capacity cleared in all auctions previously conducted for such Delivery Year (excluding any Unforced Capacity cleared as replacement capacity); (2) the average Locational Price Adder weighted by the Unforced Capacity cleared in all auctions previously conducted for such Delivery Year (excluding any Unforced Capacity cleared as replacement capacity); (3) an adjustment, if required, to account for adders paid to Annual Resources and Extended Summer Demand Resources for all auctions previously conducted for such Delivery Year (excluding any Unforced Capacity cleared as replacement capacity); (4) an adjustment, if required, to account for Resource Make-Whole Payments for all actions previously conducted (excluding any Resource Make-Whole Payments to be charged to the buyers of replacement capacity); and (5) an adjustment, if required to provide sufficient revenue for payment of any PRD Credits. The Adjusted Zonal Capacity Price may decrease if Unforced Capacity is decommitted or the Resource Clearing Price decreases in an Incremental Auction.

iii) The Office of the Interconnection shall calculate and post the Final Zonal Capacity Price for each Delivery Year after the final auction is held for such Delivery Year, as set forth above. The Final Zonal Capacity Price for each Zone shall equal the Adjusted Zonal Capacity Price, as further adjusted to reflect any decreases in the Nominated Demand Resource

Value of any existing Demand Resource cleared in the Base Residual Auction and Second Incremental Auction.

g) Resource Substitution *Charge and Replacement Capacity Adjustment Charge*

i) Each Capacity Market Buyer in an Incremental Auction securing replacement capacity shall pay a Resource Substitution Charge equal to the Capacity Resource Clearing Price resulting from such auction multiplied by the megawatt quantity of Unforced Capacity purchased by such Market Buyer in such auction.

ii) *Each Capacity Market Seller that clears a Sell Offer based on a Capacity Resource in one or more RPM Auctions for the 2017-2018 Delivery Year or for any subsequent Delivery Year, and thereafter replaces (by any means) such resource, shall, when the Capacity Resource Clearing Price in the Scheduled Incremental Auction for such Delivery Year is less than the weighted average Capacity Resource Clearing Price in the RPM Auctions in which such resource cleared for such Delivery Year, pay a Replacement Capacity Adjustment Charge equal to [the weighted average Capacity Resource Clearing Price in the RPM Auctions in which such resource cleared minus the Capacity Resource Clearing Price in the Scheduled Incremental Auction] multiplied by the replaced Unforced Capacity megawatt quantity. Revenues from all Replacement Capacity Adjustment Charges for a Delivery Year shall be summed for the PJM Region and all LDAs and allocated to Zones based on the proportion of all Locational Reliability Charges assessed in each Zone to the total Locational Reliability Charges assessed in all Zones. Within Zones, such revenues shall be allocated among LSEs responsible for paying Locational Reliability Charges in such Zone pro-rata based on the Unforced Capacity Obligation of each LSE in the Zone.*

h) Minimum Offer Price Rule for Certain Generation Capacity Resources

(1) General Rule. Any Sell Offer submitted in any RPM Auction for any Delivery Year based on a MOPR Screened Generation Resource shall have an offer price no lower than the MOPR Floor Offer Price for the period specified in this subsection (h), unless the Capacity Market Seller has obtained a Self-Supply Exemption, a Competitive Entry Exemption, or a Unit-Specific Exception with respect to such MOPR Screened Generation Resource in such auction prior to the submission of such offer, in accordance with the provisions of this subsection. Nothing in subsection (c) of this section 5.14 shall be read to excuse compliance of any Sell Offer with the requirements of this subsection (h).

(2) Applicability. A MOPR Screened Generation Resource shall be any Generation Capacity Resource, and any uprate to a Generation Capacity Resource that is being, or has been, modified to increase the number of megawatts of available installed capacity thereof by 20 MW or more, based on a combustion turbine, combined cycle, or integrated gasification combined cycle generating plant (including Repowering of an existing plant whenever the repowered plant utilizes combustion turbine, combined cycle, or integrated gasification combined cycle *technology*) with an installed capacity rating, combined for all units comprising such resource at a single point of interconnection to the Transmission System, of no less than 20 MW; provided, however, that a MOPR Screened Generation Resource shall not include: (i) the Installed Capacity equivalent (measured as of the time of clearing) of any of a resource's

Unforced Capacity that has cleared any RPM Auction conducted prior to February 1, 2013 or an uprate of such resource to the extent that the developer or owner of the uprate timely submitted a request for, and PJM issued, an offer floor pursuant to the unit-specific exception process of this subsection (h) before the start of the commencement of the Base Residual Auction for the 2016/2017 Delivery Year and the capacity associated with the uprate clears that auction; (ii) any unit primarily fueled with landfill gas; (iii) any cogeneration unit that is certified or self-certified as a Qualifying Facility (as defined in Part 292 of FERC's regulations), where the Capacity Market Seller is the owner of the Qualifying Facility or has contracted for the Unforced Capacity of such facility and the Unforced Capacity of the unit is no larger than approximately all of the Unforced Capacity Obligation of the host load, and all Unforced Capacity of the unit is used to meet the Unforced Capacity Obligation of the host load. A MOPR Screened Generation Resource shall include all Generation Capacity Resources located in the PJM Region that meet the foregoing criteria, and all Generation Capacity Resources located outside the PJM Region (where such Sell Offer is based solely on such resource) that entered commercial service on or after January 1, 2013, that meet the foregoing criteria and that require sufficient transmission investment for delivery to the PJM Region to indicate a long-term commitment to providing capacity to the PJM Region.

(3) MOPR Floor Offer Price. The MOPR Floor Offer Price shall be 100% of the Net Asset Class Cost of New Entry for the relevant generator type and location, as determined hereunder. The gross Cost of New Entry component of the Net Asset Class Cost of New Entry shall be, for purposes of the Delivery Year commencing on June 1, 2015, the values indicated in the table below for each CONE Area for a combustion turbine generator ("CT"), a combined cycle generator ("CC"), and an integrated gasification combined cycle generator ("IGCC"), respectively, and shall be adjusted for subsequent Delivery Years in accordance with subsection (h)(3)(i) below. The estimated energy and ancillary service revenues for each type of plant shall be determined as described in subsection (h)(3)(ii) below.

	CONE Area 1	CONE Area 2	CONE Area 3	CONE Area 4	CONE Area 5
CT \$/MW-yr	140,000	130,600	127,500	134,500	114,500
CC \$/MW-yr	173,000	152,600	166,000	166,000	147,000
IGCC \$/MW-yr	582,042	558,486	547,240	537,306	541,809

i) Commencing with the Delivery Year that begins on June 1, 2016, the gross Cost of New Entry component of the Net Asset Class Cost of New Entry shall be adjusted to reflect changes in generating plant construction costs in the same manner as set forth for the cost of new entry in section 5.10(a)(iv)(B), provided, however, that nothing herein shall preclude the Office of the Interconnection from filing to change the Net Asset Class Cost of New Entry for any Delivery Year pursuant to appropriate filings with FERC under the Federal Power Act.

ii) For purposes of this provision, the net energy and ancillary services revenue estimate for a combustion turbine generator shall be that determined by section 5.10(a)(v)(A) of this Attachment DD, provided that the energy revenue estimate for each CONE Area shall be based on the Zone within such CONE Area that has the highest energy revenue estimate calculated under the methodology in that subsection. The net energy and ancillary services revenue estimate for a combined cycle generator shall be determined in the same

manner as that prescribed for a combustion turbine generator in the previous sentence, except that the heat rate assumed for the combined cycle resource shall be 6.722 MMBtu/Mwh, the variable operations and maintenance expenses for such resource shall be \$3.23 per MWh, the Peak-Hour Dispatch scenario for both the Day-Ahead and Real-Time Energy Markets shall be modified to dispatch the resource continuously during the full peak-hour period, as described in section 2.46, for each such period that the resource is economic (using the test set forth in such section), rather than only during the four-hour blocks within such period that such resource is economic, and the ancillary service revenues shall be \$3198 per MW-year. The net energy and ancillary services revenue estimate for an integrated gasification combined cycle generator shall be determined in the same manner as that prescribed for a combustion turbine generator above, except that the heat rate assumed for the combined cycle resource shall be 8.7 MMBtu/Mwh, the variable operations and maintenance expenses for such resource shall be \$7.77 per MWh, the Peak-Hour Dispatch scenario for both the Day-Ahead and Real-Time Energy Markets shall be modified to dispatch the resource continuously during the full peak-hour period, as described in section 2.46, for each such period that the resource is economic (using the test set forth in such section), rather than only during the four-hour blocks within such period that such resource is economic, and the ancillary service revenues shall be \$3,198 per MW-year.

(4) Duration. The MOPR Floor Offer Price shall apply to any Sell Offer based on a MOPR Screened Generation Resource (to the extent an exemption has not been obtained for such resource under this subsection) until *(and including)* the *first Delivery Year* for which a Sell Offer based on the non-exempt portion of such resource has cleared an RPM Auction.

(5) Effect of Exemption or Exception. To the extent a Sell Offer in any RPM Auction for any Delivery Year is based on a MOPR Screened Generation Resource for which the Capacity Market Seller obtains, prior to the submission of such offer, either a Competitive Entry Exemption or a Self-Supply Exemption, such offer (to the extent of such exemption) may include an offer price below the MOPR Floor Offer Price (including, without limitation, an offer price of zero or other indication of intent to clear regardless of price). *To the extent a Sell Offer in any RPM Auction for any Delivery Year is based on a MOPR Screened Generation Resource for which the Capacity Market Seller obtains, prior to the submission of such offer, a Unit-Specific Exception, such offer (to the extent of such exception) may include an offer price below the MOPR Floor Offer Price but no lower than the minimum offer price determined in such exception process.* The Installed Capacity equivalent of any MOPR Screened Generation Resource's Unforced Capacity that has both obtained such an exemption *or exception* and cleared the RPM Auction for which it obtained such exemption *or exception* shall not be subject to a MOPR Floor Offer Price in any subsequent RPM Auction, except as provided in subsection (h)(10) hereof.

(6) Self-Supply Exemption. A Capacity Market Seller that is a Self-Supply LSE may qualify its MOPR Screened Generation Resource in any RPM Auction for any Delivery Year for a Self-Supply Exemption if the MOPR Screened Generation Resource satisfies the criteria specified below:

i) Cost and revenue criteria. The costs and revenues associated with a MOPR Screened Generation Resource for which a Self-Supply LSE seeks a Self-Supply

Exemption may permissibly reflect: (A) payments, concessions, rebates, subsidies, or incentives designed to incent or promote, or participation in a program, contract, or other arrangement that utilizes criteria designed to incent or promote, general industrial development in an area; (B) payments, concessions, rebates, subsidies or incentives from a county or other local government authority designed to incent, or participation in a program, contract or other arrangement established by a county or other local governmental authority utilizing eligibility or selection criteria designed to incent, siting facilities in that county or locality rather than another county or locality; (C) revenues received by the Self-Supply LSE attributable to the inclusion of costs of the MOPR Screened Generation Resource in such LSE's regulated retail rates where such LSE is a *Vertically Integrated Utility* and the MOPR Screened Generation Resource is planned consistent with such LSE's most recent integrated resource plan found reasonable by the RERRA to meet the needs of its customers; and (D) payments to the Self-Supply LSE (such as retail rate recovery) traditionally associated with revenues and costs of Public Power Entities (or joint action of multiple Public Power Entities); revenues to a Public Power Entity from its contracts having a term of one year or more with its members or customers (including wholesale power contracts between an electric cooperative and its members); or cost or revenue advantages related to a longstanding business model employed by the Self-Supply LSE, such as its financial condition, tax status, access to capital, or other similar conditions affecting the Self-Supply LSE's costs and revenues. A Self-Supply Exemption shall not be permitted to the extent that the Self-Supply LSE, acting either as the Capacity Market Seller or on behalf of the Capacity Market Seller, has any formal or informal agreements or arrangements to seek, recover, accept or receive: (E) any material payments, concessions, rebates, or subsidies, connected to the construction, or clearing in any RPM Auction, of the MOPR Screened Generation Resource, not described by (A) through (D) of this section; or (F) other support through contracts having a term of one year or more obtained in any procurement process sponsored or mandated by any state legislature or agency connected with the construction, or clearing in any RPM Auction, of the MOPR Screened Generation Resource. Any cost and revenue advantages described by (A) through (D) of this subsection that are material to the cost of the MOPR Screened Generation Resource and that are irregular or anomalous, that do not reflect arms-length transactions, or that are not in the ordinary course of the Self-Supply LSE's business, shall disqualify application of the Self-Supply Exemption unless the Self-Supply LSE demonstrates in the exemption process provided hereunder that such costs and revenues are consistent with the overall objectives of the Self-Supply Exemption.

ii) Owned and Contracted Capacity. To qualify for the Self-Supply Exemption, the Self-Supply LSE, acting either as the Capacity Market Seller or on behalf of the Capacity Market Seller, must demonstrate that the MOPR Screened Generation Resource is included in such LSE's Owned and Contracted Capacity and that its Owned and Contracted Capacity meets the criteria outlined below after the addition of such MOPR Screened Generation Resource.

iii) Maximum Net Short Position. If the excess, if any, of the Self-Supply LSE's Estimated Capacity Obligation above its Owned and Contracted Capacity ("Net Short") is less than the amount of Unforced Capacity specified in or calculated under the table below for all relevant areas based on the specified type of LSE, then this exemption criterion is satisfied. For this purpose, the Net Short position shall be calculated for any Self-Supply LSE requesting this exemption for the PJM Region and for each LDA specified in the table below in

which the MOPR Screened Generation Resource is located (including through nesting of LDAs) to the extent the Self-Supply LSE has an Estimated Capacity Obligation in such LDA. If the Self-Supply LSE does not have an Estimated Capacity Obligation in an evaluated LDA, then the Self-Supply LSE is deemed to satisfy the test for that LDA.

Type of Self-Supply LSE	Maximum Net Short Position (UCAP MW, measured at RTO, MAAC, SWMAAC and EMAAC unless otherwise specified)
Single Customer Entity	150 MW
Public Power Entity	1000 MW
Multi-state Public Power Entity*	1000 MW in SWMAAC, EMAAC, or MAAC LDAs and 1800 MW RTO
Vertically Integrated Utility	20% of LSE's Reliability Requirement

*A Multi-state Public Power Entity shall not have more than 90% of its total load in any one state.

iv) Maximum Net Long Position. If the excess, if any, of the Self-Supply LSE's Owned and Contracted Capacity for the PJM Region above its Estimated Capacity Obligation for the PJM Region ("Net Long"), is less than the amount of Unforced Capacity specified in or calculated under the table below, then this exemption criterion is satisfied:

Self-Supply LSE Total Estimated Capacity Obligation in the PJM Region (UCAP MW)	Maximum Net Long Position (UCAP MW)
Less than 500	75 MW
Greater than or equal to 500 and less than 5,000	15% of LSE's Estimated Capacity Obligation
Greater than or equal to 5,000 and less than 15,000	750 MW
Greater than or equal to 15,000 and less than 25,000	1,000 MW
Greater than or equal to 25,000	4% of LSE's Estimated Capacity Obligation capped at 1300 MWs

If the MOPR Screened Generation Resource causes the Self-Supply LSE's Net Long Position to exceed the applicable threshold stated above, the MOPR Floor Offer Price shall apply, for the Delivery Year in which such threshold is exceeded, only to the quantity of Unforced Capacity of such resource that exceeds such threshold. In such event, such Unforced Capacity of such resource shall be subject to the MOPR Floor Offer Price for the period specified in subsection (h)(4) hereof; provided however, that any such Unforced Capacity that did not qualify for such exemption for such Delivery Year may qualify for such exemption in any RPM Auction for a future Delivery Year to the extent the Self-Supply LSE's future load growth accommodates the resource under the Net Long Position criteria.

v) *Beginning with the Delivery Year that commences June 1, 2020, and continuing no later than for every fourth Delivery Year thereafter, the Office of the*

Interconnection shall review the Maximum Net Short and Net Long positions, as required by the foregoing subsection. Such review may include, without limitation, analyses under various appropriate scenarios of the minimum net short quantities at which the benefit to an LSE of a clearing price reduction for its capacity purchases from the RPM Auction outweighs the cost to the LSE of a new generating unit that is offered at an uneconomic price, and may, to the extent appropriate, reasonably balance the need to protect the market with the need to accommodate the normal business operations of Self-Supply LSEs. Based on the results of such review, PJM shall propose either to modify or retain the existing Maximum Net Short and Net Long positions. The Office of the Interconnection shall post publicly and solicit stakeholder comment regarding the proposal. If, as a result of this process, changes to the Maximum Net Short and/or Net Long positions are proposed, the Office of the Interconnection shall file such modified Maximum Net Short and/or Net Long positions with the FERC by October 1, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values would be applied.

vi) Officer Certification. The Self-Supply LSE, acting either as the Capacity Market Seller or on behalf of the Capacity Market Seller, shall submit a sworn, notarized certification of a duly authorized officer, certifying that the officer has personal knowledge of, or has engaged in a diligent inquiry to determine, the facts and circumstances supporting the Capacity Market Seller's decision to submit a Sell Offer into the RPM Auction for the MOPR Screened Generation Resource and seek an exemption from the MOPR Floor Offer Price for such resource, and to the best of his/her knowledge and belief: (A) the information supplied to the Market Monitoring Unit and the Office of Interconnection in support of its exemption request is true and correct and the MOPR Screened Generation Resource will be Owned and Contracted Capacity for the purpose of self-supply for the benefit of the Self-Supply LSE; (B) the Self-Supply LSE has disclosed all material facts relevant to the exemption request; and (C) the Capacity Market Seller satisfies the criteria for the exemption.

vii) For purposes of the Self-Supply Exemption:

(A) "Self-Supply LSE" means the following types of Load Serving Entity, which operate under long-standing business models: Municipal/Cooperative Entity, Single Customer Entity, or Vertically Integrated Utility.

(B) "Municipal/Cooperative Entity" means cooperative and municipal utilities, including public power supply entities comprised of either or both of the same, and joint action agencies.

(C) "Vertically Integrated Utility" means a utility that owns generation, includes such generation in its regulated rates, and earns a regulated return on its investment in such generation.

(D) "Single Customer Entity" means an LSE that serves at retail only customers that are under common control with such LSE, where such control means holding 51% or more of the voting securities or voting interests of the LSE and all its retail customers.

(E) All capacity calculations shall be on an Unforced Capacity basis.

(F) Estimated Capacity Obligations and Owned and Contracted Capacity shall be measured on a three-year average basis for the three years starting with the first day of the Delivery Year associated with the RPM Auction for which the exemption is being sought (“MOPR Exemption Measurement Period”). Such measurements shall be verified by PJM using the latest available data that PJM uses to determine capacity obligations.

(G) The Self-Supply LSE’s Estimated Capacity Obligation shall be the average, for the three Delivery Years of the MOPR Exemption Measurement Period, of the Self-Supply LSE’s estimated share of the most recent available Zonal Peak Load Forecast for each such Delivery Year for each Zone in which the Self-Supply LSE will serve load during such Delivery Year, times the Forecast Pool Requirement established for the first such Delivery Year, shall be stated on an Unforced Capacity basis. The Self-Supply LSE’s share of such load shall be determined by the ratio of: (1) the peak load contributions, from the most recent summer peak for which data is available at the time of the exemption request, of the customers or areas within each Zone for which such LSE will have load-serving responsibility during the first Delivery Year of the MOPR Exemption Measurement Period to (2) the weather-normalized summer peak load of such Zone for the same summer peak period addressed in the previous clause. *Notwithstanding the foregoing, solely in the case of any Self-Supply LSE that demonstrates to the Office of the Interconnection that its annual peak load occurs in the winter, such LSE’s Estimated Capacity Obligation determined solely for the purposes of this subsection 5.14(h) shall be based on its winter peak.* Once submitted, an exemption request shall not be subject to change due to later revisions to the PJM load forecasts for such Delivery Years. The Self-Supply LSE’s Estimated Capacity Obligation shall be limited to the LSE’s firm obligations to serve specific identifiable customers or groups of customers including native load obligations and specific load obligations in effective contracts for which the term of the contract includes at least a portion of the Delivery Year associated with the RPM Auction for which the exemption is requested (and shall not include load that is speculative or load obligations that are not native load or customer specific); as well as retail loads of entities that directly (as through charges on a retail electric bill) or indirectly, contribute to the cost recovery of the MOPR Screened Generation Resource; provided, however, nothing herein shall require a Self-Supply LSE that is a joint owner of a MOPR Screened Generation Resource to aggregate its expected loads with the loads of any other joint owner for purposes of such Self-Supply LSE’s exemption request.

(H) “Owned and Contracted Capacity” includes all of the Self-Supply LSE’s qualified Capacity Resources, whether internal or external to PJM. For purposes of the Self-Supply Exemption, Owned and Contracted Capacity includes Generation Capacity Resources without regard to whether such resource has failed or could fail the Competitive and Non-Discriminatory procurement standard of the Competitive Entry Exemption. To qualify for a Self-Supply Entry exemption, the MOPR Screened Generation must be used by the Self-Supply LSE, meaning such Self-Supply LSE is the beneficial off-taker of such generation such that the owned or contracted for MOPR Screened Generation is for the Self-Supply LSE’s use to supply its customer(s).

(I) If multiple entities will have an ownership or contractual share in, or are otherwise sponsoring, the MOPR Screened Generation Resource, the positions of each such entity will be measured and considered for a Self-Supply Exemption with respect to the individual Self-Supply LSE's ownership or contractual share of such resource.

(7) Competitive Entry Exemption. A Capacity Market Seller may qualify a MOPR Screened Generation Resource for a Competitive Entry Exemption in any RPM Auction for any Delivery Year if the Capacity Market Seller demonstrates that the MOPR Screened Generation Resource satisfies all of the following criteria:

i) No costs of the MOPR Screened Generation Resource are recovered from customers either directly or indirectly through a non-bypassable charge, *except in the event that Sections 5.14(h)(7)(ii) and (iii), to the extent either or both are applicable to such resource, are satisfied.*

ii) No costs of the MOPR Screened Generation Resource are supported through any contracts having a term of one year or more obtained in any state-sponsored or state-mandated procurement processes that are not Competitive and Non-Discriminatory. The Office of the Interconnection and the Market Monitoring Unit may deem a procurement process to be "Competitive and Non-Discriminatory" only if: (A) both new and existing resources may satisfy the requirements of the procurement; (B) the requirements of the procurement are fully objective and transparent; (C) the procurement terms do not restrict the type of capacity resources that may participate in and satisfy the requirements of the procurement; (D) the procurement terms do not include selection criteria that could give preference to new resources; and (E) the procurement terms do not use indirect means to discriminate against existing capacity, such as geographic constraints inconsistent with LDA import capabilities, unit technology or unit fuel requirements or unit heat-rate requirements, identity or nature of seller requirements, or requirements for new construction.

iii) The Capacity Market Seller does not have any formal or informal agreements or arrangements to seek, recover, accept or receive any (A) material payments, concessions, rebates, or subsidies directly or indirectly from any governmental entity connected with the construction, or clearing in any RPM Auction, of the MOPR Screened Generation Resource, or (B) other material support through contracts having a term of one year or more obtained in any state-sponsored or state-mandated procurement processes, connected to the construction, or clearing in any RPM Auction, of the MOPR Screened Generation Resource. These restrictions shall not include (C) payments (including payments in lieu of taxes), concessions, rebates, subsidies, or incentives designed to incent, or participation in a program, contract or other arrangement that utilizes criteria designed to incent or promote, general industrial development in an area; (D) payments, concessions, rebates, subsidies or incentives designed to incent, or participation in a program, contract or other arrangements from a county or other local governmental authority using eligibility or selection criteria designed to incent, siting facilities in that county or locality rather than another county or locality; or (E) federal government production tax credits, investment tax credits, and similar tax advantages or incentives that are available to generators without regard to the geographic location of the generation.

iv) The Capacity Market Seller shall submit a sworn, notarized certification of a duly authorized officer, certifying that the officer has personal knowledge of, or has engaged in a diligent inquiry to determine, the facts and circumstances supporting the Capacity Market Seller's decision to submit a Sell Offer into the RPM Auction for the MOPR Screened Generation Resource and seek an exemption from the MOPR Floor Offer Price for such resource, and, to the best of his/her knowledge and belief: (A) the information supplied to the Market Monitoring Unit and the Office of Interconnection to support its exemption is true and correct and the resource is being constructed or contracted for purposes of competitive entry by the Capacity Market Seller; (B) the Capacity Market Seller has disclosed all material facts relevant to the request for the exemption; and (C) the exemption request satisfies the criteria for the exemption.

(8) *Unit-Specific Exception. A Capacity Market Seller intending to submit a Sell Offer in any RPM Auction below the MOPR Floor Offer Price for any Delivery Year based on a MOPR Screened Generation Resource may, at its election, submit a request for a Unit-Specific Exception in addition to, or in lieu of, a request for a Self-Supply Exemption or a Competitive Entry Exemption, for such MOPR Screened Generation Resource. A Sell Offer meeting the Unit-Specific Exception criteria in this subsection shall be permitted and shall not be re-set to the MOPR Floor Offer Price if the Capacity Market Seller obtains a determination from the Office of the Interconnection or the Commission, prior to the RPM Auction in which it seeks to submit the Sell Offer, that such Sell Offer is permissible because it is consistent with the competitive, cost-based, fixed, net cost of new entry were the resource to rely solely on revenues from PJM-administered markets. The following requirements shall apply to requests for such determinations:*

i) *The Capacity Market Seller shall submit a written request with all of the required documentation as described below and in the PJM Manuals. For such purpose, per subsection (h)(9)(i) below, the Office of the Interconnection shall post a preliminary estimate for the relevant Delivery Year of the MOPR Floor Offer Price expected to be established hereunder. If the MOPR Floor Offer Price subsequently established for the relevant Delivery Year is less than the Sell Offer, the Sell Offer shall be permitted and no exception shall be required.*

ii) *As more fully set forth in the PJM Manuals, the Capacity Market Seller must include in its request for an exception under this subsection documentation to support the fixed development, construction, operation, and maintenance costs of the MOPR Screened Generation Resource, as well as estimates of offsetting net revenues. Estimates of costs or revenues shall be supported at a level of detail comparable to the cost and revenue estimates used to support the Net Asset Class Cost of New Entry established under this section 5.14(h). As more fully set forth in the PJM Manuals, supporting documentation for project costs may include, as applicable and available, a complete project description; environmental permits; vendor quotes for plant or equipment; evidence of actual costs of recent comparable projects; bases for electric and gas interconnection costs and any cost contingencies; bases and support for property taxes, insurance, operations and maintenance ("O&M") contractor costs, and other fixed O&M and administrative or general costs; financing documents for construction-period and permanent financing or evidence of recent debt costs of the seller for*

comparable investments; and the bases and support for the claimed capitalization ratio, rate of return, cost-recovery period, inflation rate, or other parameters used in financial modeling. Such documentation also shall identify and support any sunk costs that the Capacity Market Seller has reflected as a reduction to its Sell Offer. The request shall include a certification, signed by an officer of the Capacity Market Seller, that the claimed costs accurately reflect, in all material respects, the seller's reasonably expected costs of new entry and that the request satisfies all standards for a Unit-Specific Exception hereunder. The request also shall identify all revenue sources relied upon in the Sell Offer to offset the claimed fixed costs, including, without limitation, long-term power supply contracts, tolling agreements, or tariffs on file with state regulatory agencies, and shall demonstrate that such offsetting revenues are consistent, over a reasonable time period identified by the Capacity Market Seller, with the standard prescribed above. In making such demonstration, the Capacity Market Seller may rely upon forecasts of competitive electricity prices in the PJM Region based on well defined models that include fully documented estimates of future fuel prices, variable operation and maintenance expenses, energy demand, emissions allowance prices, and expected environmental or energy policies that affect the seller's forecast of electricity prices in such region, employing input data from sources readily available to the public. Documentation for net revenues also may include, as available and applicable, plant performance and capability information, including heat rate, start-up times and costs, forced outage rates, planned outage schedules, maintenance cycle, fuel costs and other variable operations and maintenance expenses, and ancillary service capabilities.

iii) A Sell Offer evaluated under the Unit-Specific Exception shall be permitted if the information provided reasonably demonstrates that the Sell Offer's competitive, cost-based, fixed, net cost of new entry is below the MOPR Floor Offer Price, based on competitive cost advantages relative to the costs implied by the MOPR Floor Offer Price, including, without limitation, competitive cost advantages resulting from the Capacity Market Seller's business model, financial condition, tax status, access to capital or other similar conditions affecting the applicant's costs, or based on net revenues that are reasonably demonstrated hereunder to be higher than those implied by the MOPR Floor Offer Price. Capacity Market Sellers shall be asked to demonstrate that claimed cost advantages or sources of net revenue that are irregular or anomalous, that do not reflect arm's-length transactions, or that are not in the ordinary course of the Capacity Market Seller's business are consistent with the standards of this subsection. Failure to adequately support such costs or revenues so as to enable the Office of the Interconnection to make the determination required in this section will result in denial of a Unit-Specific Exception hereunder by the Office of the Interconnection.

(9) Exemption/Exception Process.

i) The Office of the Interconnection shall post, by no later than one hundred fifty (150) days prior to the commencement of the offer period for an RPM Auction, a preliminary estimate for the relevant Delivery Year of the MOPR Floor Offer Price.

ii) The Capacity Market Seller must submit its request for a Unit-Specific Exception, Competitive Entry Exemption or a Self-Supply Exemption in writing simultaneously to the Market Monitoring Unit and the Office of Interconnection by no later than one hundred thirty five (135) days prior to the commencement of the offer period for the RPM

Auction in which such seller seeks to submit its Sell Offer. The Capacity Market Seller shall include in its request a description of its MOPR Screened Generation Resource, the exemption *or exception* that the Capacity Market Seller is requesting, and all documentation necessary to demonstrate that the exemption *or exception* criteria are satisfied, including without limitation the applicable certification(s) specified in this subsection (h). In addition to the documentation identified herein and in the PJM Manuals, the Capacity Market Seller shall provide any additional supporting information reasonably requested by the Office of the Interconnection or the Market Monitoring Unit to evaluate the Sell Offer. Requests for additional documentation will not extend the deadline by which the Office of the Interconnection or the Market Monitoring Unit must provide their determinations of the exemption request. The Capacity Market Seller shall have an ongoing obligation through the closing of the offer period for the RPM Auction to update the request to reflect any material changes in the request.

iii) As further described in Section II.D. of Attachment M-Appendix to this Tariff, the Market Monitoring Unit shall review the request and supporting documentation and shall provide its determination by no later than forty-five (45) days after receipt of the exemption *or exception* request. The Office of the Interconnection shall also review all exemption *and exception* requests to determine whether the request is acceptable in accordance with the standards and criteria under this section 5.14(h) and shall provide its determination in writing to the Capacity Market Seller, with a copy to the Market Monitoring Unit, by no later than sixty-five (65) days after receipt of the exemption *or exception* request. The Office of the Interconnection shall reject a requested exemption *or exception* if the Capacity Market Seller's request does not comply with the PJM Market Rules, as interpreted and applied by the Office of the Interconnection. Such rejection shall specify those points of non-compliance upon which the Office of the Interconnection based its rejection of the exemption *or exception* request. If the Office of the Interconnection does not provide its determination on an exemption *or exception* request by no later than sixty-five (65) days after receipt of the exemption *or exception* request, the request shall be deemed granted. Following the Office of the Interconnection's determination on a Unit-Specific Exception request, the Capacity Market Seller shall notify the Market Monitoring Unit and the Office of the Interconnection, in writing, of the minimum level of Sell Offer, consistent with such determination, to which it agrees to commit by no later than five (5) days after receipt of the Office of the Interconnection's determination of its Unit-Specific Exception request. A Capacity Market Seller that is dissatisfied with any determination hereunder may seek any remedies available to it from FERC; provided, however, that the Office of the Interconnection will proceed with administration of the Tariff and market rules unless and until ordered to do otherwise by FERC.

(10) Procedures and Remedies in Cases of Suspected Fraud or Material Misrepresentation or Omissions in Connection with Exemption Requests.

In the event the Office of the Interconnection reasonably believes that a request for a Competitive Entry Exemption or a Self-Supply Exemption that has been granted contains fraudulent or material misrepresentations or fraudulent or material omissions such that the Capacity Market Seller would not have been eligible for the exemption for that resource had the request not contained such misrepresentations or omissions, then:

i) if the Office of the Interconnection provides written notice of revocation to the Capacity Market Seller no later than thirty (30) days prior to the commencement of the offer period for the RPM Auction for which the seller submitted a fraudulent exemption request, the Office of the Interconnection shall revoke the exemption for that auction. In such event, the Office of the Interconnection shall make any filings with FERC that the Office of the Interconnection deems necessary, and

ii) if the Office of the Interconnection does not provide written notice of revocation no later than 30 days before the start of the relevant RPM Auction, then the Office of the Interconnection may not revoke the exemption absent FERC approval. In any such filing to FERC, the requested remedies shall include (A) in the event that such resource has not cleared in the RPM Auction for which the exemption has been granted and the filing is made no later than 5 days prior to the commencement of the offer period for the RPM Auction, revocation of the exemption or, (B) in the event that the resource has cleared the RPM Auction for which the exemption has been granted and the filing is made no later than two (2) years after the close of the offer period for the relevant RPM Auction, suspension of any payments, during the pendency of the FERC proceeding, to the Capacity Market Seller for the resource that cleared in any RPM Auction relying on such exemption; and suspension of the Capacity Market Seller's exemption for that resource for future RPM Auctions.

iii) Prior to any automatic revocation or submission to FERC, the Office of the Interconnection and/or the Market Monitoring Unit shall notify the affected Capacity Market Seller and, to the extent practicable, provide the Capacity Market Seller an opportunity to explain the alleged misrepresentation or omission. Any filing to FERC under this provision shall seek fast track treatment and neither the name nor any identifying characteristics of the Capacity Market Seller or the resource shall be publicly revealed, but otherwise the filing shall be public. The Capacity Market Seller may apply for a new exemption for that resource for subsequent auctions, including auctions held during the pendency of the FERC proceeding. In the event that the Capacity Market Seller is cleared by FERC from such allegations of misrepresentations or omissions then the exemption shall be restored to the extent and in the manner permitted by FERC. The remedies required by this subsection (h)(10) to be requested in any filing to FERC shall not be exclusive of any other remedies or penalties that may be pursued against the Capacity Market Seller.

i) Capacity Export Charges and Credits

(1) Charge

Each Capacity Export Transmission Customer shall incur for each day of each Delivery Year a Capacity Export Charge equal to the Reserved Capacity of Long-Term Firm Transmission Service used for such export ("Export Reserved Capacity") multiplied by (the Final Zonal Capacity Price for such Delivery Year for the Zone encompassing the interface with the Control Area to which such capacity is exported minus the Final Zonal Capacity Price for such Delivery Year for the Zone in which the resources designated for export are located, but not less than zero). If more than one Zone forms the interface with such Control Area, then the amount of Reserved Capacity described above shall be apportioned among such Zones for purposes of the above calculation in proportion to the flows from such resource through each such Zone directly

to such interface under CETO/CETL analysis conditions, as determined by the Office of the Interconnection using procedures set forth in the PJM Manuals. The amount of the Reserved Capacity that is associated with a fully controllable facility that crosses such interface shall be completely apportioned to the Zone within which such facility terminates.

(2) Credit

To recognize the value of firm Transmission Service held by any such Capacity Export Transmission Customer, such customer assessed a charge under section 5.14(i)(1) also shall receive a credit, comparable to the Capacity Transfer Rights provided to Load-Serving Entities under section 5.15. Such credit shall be equal to the locational capacity price difference specified in section 5.14(i)(1) times the Export Customer's Allocated Share determined as follows:

Export Customer's Allocated Share equals

$$(\text{Export Path Import} * \text{Export Reserved Capacity}) /$$

$$(\text{Export Reserved Capacity} + \text{Daily Unforced Capacity Obligations of all LSEs in such Zone}).$$

Where:

“Export Path Import” means the megawatts of Unforced Capacity imported into the export interface Zone from the Zone in which the resource designated for export is located.

If more than one Zone forms the interface with such Control Area, then the amount of Export Reserved Capacity shall be apportioned among such Zones for purposes of the above calculation in the same manner as set forth in subsection (i)(1) above.

(3) Distribution of Revenues

Any revenues collected from the Capacity Export Charge with respect to any capacity export for a Delivery Year, less the credit provided in subsection (i)(2) for such Delivery Year, shall be distributed to the Load Serving Entities in the export-interface Zone that were assessed a

Locational Reliability Charge for such Delivery Year, pro rata based on the Daily Unforced Capacity Obligations of such Load-serving Entities in such Zone during such Delivery Year. If more than one Zone forms the interface with such Control Area, then the revenues shall be apportioned among such Zones for purposes of the above calculation in the same manner as set forth in subsection (i)(1) above.

5.14A Demand Response Transition Provision for RPM Delivery Years 2012/2013, 2013/2014, and 2014/2015

A. This Transition Provision applies only with respect to Demand Resources cleared in the Base Residual Auction for any or all of the 2012/2013, 2013/2014, or 2014/2015 Delivery Years (hereafter, “Transition Delivery Years” and each a “Transition Delivery Year”) by a Curtailment

Service Provider as an aggregator of end-use customers registered for the Emergency Load Response Program as Full Program Option or Capacity Only Option. A Curtailment Service Provider meeting the description of the preceding sentence is hereafter in this Section 5.14A referred to as a “Qualified DR Provider.”

B. In the event that a Qualified DR Provider concludes that its cleared Demand Resource for a Transition Delivery Year is not viable under the revised Reporting and Compliance provisions of the Emergency Load Response Program which became effective on November 7, 2011, pursuant to the Commission’s order issued on November 4, 2011, in Docket No. ER11-3322-000 (137 FERC ¶ 61,108), the Qualified DR Provider must so inform PJM in writing by no later than 30 days prior to the next Incremental Auction for the Transition Delivery Year for which the identified Demand Resource was cleared. A Qualified DR Provider that does not timely provide the notice described in this paragraph shall be excluded from application of the remainder of this Transition Provision. A Demand Resource cleared for a Transition Delivery Year is not viable for purposes of this Transition Provision to the extent that it relies upon load reduction by any end-use customer for which the applicable Qualified DR Provider anticipated, when it offered the Demand Resource, measuring load reduction at loads in excess of such customer’s peak load contribution during Emergency Load Response dispatch events or tests.

1. In the event a Qualified DR Provider that participates in an Incremental Auction after providing notice pursuant to paragraph B. above purchases Capacity Resources to replace its previously cleared Demand Resource at a price that exceeds the price at which the provider’s Demand Resource cleared in the Base Residual Auction for the same Transition Delivery Year, the Qualified DR Provider shall receive a DR Capacity Transition Credit in an amount determined by the following:

$$\text{DRTC} = (\text{IAP} - \text{BRP}) * \text{DRMW}$$

Where:

DRTC is the amount of the DR Capacity Transition Credit for the Qualified DR Provider, expressed in dollars;

IAP = the Capacity Resource Clearing Price paid by the Qualified DR Provider for replacement Capacity Resources in the Incremental Auction for the relevant Transition Delivery Year;

BRP = the Capacity Resource Clearing Price at which the Qualified DR Provider’s Demand Resource cleared in the Base Residual Auction for the same Transition Delivery Year; and

DRMW = the capacity in MW of the Qualified DR Provider’s previously cleared Demand Resource.

2. All DR Capacity Transition Credits will be paid weekly to the recipient Qualified DR Providers by PJMSettlement during the relevant Transition Delivery Year.

3. The cost of payments of DR Capacity Transition Credits to Qualified DR Providers shall be included in the Locational Reliability Charge collected by PJM Settlement during the relevant Transition Delivery Year from Load-Serving Entities in the LDA(s) for which the Qualified DR Provider's subject Demand Resource was cleared.

C. A Qualified DR Provider may seek compensation related to its previously cleared Demand Resource for a particular Transition Delivery Year, in lieu of any DR Capacity Transition Credits for which it otherwise might be eligible under paragraph B.1. above, under the following conditions:

1. The Qualified DR Provider must provide timely notice to PJM in accordance with paragraph B of this Transition Provision, and
2. The Qualified DR Provider must demonstrate to PJM's reasonable satisfaction, not later than 60 days prior to the start of the applicable Transition Delivery Year, that
 - a. the Qualified DR Provider entered into contractual arrangements on or before April 7, 2011, with one or more end-use customers registered for the Emergency Load Response Program as Full Program Option or Capacity Only Option in association with the Demand Resource identified in the provider's notice pursuant to paragraph B above,
 - b. under which the Qualified DR Provider is unavoidably obligated to pay to such end-use customers during the relevant Transition Delivery Year
 - c. an aggregate amount that exceeds:
 - (i) any difference of (A) the amount the Qualified DR Provider is entitled to receive in payment for the previously cleared Demand Resource it designated as not viable in its notice pursuant to paragraph B of this provision, minus (B) the amount the provider is obligated to pay for capacity resources it purchased in the Incremental Auctions to replace the Demand Resource the provider designated as not viable, plus
 - (ii) any monetary gains the Qualified DR Provider realizes from purchases of Capacity Resources in Incremental Auctions for the same Transition Delivery Year to replace any Demand Resources that the Qualified DR Provider cleared in the applicable Base Residual Auction other than the resource designated as not viable in the provider's notice pursuant to paragraph (B) of this provision,
 - (iii) where "monetary gains" for the purpose of clause (ii) shall be any positive difference of (A) the aggregate amount the Qualified DR Provider is entitled to receive in payment for any such other Demand Resource it cleared in the Base Residual Auction, minus (B) the aggregate amount the provider is obligated to pay for capacity resources it purchased in the applicable

Incremental Auctions to replace any such other Demand Resource the provider cleared in the Base Residual Auction.

D. A Qualified DR Provider which demonstrates satisfaction of the conditions of paragraph C of this Transition Provision shall be entitled to an Alternative DR Transition Credit equal to the amount described in paragraph C.2.c. above. Any Alternative DR Transition Credit provided in accordance with this paragraph shall be paid and collected by PJMSettlement in the same manner as described in paragraphs B.2. and B.3. of this Transition Provision, provided, however, that each Qualified DR Provider receiving an Alternative DR Transition Credit shall submit to PJM within 15 days following the end of each month of the relevant Transition Delivery Year a report providing the calculation described in paragraph C.2.c. above, using actual amounts paid and received through the end of the month just ended. The DR Provider's Alternative DR Transition Credit shall be adjusted as necessary (including, if required, in the month following the final month of the Transition Delivery Year) to ensure that the total credit paid to the Qualified DR Provider for the Transition Delivery Year will equal, but shall not exceed, the amount described in paragraph C.2.c. above, calculated using the actual amounts paid and received by the Qualified DR Provider.

5.14B Generating Unit Capability Verification Test Requirements Transition Provision for RPM Delivery Years 2014/2015, 2015/2016, and 2016/2017

A. This Transition Provision applies only with respect to Generation Capacity Resources with existing capacity commitments for the 2014/2015, 2015/2016, or 2016/2017 Delivery Years that experience reductions in verified installed capacity available for sale as a direct result of revised generating unit capability verification test procedures effective with the summer 2014 capability tests, as set forth in the PJM Manuals. A Generation Capacity Resource meeting the description of the preceding sentence, and the Capacity Market Seller of such a resource, are hereafter in this section 5.14B referred to as an "Affected Resource" and an "Affected Resource Owner," respectively.

B. For each of its Affected Resources, an Affected Resource Owner is required to provide documentation to the Office of the Interconnection sufficient to show a reduction in installed capacity value as a direct result of the revised capability test procedures. Upon acceptance by the Office of the Interconnection, the Affected Resource's installed capacity value will be updated in the eRPM system to reflect the reduction, and the Affected Resource's Capacity Interconnection Rights value will be updated to reflect the reduction, effective June 1, 2014. The reduction's impact on the Affected Resource's existing capacity commitments for the 2014/2015 Delivery Year will be determined in Unforced Capacity terms, using the final EFORD value established by the Office of the Interconnection for the 2014/2015 Delivery Year as applied to the Third Incremental Auction for the 2014/2015 Delivery Year, to convert installed capacity to Unforced Capacity. The reduction's impact on the Affected Resource's existing capacity commitments for each of the 2015/2016 and 2016/2017 Delivery Years will be determined in Unforced Capacity terms, using the EFORD value from each Sell Offer in each applicable RPM Auction, applied on a pro-rata basis, to convert installed capacity to Unforced Capacity. The Unforced Capacity impact for each Delivery Year represents the Affected Resource's capacity commitment shortfall, resulting wholly and directly from the revised capability test procedures, for which the Affected Resource Owner is subject to a Capacity Resource Deficiency Charge for

the Delivery Year, as described in section 8 of this Attachment DD, unless the Affected Resource Owner (i) provides replacement Unforced Capacity, as described in section 8.1 of this Attachment DD, prior to the start of the Delivery Year to resolve the Affected Resource's total capacity commitment shortfall; or (ii) requests relief from Capacity Resource Deficiency Charges that result wholly and directly from the revised capability test procedures by electing the transition mechanism described in this section 5.14B ("Transition Mechanism").

C. Under the Transition Mechanism, an Affected Resource Owner may elect to have the Unforced Capacity commitments for all of its Affected Resources reduced for the 2014/2015, 2015/2016, or 2016/2017 Delivery Years to eliminate the capacity commitment shortfalls, across all of its Affected Resources, that result wholly and directly from the revised capability test procedures, and for which the Affected Resource Owner otherwise would be subject to Capacity Resource Deficiency Charges for the Delivery Year. In electing this option, the Affected Resource Owner relinquishes RPM Auction Credits associated with the reductions in Unforced Capacity commitments for all of its Affected Resources for the Delivery Year, and Locational Reliability Charges as described in section 5.14(e) of this Attachment DD are adjusted accordingly. Affected Resource Owners wishing to elect the Transition Mechanism for the 2015/2016 Delivery Year must notify the Office of the Interconnection by May 30, 2014. Affected Resource Owners wishing to elect the Transition Mechanism for the 2016/2017 Delivery Year must notify the Office of the Interconnection by July 25, 2014.

D. The Office of the Interconnection will offset the total reduction (across all Affected Resources and Affected Resource Owners) in Unforced Capacity commitments associated with the Transition Mechanism for the 2015/2016 and 2016/2017 Delivery Years by applying corresponding adjustments to the quantity of Buy Bid or Sell Offer activity in the upcoming Incremental Auctions for each of those Delivery Years, as described in sections 5.12(b)(ii-l) and 5.12(b)(iii-1) of this Attachment DD.

E. By electing the Transition Mechanism, an Affected Resource Owner may receive relief from applicable Capacity Resource Deficiency Charges for the 2014/2015, 2015/2016, or 2016/2017 Delivery Years, and a Locational UCAP Seller that sells Locational UCAP based on an Affected Resource owned by the Affected Resource Owner may receive relief from applicable Capacity Resource Deficiency Charges for the 2014/2015 Delivery Year, to the extent that the Affected Resource Owner demonstrates, to the satisfaction of the Office of the Interconnection, that an inability to deliver the amount of Unforced Capacity previously committed for the 2014/2015, 2015/2016, or 2016/2017 Delivery Years is due to a reduction in verified installed capacity available for sale as a direct result of revised generating unit capability verification test procedures effective with the summer 2014 capability tests, as set forth in the PJM Manuals; provided, however, that the Affected Resource Owner must provide the Office of the Interconnection with all information deemed necessary by the Office of the Interconnection to assess the merits of the request for relief.